



CHTC Fong's Industries Company Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 641)



**Environmental,
Social and
Governance
Report 2016**

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Environmental, Social and Governance Report 2016

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1. Scope

The reporting period for this Environmental, Social and Governance Report 2016 (“this Report”) is from 1 January 2016 to 31 December 2016. This Report covers the following operating locations and businesses of CHTC Fong’s Industries Company Limited (the “Company” and together with its subsidiaries, collectively referred to as the “Group”):

- Hong Kong Headquarters (8th Floor, 22-28 Cheung Tat Road, Tsing Yi, Hong Kong)
- Fong’s National Engineering (Shenzhen) Co., Ltd. (17-19 Lixin Road, Danzhutou Industrial Zone, Nanwan Sub-District, Longgang District, Shenzhen) - business covers the manufacture of dyeing and finishing machines
- Tycon Alloy Industries (Shenzhen) Co., Ltd. (17-19 Lixin Road, Danzhutou Industrial Zone, Nanwan Sub-District, Longgang District, Shenzhen) - business covers the manufacture of stainless steel casting products.

The contents of this Report are prepared in accordance with the Environmental, Social and Governance Reporting Guide as set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and the frequency of publication is once a year.

2. Communication with Stakeholders

The Company convenes an annual general meeting (“AGM”) every year which provides an effective platform for the Board of Directors to exchange views with shareholders. In addition to the AGM, for maintaining close relationships with customers, suppliers and other stakeholders, the Group communicates from time to time with stakeholders and listen to their views and needs through visits, phone conferences, company e-mails, customer service representatives and trade exhibitions, etc. The Group’s overall business performance is also reported to investors through the annual report of the Company.

3. Environmental, Social and Governance Performance

3.1 Environmental

3.1.1 Emissions

The Group actively responds to the global trend of emission reduction and is committed to minimising the emissions or discharges in its daily operations such as greenhouse gases, air-borne particulates, waste water, and solid wastes. The Group is seeking for innovative technologies and new products to improve environmental protection performance and has developed a series of environmental policies to strengthen control, including:

Waste Reduction

The Group has formulated Environmental Handbook that manages the environmental impacts resulting from manufacturing operations, these impacts include the handling of malfunctioned parts, consumption of electricity and other resources in the manufacturing process. At the same time, measures are taken to recycle all usable scrap materials in order to mitigate the environmental impacts from such waste discharge.

The Group classifies various wastes for appropriate handling, which includes identifying recyclable / reusable wastes and designating areas for storage of these wastes; training employees to categorise and put wastes into the designated areas; appointing qualified vendors for disposal of the finally confirmed wastes.

For stainless steel casting operations, the Group has multiple recycling processes to reduce the waste generation, these processes include the recycling of used sand from sand casting operations and the recycling of scrap casting products. For those non-recyclable wastes, the Group will identify suitable contractors for sale in order to reduce the environmental impact caused by waste discharge directly.

Hazardous wastes generated from stainless steel casting operations include sludge, cutting solvent, and liquid waste containers. Such hazardous and non-hazardous wastes (mainly waste sand) are collected and processed by qualified contractors.

From the manufacture of dyeing and finishing machines, hazardous wastes generated include sludge, spent thinner, cutting solvent, empty waste containers, all these wastes are collected and processed by qualified contractors; non-hazardous wastes (including scrap metal) are classified into two types which include recyclable and non-recyclable categories. Recyclable wastes are processed or sold by qualified contractors and non-recyclable wastes are transferred to the designated garbage processing centre.

The Group has demonstrated the following results in the reporting period through the implementation of the aforementioned policies and measures for waste reduction:

Types of wastes	Total Annual Emissions (tonnes)	
	Manufacture of Dyeing and Finishing Machines	Manufacture of Stainless Steel Casting Products
Hazardous wastes	605.55	34.18
Non-hazardous wastes	<i>No data collected</i>	142.89

Type of wastes	Intensity per Production Unit (tonne(s))	
	Manufacture of Dyeing and Finishing Machines	Manufacture of Stainless Steel Casting Products
Hazardous wastes	0.0746	0.0079
Non-hazardous wastes	<i>No data collected</i>	0.0331

Wastewater Reduction

In addition to the Environmental Handbook, the Group also has administrative provisions for discharge of factory wastewater. The Group's factory has installed wastewater treatment facilities which use reverse osmosis technology to reduce pollutants in wastewater. This treatment reduces discharge of wastewater by around 50%.

