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Chairman Wu Lijun,  
Shenzhen Stock Exchange,  
2012 Shennan Blvd.,  
Futian District,  
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Guangdong Province, 518038  
P. R .China

Dear Chairman Wu,

Thank you for your kind reply and attention to the ZJR private placement. We appreciate the prompt inquiry you sent to the Company. Do we understand correctly from your message to us that this inquiry is just a first step in a comprehensive process of checking the sustainability of the Amazar Project in Russia?

We read carefully the reply from ZJR and are deeply dissatisfied with it. It supports our most severe concerns, and we will therefore start with an immediate reaction to ZJR's letter disclosed on 27 May 2017<sup>1</sup>.

First, this reply shows that ZJR's understanding of comprehensive project sustainability does not match modern standards. The company basically says that wood resources are increasingly difficult to get in China due to strict environmental regulations, and therefore it plans to develop a pulp and saw mill enterprise in an adjacent region of Russia. The company did not give any analysis of how it will avoid, in Russia, the unsustainable forest industry management practices that, in adjacent Northeast China, have resulted in a full ban on industrial logging and made the conditions for the pulp industry too stringent to operate there. We must conclude from this lack of analysis that its approach to project management is basically unsustainable, and will create environmental, social and economic risks. It completely contradicts the guiding documents on overseas investments and the Green Belt and Road Policy Guidance issued by Chinese authorities. Therefore both policy and regulatory risks are also high and increasing.

Secondly, to the best of our understanding ZJR confirms in this letter that it has difficulties in getting and retaining manageable forest leases suitable for the Project. It say it has only 368 000 cubic meters secured annually, while its overall roundwood demand for the planned pulp and sawn wood production far exceeds two million cubic meters a year. This information is consistent with what Russian authorities say in their interviews: the Amazar project so far faces a substantial shortage of wood resources. The fact that in 12 years of its existence the project has failed to secure a sustainable wood supply needs investigation.

Thirdly, no matter how many promises ZJR and Xinban Co. have from Russian authorities, these cannot increase the amount of wood actually available in the slow-growing boreal forests around Amazar, which are severely affected by fires and the haphazard logging of the past. On paper, they can lease huge expanses of unsuitable forests to demonstrate the overall figure for annual cut they need, but in reality it is not feasible to extract such wood sustainably due to the reasons we outlined in our previous letter. A new "Forest lease management and logging plan" for the Amazar Project should be presented and assessed to prove the sustainability of its wood supply.

Fourth, the only forest lease ZJR refers to in the letter as a possible source of 0.36 million cubic meters of wood annually has about a half of its area covered by intact forest landscapes (IFLs) – the last pieces of forest wilderness remaining on Earth. (Please see the map of IFLs south of Amazar and Mogocha on this link: <http://www.intactforests.org> ). These were originally listed by the Zabaikalsky Government as zones

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<sup>1</sup><http://disclosure.szse.cn/finalpage/2017-05-26/1203569254.PDF>

reserved for creation of protected areas, due to their high biodiversity value. Logging forests of the highest biodiversity value is an unsustainable practice condemned by many international bodies. Further, when the logging affects endangered species, this is treated as a crime under Russian law. Similar legal violations would be associated with damming and releasing wastewater into the Amazar River, which enters the transboundary Heilongjiang River. It is likely that any depletion of fish resources and water pollution would be counted as a violation of both Russian and Chinese laws (e.g. laws protecting endangered species, etc). In the letter the ZJR company does not even address these issues and certainly does not present any capacity to identify them and deal with them.

Finally, to show compliance with regulations in Russia, on page 3 of its disclosure, ZJR quotes a statement from a Russian Real Estate Legal Company (Russian name ООО "IOH" ) that "all legal and environmental aspects of the project are fine". We strongly doubt that a little known local real-estate and retail company registered by a private individual at a residential apartment (see registration information attached in Russian) is competent to make a judgement that covers such a wide array of legal issues. Producing such a judgement on environmental issues requires checking compliance with dozens of laws and regulations, some of them complex. In 2013, when our colleagues made such a review for the Amazar Complex it took them about three months and their report was still incomplete. Yet ZJR's response referencing the conclusions of their legal advisors took less than a week from your request. Such a short time is likely to be insufficient even to compile a full list of the legal issues pertaining to the environmental aspects of the Amazar Project, let alone to analyse them adequately. So, we recommend treating this information as a possible falsification, unless the ZJR can provide a legal analysis report of sufficient detail and quality.