Mitigation of Air Pollution

The factory plant for manufacture of dyeing and finishing machines is fitted with dust removal system and moving purifiers to ensure the processed exhaust gases comply with the local emission standards.

The factory plant for manufacture of stainless steel casting products is also fitted with dust removal system to reduce air pollution. Supervisory personnel perform daily inspection patrol to ensure operations of the relevant environmental facilities for dust removal and the automatic doors of sand casting facilities. Also, they maintain records for monitoring and take prompt actions in event of abnormalities.

For stainless steel casting operations, the Group uses natural gas which is clean energy supply in replacement of coal-fired power, and thus reduces the generation and emission of sulphur compounds and nitrogen oxides. Moreover, the factory has administrative methods for exhaust gas emissions as well as measures and equipment to control and reduce the emission of pollutants (e.g. air-borne particulates and volatile organic compounds) into the environment.

In addition to the aforementioned measures to prevent emissions of air pollutants, the Group has also formulated the following measures for reducing greenhouse gas (GHG) emissions:

- Reduction of business trips

The Group thoroughly understands that business trips increase energy consumption and lead to an increase in GHG emissions. Consequently, the Group actively reduces the number of business trips in order to reduce GHG emissions, alternatively uses other effective means of communication in an effort to reduce GHG emissions that arise from additional traffic, such as avoidance of meetings which need long travelling, replacement by phone and/or video conferencing, and encouragement to employees using public transportation.

- Environmental Education for Stakeholders

The Group is committed to promoting the importance of energy-saving and emission reduction in its supply chain and, where appropriate in the purchase orders, requests the suppliers to comply with national environmental protection regulations and to obtain ISO 14001 and ISO 50001 certifications. At the same time, the Group treats employees as important stakeholders and aims to raise their awareness of environmental protection through induction trainings, posters and network sharing. Moreover, training procedures are developed to incorporate the concept of environmental protection into employee's annual training program, which ensures effective implementation of the relevant energy-saving and emission reduction measures within the Group.

During the reporting period, no violation of environmental regulations was found by the Group. The sources and emission volumes of GHG generated during the period were as follows:

GHG Emission Sources	Manufacture of Dyeing and Finishing Machines	Manufacture of Stainless Steel Casting Products
Diesel fuel consumption from mobile sources (litres)	15,497	18,896
Gasoline consumption from mobile sources (litres)	79,409	19,585
Diesel fuel consumption from stationary sources (litres)	72,819	0
Natural gas consumption (cubic metres)	242,467	1,515,302
Acetylene consumption (kg)	1,620	416
Refrigerant (R-22) consumption (kg)	78	704
Heptafluoropropane (FM200) fire extinguisher consumption (kg)	14	0
Carbon dioxide (CO ₂) fire extinguisher consumption (kg)	129	35
Electricity consumption by facilities (kWh)	12,760,940	28,401,480
Total GHG emissions (tonnes carbon dioxide equivalent / t CO₂e)	12,424	28,199
Production volume (tonnes / t)	8,117	4,313
GHG emission intensity (t CO₂e/ t)	1.53	6.54

3.1.2 Use of Resources

The Group is concerned on environmental protection and upholds its business philosophy “Conservation as Priority, Management at Sources”, and hence carries out appropriate measures to enhance the utilisation of the following resources:

Energy Conservation

For reduction of energy consumption, the Group is striving to adopt energy-efficient products and equipment in an attempt to replace facilities of high energy consumption. For example, the Group is gradually replacing traditional electric lights with LED lights in the factories, and is phasing out obsolete facilities in the production line. Also, the Group is actively promoting energy conservation amongst employees and reminds employees of energy saving by issuing notices and putting up posters in the working areas. The Group also requests employees to ensure all machinery is properly shut off at the end of the working day.

In stainless steel casting operations, energy management system is established with clear targets and relevant energy-saving measures, including the replacement by LED lights. Factory uses water temperature to control the rotation of fan-assisted cooling towers and thereby reduce electricity consumption. In addition, factory establishes heat recovery system in the boilers for recycling of thermal energy. Through water heating by flue gases from the boiler, it increases the boiler’s efficiency from 87.16% to 90.70%, and saves the consumption of 3,643 m³ natural gas on annual basis.