These are all our current comments on the reply that you received from ZJR, which itself addresses only a small fraction of the specific issues we raised in our previous letter to you. Before asking new and more specific questions, we would appreciate it if the critical issues identified in our previous letter are addressed in more detail by ZJR.

- Developing and implementing sufficient arrangements for forest fire monitoring and prevention on forest leases.
- Ensuring no negative impacts on biodiversity and indigenous peoples, including:
  - addressing potential impingement on livelihoods of local communities engaged in hunting, fishing, berry and mushroom collection;
  - ensuring preservation of indigenous peoples and their traditional lands;
  - avoiding lease of internationally recognized intact forest landscapes, some of which were earmarked for protected area establishment;
  - avoiding leasing for logging and fragmenting by roads of biodiversity rich areas, which the provincial government promised to protect;
  - stopping dam construction on the most important local river, for the APSM water supply, without an environmental impact assessment (EIA), which will severely affect local subsistence fisheries and endangers the population of the IUCN Red-listed Siberian Taimen fish.
- Ensuring that ZJR/HXIC will react in a timely manner when informed about project risks, by reflecting them in disclosure documents.

In addition, we think that it is important to learn how ZJR fulfills the Shenzhen Stock Exchange Social Responsibility Instructions to Listed Companies (2006), whereby listed companies shall formulate environmental protection policies based on their impact on the environment, in particular:

- (6) to minimize the adverse impact of corporate performance on environment; and
- (8) to create an environment for sustainable development.

According to the Responsibility Instructions, the Company shall allocate dedicated human resources for regular inspection of implementation of environmental protection policies.

Article 34 of SZSE's Social Responsibility Instructions to Listed Companies also states that companies shall accept the supervision and inspection of the competent authorities and pay due regard to public comments and media reports on themselves. In this case, as we have shown in the previous letter, not only the media, but also governmental officials have made public statements that ZJR was fully aware of the non-feasibility

of an agricultural land lease when including a fake pig farm in its initial private placement package to complement the Amazar pulp and saw mill. This resulted in public protests and scandals with huge media attention. To the best of our knowledge nothing has been done in this case by ZJR to "pay due regard to the public comments and media reports on themselves" as stipulated in article 34 of SZSE's Social Responsibility Instructions. The same attitude prevails in the case of the Amazar project, since the company does not react constructively to regular criticism expressed by media in Zabaikalsky Province<sup>2</sup>.

We believe that the ZJR should demonstrate what capacity it has to manage the current and emerging risks of the Amazar Project.

As for the possibility of investment into HXIC/Amazar PSM we are also recommending to potential financiers and future private placement buyers that they should stay away from the project until and unless:

- the APSM Plan for Wood Supply and Forest Exploitation is redeveloped in a way that cannot lead to devastation of boreal forest ecosystems. This likely means further reduction in annual figures of pulp and timber production and/or sourcing significant wood from other provinces by rail;
- the companies ensure that APSM forest leases do not include intact old growth forests, lands important for indigenous communities or areas where nature reserves have been planned;
- a new business plan is adopted with alternative transportation routes for the needs of the APSM (to prevent destructive development of the Pokrovka-Louguhe border crossing);
- the dam is removed from the Amazar River and more sustainable water supply options (like repair of the old dam on Chichatka River) are pursued;
- APSM develops a long-term training system to enable it to meet its commitments to ensure at least half of its employees are local;
- a new plan for the APSM is subjected to a new EIA and public consultations in its entirety (as the previous EIA excluded the dam, forest leases and transportation scheme).

Meanwhile it is necessary to inform all potential financiers that the forest resources in the APSM vicinity are not sufficient for sustainable operation of this enterprise. Additional information on the financial risks for potential financiers is available on the BankTrack web-site<sup>3</sup>. We look forward to receiving an assurance that all relevant parties are being informed about these risks. Please do not hesitate to contact us for more information.

Yours sincerely

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Shenzhen Stock Exchange Investor Education Center

Ye Jinwei: Party Committee member, Commission for Discipline Inspection

Wei Xuechun: Former party member, Commission for Discipline Inspection

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Minister of Environmental Protection

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<sup>2</sup>Recent publications JZR has not responded to include those by the former Head of Mogocho District <http://mogochadp.livejournal.com/609379.html> and by a prominent Professor of Biology <http://obozrenie-chita.ru/article/amazarskij-cellyuloznyj-kombinat>

<sup>3</sup>[http://www.banktrack.org/project/amazarsky\\_pulp\\_and\\_paper\\_mill](http://www.banktrack.org/project/amazarsky_pulp_and_paper_mill)