Energy Saving Measures	Annual Saving of Electricity
Replacement by LED lights	400,000 kWh
Control of fan-assisted cooling towers by using water temperature	120,000 kWh

In dyeing and finishing machinery manufacturing, the Group has formulated Environmental Handbook and Energy Management Handbook as well as operating guidelines for energy conservation in an attempt to achieve energy saving and efficient operations. For machinery control, the Group adopts converters to control the equipment of high power consumption for benefits of energy saving. Furthermore, the Group plans to purchase 50 sets of new model energy-efficient welding machines for phasing out the existing welding machines of high power consumption, these new welding machines are currently in the testing stage. Also, improvements are being made to automated gas-liquid mixing in sandblasting technology. It is expected the aforesaid two plans will have the following energy-saving achievements after completion:

Energy Saving Plans	Annual Saving of Electricity
50 sets of new model energy-efficient welding machines for phasing out the existing welding machines of high power consumption	150,000 kWh
Improvements to automated gas-liquid mixing in sandblasting technology	270,000 kWh

Water Conservation

The Group's factories incorporate wastewater treatment facilities and a portion of processed wastewater is reusable after treatment. Also, the Group has adopted multiple administrative measures to enhance water utilisation.

In the plant for manufacture of dyeing and finishing machines, the Group has built rainwater collection facilities which transfer rainwater into recirculation tanks for hydrostatic testing. This reduces the amount of water consumed when performing hydrostatic tests on machinery. At the same time, water is also recycled for use in rinsing workpieces, flushing toilets, washing passages, etc.

In the plant for manufacture of stainless steel casting products, the Group has improved the existing techniques to reduce water consumption, and at the same time has formulated monitoring control whereby abnormal water consumption will be investigated for identification of the cause of abnormal water leakage.

Moreover, the Group inspects water consumption facilities in the manufacturing plants and offices, and takes timely remedy to any water leakage or dripping. Water conservation slogans are posted and promoted to raise employee awareness of water conservation and to remind employees and visitors to conserve water.

Through the reuse of the treated wastewater, annual water saving of 79,281 tonnes was achieved during the reporting period

Resource Conservation

The Group is striving to improve production processes and technologies to enhance resource utilisation. In stainless steel casing operations, procedures are established for reusing sand in sand casting operations, this achieves reduction of both material utilisation and waste production at the same time. In 2016, the amount of waste sand was reduced by 39.84 tonnes. In the event of occurrence of non-compliant steel casting products, they will be handled in accordance with the procedures for reworking/recycling of scrap casting products, then collected to steel storage warehouse for allocation to furnace operation. In 2016, 100% of scrap steel products were recycled. Also, the stainless steel casting operations have a wax recycling process in which the production line has installed facilities to collect the used wax for filtering, evaporating, mixing, settling, and then reusing. This process saves approximately 600 tonnes of new wax on annual basis as well as reduction of wax discharge. All the aforesaid technologies increase the resource utilisation and reduce wastage.

Moreover, in its day-to-day operations, the Group actively promotes electronic documentation. Computer files are used instead of hardcopies in an attempt to implement the paperless office operations, which would reduce the use of paper consumables in office. At the same time, the Group requires employees to adopt double-sided printing, and to reuse papers with only one-side used for the purpose of paper saving.

During the reporting period, the key resources consumed in the Group's operations are summarised as follows:

Resources	Annual Total Volume		
	Hong Kong Office	Manufacture of Dyeing and Finishing Machines	Manufacture of Stainless Steel Casting Products
Electricity (kWh)	140,391	13,627,340	28,401,480
Water (cubic metres)	523	305,737	90,986
Natural gas (cubic metres)	N/A	242,467	1,515,302
Packaging materials (paper) (tonnes)	N/A	11.77	10.93
Packaging materials (plastic) (tonne or pieces)	N/A	7,495 (pieces)	10.44 (tonnes)
Packaging materials (wood) (tonne or cubic metres)	N/A	1,853 (cubic metres)	369.88 (tonnes)
Nails (tonnes)	N/A	2.6	N/A
Bolts (sets)	N/A	36,831	N/A

Resources	Consumption Intensity per production unit in tonne	
	Manufacture of Dyeing and Finishing Machines	Manufacture of Stainless Steel Casting Products
Electricity (kWh/tonne)	1,678.86	6,585.09
Water (cubic metres/tonne)	37.67	21.10
Natural gas (cubic metres/tonne)	29.87	351.33
Packaging materials (wood)	0.23 (cubic metres/tonne)	0.09 (tonnes/tonne)

3.1.3 The Environment and Natural Resources

In response to the public concerns about environmental protection issues, the customers of the Group also expect the advancement in machinery aligning with the international requirements of energy saving and emission reduction. Consequently the Group aims to satisfy the requirements of communities and customers by adopting green philosophy amongst the procurement, manufacturing, and office operations.

Green Procurement

Upon complying with the Group's operating requirements, priority will be given to suppliers who are competent to provide environmentally-friendly equipment and materials. The Group has formulated the control procedure for supplier evaluation: for selection of suppliers of energy consumption equipment, preference will be given to those suppliers in national recommendation list, whose products have obtained energy efficiency certification or Level I/II energy label. Moreover, the Group has formulated the control procedure for equipment procurement. For planning procurement of equipment and facilities, the Group requests suppliers to adhere to the national regulations and policies which pertain to the phase-out of outdated equipment and adoption of latest energy-saving technology. Also, supplier's energy saving performance is one of the important evaluation factors in making procurement decision.

Green Manufacturing

The Group's business includes the manufacture of dyeing and finishing machines and the manufacture of stainless steel casting products. The primary environmental impact of these activities is the generation of metallic wastes as well as various emissions resulting from the manufacturing processes. In addition to pursuing green philosophy in the manufacturing processes, the Group is striving to provide customers with products complying with the environmental protection requirements. During the product design phase, the Group requires its products conform to environmental protection requirements. As a result, the Group designs dyeing and finishing machines that could conserve both water and energy, and also the stainless steel casting products contain no substances hazardous to the environment.

In the workplace for manufacture of dyeing and finishing machines, illumination level is maintained at the designated range (generally 90-150 lux) to mitigate additional energy consumption caused by excessive lighting. In addition, the gradual replacement of thinner by other cleaning substitutes would reduce waste of spent solvent and also eliminates fire safety risks in the relevant operations.

For manufacture of stainless steel casting products, priority in the product specification is using materials of non-hazardous or low hazardous nature in order to reduce the generation of hazardous wastes. Through effective recycling of materials and waste classification, the amount of waste sand has been reduced by 39.84 tonnes as compared to the same period in last year.

Green Office Management

Besides implementing green operations in factories, the Group is also very concerned about the environmental impacts from office operation: consumption of resources and generation of wastes. Management of resource consumption comprises three aspects: advancement of employee awareness, administrative measures and facility management.

The Group has issued notices to all employees and put up slogans in the office to remind employees of energy saving, and to request employees to switch off lighting in their responsible workplace at the end of the working day.

Paper is an important resource in the office environment and slogans are put up in the office to remind employees of using fewer toilet papers, receiving faxes by computers and communicating faxes by emails, as well as using paper on both sides.

Energy-saving practices are also achieved by facility management. In the Hong Kong office, most electrical equipment has installed with electrical ballasts to increase energy efficiency. Also, activated charcoals in air processing units are replaced on an annual basis and dust filters in air conditioning outlets are regularly cleaned. Besides electricity saving, these measures also help extending the useful life of the central air conditioning system and reduce the replacement frequency of air conditioners. In other way this reduces waste generation from malfunctioned air conditioners.

In addition, our office has been designated with recycling measures such as collection of the outdated magazines and waste paper for recycling by qualified companies, and transferring of electronic wastes (including old computers) to recycling companies for appropriate handling.

3.2 Social

3.2.1 Employment

In addition to complying with the requirements of local employment regulations, the Group has also formulated a series of employment policies to ensure that employees are treated in a fair and reasonable manner.

Recruitment and Promotion

The Group gives equal opportunity to every job applicant and shall not reject any applicants because of their gender, age, race or nationality. Employment decisions are based solely on fulfilment of the job requirements. Besides local applicants, applicants of other ethnicities and nationalities are also considered at the time of recruitment.

The Group has an equitable promotion mechanism that only makes reference to an employee's performance, experience and competence; other irrelevant factors such as ethnicity, gender, and marital status are not considered.

Salaries and Benefits

The Group makes reference to various factors, e.g. local market data, company's revenues, employee's performance, inflation and local employment regulations, in formulating and evaluating regularly the salaries and benefits system which consists of minimum wage, bonuses, overtime pay, paid holidays, sick leave, leave for work-related injuries, etc. At the same time, the Group also purchases the mandatory social insurance for employees according to local regulations. During the reporting period, the Group did not discover any violation or receive any complaint pertaining to discrimination or recruitment.

As of 31 December 2016, the total number and distribution of employees within the Group were as follows:

Gender	Number of Employees		
	Hong Kong Office	Manufacture of Dyeing and Finishing Machines	Manufacture of Stainless Steel Casting Products
Male	92	1,695	910
Female	31	229	127
Job Type	Hong Kong Office	Manufacture of Dyeing and Finishing Machines	Manufacture of Stainless Steel Casting Products
Full-time	123	1,924	1,037
Part-time	0	0	0
Age	Hong Kong Office	Manufacture of Dyeing and Finishing Machines	Manufacture of Stainless Steel Casting Products
18-30	7	287	270
31-45	37	1,165	591
46-60	73	470	176
above 60	6	2	0
Total	123	1,924	1,037

Gender	Average Monthly Employee Turnover Rate (%)		
	Hong Kong Office	Manufacture of Dyeing and Finishing Machines	Manufacture of Stainless Steel Casting Products
Male	1.34	0.76	1.23
Female	1.34	0.75	1.10
Age	Hong Kong Office	Manufacture of Dyeing and Finishing Machines	Manufacture of Stainless Steel Casting Products
18-30	2.38	2.09	2.46
31-45	1.79	0.66	0.93
46-60	0.87	0.08	0.05
above 60	3.16	0	0
Overall Average Turnover Rate	1.34	0.76	1.22

3.2.2 Health and Safety

The Group has an occupational health and safety management system which uses different measures to minimise the occurrence of occupational diseases and industrial injuries.

Workplace Safety Management

The Group assesses safety risks in the workplaces and formulates corresponding operating rules to manage the health and safety hazards posed to the employees. The Group has also formulated relevant contingency and precautionary measures. Operating rules are developed in response to the risks posed by relevant production processes and equipment, e.g. operating rules for safe handling of flammable gases, administrative measures for safe storage of gas cylinders, administrative measures for operating with X-ray radiation. The Group requests employees to abide by the operating rules, also arranges supervisory personnel to conduct on-site inspection and supervision, as well as to handle and rectify any non-compliant practices. Beyond the operating rules, the Group also evaluates the job risks to provide employees with suitable personal protective equipment, and appoints qualified agencies or internal qualified personnel to conduct regular inspection and testing of operating equipment. According to the identified safety risks, the Group installs the essential protective devices on the relevant equipment.

For special working conditions such as high-temperature environment in the stainless steel casting plant, the Group provides cooling facilities (air conditioners, fans, etc.) and monitors and records the temperature of the workplaces. Relevant rules are established and employees are provided with protective equipment against high temperature. Employees are requested to abide by the operating rules and supervisory personnel are assigned to undertake site inspections, as well as to report and supervise the rectification in the event of non-compliant situation.

Besides paying attention to hazards in the manufacturing sites, the Group also manages health and safety risks in the office. For example, regular cleaning of air conditioning system and replacement of relevant components are arranged to ensure good in-door air quality for the protection of employees' health.

Moreover, the Group regularly monitors the compliance status in other aspects such as the provision of fire-fighting equipment and regular inspection of such equipment.

Employee Safety Training

The Group arranges suitable trainings to ensure effective implementation of operating rules and safe operation of equipment. The main content includes the correct use of protective equipment, knowledge and case studies in safe production and occupational health, safe operating practices for job and equipment. For special positions with required qualifications, the operators are required to hold the valid permit or to pass the professional training. The Group also arranges to employees fire and emergency drills on a regular basis to ensure they are familiar with evacuation routes in case of emergency.

Design of training programmes varies in response to occupational health and safety requirements of general staff and special positions. Relevant evaluation and examination will be arranged after training. To ensure the trainings more comprehensive and the sustainable development of employees, the Group invites external professional organisations to extend the scope of appropriate trainings, which include training relating to environmental protection (e.g. implementation and review of environmental protection laws, carbon emission management), job-related technical and safety training (e.g. theories and practices of electrical engineering to enhance knowledge and skills in electrical operation), and management skill training (e.g. training in mediation of employment disputes, relevant terms and interpretations of social insurance).

Employee Health Examination

The Group provides employees with an annual occupational health examination to ensure they are free from occupational diseases. Also, occupational health records are established for employees. For employees in high risk positions, such as those responsible for operating X-ray testing equipment, the Group even arranges special health examinations to them.

Work-Life Balance

The Group is not just concerned with the occupational health and safety of the employees; it is also concerned with the psychological well-being and need of private life of the employees. Hence, the Group devises various categories of leaves relating to an employee's family life, and makes provision for early leave, flexible vacation, etc. to align with the roles of employee in his /her family. In addition, the Group arranges a variety of activities to ease the employee's pressure and enrich employee's life outside of work. These activities include 'Star Worker' election organised by local trade unions, employees' birthday parties, group travels, recreational activities, basketball matches, book borrowing, etc.

The Group is very concerned with employees' opinions towards the Group's management and operations. As a result, the Group designates communication channel and suggestion box for employees, and regularly follows up the employees' opinions received.

During the reporting period, the Group did not discover any violation pertaining to the relevant local occupational health and safety regulations. Within the same period, no work-related fatality of employee was discovered and the lost work hours due to work injuries were outlined below:

	Number of work hours lost due to work injuries (hours)		
	Hong Kong Office	Manufacture of Dyeing and Finishing Machines	Manufacture of Stainless Steel Casting Products
Total hours in 2016	0	1,157.8	2,072.2
Monthly average	0	96.5	172.7

3.2.3 Development and Training

The Group has established comprehensive training system that covers factory's rules and regulations, product workmanship, environmental protection and the relevant safety trainings. In addition to the general classroom training, the Group emphasises practical application and thus arranges for team leaders, group leaders or experienced employees to guide new recruits in their work. This helps new recruits fulfill the requirements of their positions as quickly as possible and improves training efficiency as well as the new recruits' performance. This arrangement could be flexibly modified according to the new employee's characteristics and experience. At the same time, based on the Group's development strategies for different product types, businesses and projects, career development plan is formulated for employees to train them on the essential knowledge and skills required by their positions. Employees are offered with promotion opportunities through annual performance evaluation and sustainable development of the Group's business is propelled through this development and training system.

During the reporting period, the monthly average proportion of trained employees and the monthly average training hours per employee were summarised as follows:

	Monthly average proportion of trained employees (%)			Monthly average training hours per employee		
	Hong Kong Office	Manufacture of Dyeing and Finishing Machines	Manufacture of Stainless Steel Casting Products	Hong Kong Office	Manufacture of Dyeing and Finishing Machines	Manufacture of Stainless Steel Casting Products
Male	0.58	0.34	14.02	0.03	0.007	0.53
Female	1.87	0.92	14.10	0.14	0.018	0.48
Employee Category	Hong Kong Office	Manufacture of Dyeing and Finishing Machines	Manufacture of Stainless Steel Casting Products	Hong Kong Office	Manufacture of Dyeing and Finishing Machines	Manufacture of Stainless Steel Casting Products
Senior Management	1.32	0	0	0.14	0	0
Middle Management	0.93	0.43	11.82	0.05	0.009	0.57
Junior Employees	0.59	0.40	14.25	0.03	0.008	0.52

3.2.4 Labour Standards

The Group strictly prohibits the employment of child labour and will only employ individuals aged 18 or above. The Group ensures no situation of forced labour and arranges jobs according to appropriate scenarios, which will not force employees to do tasks beyond their competencies or other unreasonable jobs. In addition, the Group does not force overtime work; if extended working hours are required, it must be initiated and applied by employees voluntarily. The Group does not take deposits from employees or withhold their identification documents at the time of recruitment.

For effective prevention of child labour, the recruitment advertisements specify that applicants must be at least 18 years of age. During recruitment, scrutiny is conducted on an employee's identification document and resumes for age verification. The Human Resources Department reviews applicants' resumes and eliminates those less than 18 years of age. Through the Group's annual child labour inspection and daily operation management, employment will be immediately terminated if any child labour is discovered.

The Group has also formulated measures to prevent forced labour. For ensuring voluntary overtime, if an employee wishes overtime work, the employees must initiate the overtime application to his/her immediate supervisor through written confirmation with the employee's signature. The Group requires that the work arrangement adheres to the aforementioned procedure for prevention of involuntary overtime work. Immediate investigation will be conducted in the event of non-compliance with this procedure.

During the reporting period, the Group did not discover any violation of laws and regulations pertaining to employment of child labour or forced labour.

3.2.5 Supply Chain Management

The Group has developed the supplier management policy which communicates to suppliers of the Group's expectations and requirements that the suppliers and their employees must abide by. This policy covers aspects such as product quality, social responsibility, business ethics and these aspects are also the key criteria used for supplier selection. The Group has established supplier selection and evaluation system for consideration beyond commercial interest. The system evaluates qualification of new suppliers and performance of existing key suppliers on a regular basis. Evaluations are in the form of on-site audits and/or document reviews on qualification and compliance. Outcomes of the evaluations are compiled into records which serve as the basis for future monitoring.

In addition to considering the aforementioned scope of evaluation, preference will be given to local suppliers who comply with the Group's business requirements and demonstrate the same performance as their non-local counterparts. This reduces additional GHG emission that results from overseas procurement and transportation. As of 31 December 2016, the geographical distribution of the Group's suppliers was as follows:

Geographical Location	Number of Suppliers	
	Manufacture of Dyeing and Finishing Machines	Manufacture of Stainless Steel Casting Products
PRC	274	183
Hong Kong	29	2
Taiwan	1	1
United States of America	1	0
Australia	0	1
United Kingdom	0	1
Turkey	2	0
Switzerland	5	0
Italy	5	0
Germany	14	0
Japan	2	0
Korea	1	0
Singapore	1	0
Total	335	188

3.2.6 Product Responsibility

The Group thoroughly understands manufacturing of quality equipment is the essential element for sustaining long-term business growth. In those countries where there are manufacturing or sales, the Group strictly abides by the local regulations as well as those regulations in the customer's home territory. This ensures that the Group's products conform to regulatory requirements of the countries where the business operates, and customers' needs as well as provision of quality products to customers. The Group assures that the end products are manufactured with high-grade materials and the top-notch workmanship. Products are assured as brand new which have not been used before, and fully compliance to contractual requirements in terms of quality, specification and functionality.

The Group has achieved ISO9001 certification for quality management system standard, providing the customers with even higher level of quality assurance. The system strictly implements the procedures for production quality management and enhances the management and development planning for product quality. During the course of manufacturing and sales, the system strengthens record-keeping in every details of product quality management. The Group possesses the relevant qualification in design and manufacturing, and the products are designed and manufactured in line with the manufacturing standards of different countries. Before release to the market, all products must undergo strict quality and safety testing to ensure they comply with the quality and safety requirements in the specifications. In addition, the Group has achieved certifications in both ISO14001 environmental management and ISO50001 energy management systems, which control the environmental impacts and energy utilisation in the manufacturing process.

Fair Promotion of Products

The Group ensures that product information on the promotional websites and in other promotional materials is true and accurate. Some of the Group's products are accompanied with operating manuals, in which the content is supported by reliable data and evidence. In addition, the Group requires that at the time of promotion, sales personnel should convey only those product information related to the confirmed advantages of the Group's products but not mention the negative aspects of the competitors or their products. This prevents customers from being misled at the time of purchase.

After-sales Service

For manufacture of dyeing and finishing machines, the Group ensures that quality assurance is provided on machinery that has been properly installed and properly operated. Upon the product is proved satisfactory after testing, product warranty of not less than one year will be provided as stipulated in the sales contract. The Group is responsible for either repairing or replacing in the case of defects arising from proper operation and abnormal wear. During the warranty period, the Group is also responsible for rectifying the computer program failure resulting from any software errors.

For manufacture of stainless steel casting products, the Group has also established communication channels via telephone and e-mail, etc. for customer enquiries, elaboration of product details, etc.

Quality Assurance Process

All raw materials from suppliers must undergo incoming quality control conducted by the Quality Department and are distributed for use in the manufacturing plants only after the quality has been verified as compliance. Manufacturing process is controlled according to the specified inspection and testing plan, and finished products must pass through the final inspection and testing before delivery to the customers.

Handling of Customer Complaints

The Group has formulated a complaint handling mechanism whereby, upon receipt of a complaint, it will be analysed by the Quality Department. The mechanism requires responding to the customer in the specified time frame with results of the analysis and the follow-up actions. The Group also designates the responsible departments to follow up the complaint cases and initiate product recall procedures when necessary.

According to product types, the Group has set up different communication channels for customers to make enquiries, give their feedback or make complaints. Designated departments are responsible for following up and responding to the customers, as well as suggesting solutions to the problems encountered by the customers. Customer opinions or complaints are processed through the Group's internal customer complaint management system, which delegates to relevant departments for cause analysis and formulation of corrective actions, thus reducing or even preventing the recurrence of the same problem.

During the reporting period, the Group did not discover any violation to the relevant regulations pertaining to product responsibility; out of all products sold, none was found to be recalled for health and safety reasons. In the same reporting period, the Group received 680 requests for product return and 744 customer complaints of other types. All complaints and return requests had been satisfactorily resolved during the reporting period.

Product Recall/Return Procedure

In the event of product rejection by customers, the Group will assess the reasons for the rejection or return of the product. Whenever product recall is deemed necessary, the Group will preserve the product in question and send it to the Quality Department for quality inspection. Relevant departments will also join in to analyse and formulate corrective measures for the identified product's defects.

Intellectual Property Protection

The Group acknowledges the importance of intellectual property rights and all relevant information will be strictly secured for products of both the Group's own design and customer specification. The Group stipulates in the employee's code of integrity and employees are required to sign this code for acknowledging that confidential information must not be disclosed or replicated without prior authorisation. In addition, the Group signs confidentiality agreements with its customers to ensure that no disclosure of any customer information to external parties. Confidential information and documents relating to customer's intellectual property rights such as product drawings, technical specifications must be securely stored by the designated department. Without permission, employees are not allowed to make their own copies of these documents, nor take documents out of the Group's premises.

For commercial software being used in the office, the Group is committed to not purchasing any form of pirated software and only procuring software from the licensed suppliers.

Privacy Protection of Customer Information

In order to ensure fairly use of customer information and to strengthen protection of customer information within the Group, access control is defined in the Customer Relationship Management (CRM) system which restricts sales and relevant operation staff to access customer information relevant to their area of responsibilities only. All customer information is carefully managed and can only be accessed by the authorised personnel. For CRM log-in from external systems, the staff identity needs to be confirmed through the Group's Virtual Private Network (VPN) protection system prior to access granted. The aforesaid two systems provide employees with designated account numbers and passwords which strengthen information security management and prevent leakage or theft of customer information.

3.2.7 Anti-Corruption

The Group has established comprehensive infrastructure for internal control and formulated a set of strict policies, which prevent malpractices and unethical business practices, and also avoid the occurrence of corruptions and other fraudulent behaviours through effective implementation. The Group has formulated an employee's Code of Integrity which includes "Declaration Form for receiving Gift" and the associated guidelines for declaration. It requires all employees to declare via filling in "Statement of Integrity". Whenever feasible, terms and conditions relating to anti-corruption are included in the contracts with service providers. It demonstrates the Group's emphasis on anti-corruption and defines the responsibilities and required actions amongst both parties in event of corruption.

Whistle-blowing Procedure

The employee's Code of Integrity of the Group forbids corruption, bribery, misconducts, illegal practices, fraud, extortion and other unethical incidents. The Group has established whistle-blowing mechanism and channel for employees to freely report incident of misconduct or suspected illegality. Whistle-blower is allowed to report the incident in confidential and anonymous form to the "Board of Directors' mailbox". Upon receipt, the Board of Directors will appoint the relevant department for investigation and follow-up.

During the reporting period, the Group did not discover any legal violation or complaint relating to corruption.

Anti-Corruption Measures

- Declaration for Conflict of Interest

The Group is striving to avoid conflict of interest in the course of its operations and also requests all employees to avoid the situations triggering conflicts of interest, including the prohibition to abuse one's authority or position within the Group for personal gain, or avoidance of hindering one's normal duties from compromising the interests of one's family members, relatives or friends. In case of actual or potential conflict of interest, relevant staff is required to fill in immediately the "Declaration Form for Conflict of Interest" contained in the Code of Integrity, and is subject to the appropriate decision and arrangement by the senior management.

- Procurement Approval Management

For control of procurement, the Group requires collecting and assessing information of at least two suppliers before making procurement decision. This ensures the purchasing quotation is fair and equitable. The procedure for approval of a specific procurement contract is generally dependent on the contract sum involved. Whenever feasible, the confirmation of a contract needs to undergo multiple approvals, namely, by the managers at the upper two levels senior to the undertaker.

- Financial Auditing

The Group engages an independent auditor to audit the Group's financial accounts. This ensures that the Group's accounts are clear and accurate, and strengthens internal financial control and supervision for protecting the interests of the shareholders as a whole.

3.2.8 Community Investment

Every year the Group actively reaches out to community groups who share the common philosophy in corporate responsibility for liaisons and collection of opinions. This enables decision on suitable donations and provision of other supporting resources. The Group has a dedicated department responsible for collecting community's suggestions and needs which are responded and followed up within a specific timeframe. The Group investigates the feasibility of converting those suggestions and needs into performance indicators. Also, the Group undertakes regular review and improvement, and responds to the relevant stakeholders whenever necessary.

For many years, the Group has made contributions to the communities in different aspects, including the donations to those people suffered from the 2008 Wenchuan earthquake ; donation of furniture to the Crossroads Foundation, which supported the transfer of resources of good quality to those people in need in Hong Kong and overseas ; donation of furniture to support "In Benevolence There is Love" scheme of Yan Oi Tong for supporting disadvantaged people and their families in Yuen Long and Tin Shui Wai ; support to Kowloon Women's Welfare Club for its furniture donation activities, etc.

In 2016, despite the Group did not implement any community investment programme, the Group is committed to finding the cause for this status and formulates key performance indicators for community investment next year.