



粤海制革有限公司
GUANGDONG TANNERY LIMITED

(Stock Code: 1058)

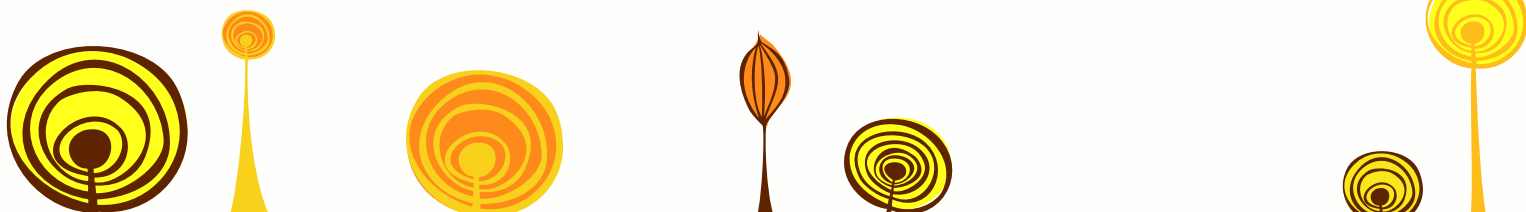
Environmental, Social and Governance Report

2016



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A. ABOUT THIS REPORT

REPORTING PROFILE

This is the first Environmental, Social and Governance (“ESG”) Report for Guangdong Tannery Limited and its subsidiaries (collectively referred to as the “Group” or “we”). This report covers the financial year ended 31 December 2016 and provides information about the Group’s policies and actions for operating business in processing and sale of semi-finished and finished leather.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE OF THE STOCK EXCHANGE OF HONG KONG LIMITED

In order to comply with the disclosure requirements and guidelines set out in “Environmental, Social and Governance Reporting Guide” under Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Group started to collect relevant information of ESG for the financial year beginning on 1 January 2016. It is hoped that through continuously optimizing corporate governance, environmental protection, community investment and talent development, we can promote sustainable development and support our business objectives and values, and simultaneously create value to shareholders/investors and become a good corporate citizen model.

We welcome any comments and suggestions on this report and as well as our performance in sustainability development.



B. ENVIRONMENTAL PROTECTION

Tannery industry has to deal with a large number of animal solid waste, only about 30% of the raw materials can be converted into leather and by-products. It also has to deal with raw materials with strong pH value and corrosive chemicals. In addition, most of the operations are in water, all these could easily lead to environmental pollution. With the global increasingly stringent environmental protection regulations, costs of investment in environmental protection need to be increased continually and rapidly resulting into the elimination of many peers. The Group's production has been operated for more than 20 years relying all the time on the profound experience in environmental protection management, continuous improvement of technology and sufficient resources, we not only can survive but also are still in the leading position in the industry of Mainland China. With the beautiful vision of "blue sky, green mountains and clear rivers", from now on, we shall insist continual improvement, strive for reducing emission and energy conservation, economize the usage, recycle and reuse of resources more effectively, and to optimize treatment to pollutants. Through this report, we show our determination and effort in protecting global ecological environment to shareholders and other stakeholders, dedicate in creation of economic value, and at the same time, to avoid and reduce pollutions and harmfulness to the environment and the society during our manufacturing process. We hope more industrial and commercial enterprises, social organizations and general public to participate more in protecting and improving the environment and to build a better world and facilitate sustainable development.

During the reporting period, the Group did not have any significant impact on the environment and natural resources.

B. ENVIRONMENTAL PROTECTION (CONTINUED)

The Group's policies and practices in environmental protection were as follows:

MANAGEMENT OF EMISSIONS

We have set up environmental protection management center, which specifically and strictly deals with the administration by category and follow-up control of daily sewage, wastes and residues. We formulate management objectives and adopt predictive management measures. If problem is found, the strictest measure is to stop production until the problem is solved.

1. *Management of Sewage*

In order to implement the Notice of the State Council on the "Action Plan for Water Pollution Prevention and Treatment", we will single-out the toxic and hazardous sewage for treatment and integrate with other sewage after treatment. After desulphurization, integrated sewage will first be treated by the sewage treatment plant and then discharge to another one inside the industrial area for further handling prior to discharging to the sea through the North Jiangsu pipe network. Unhairing process produces sewage with toxic contents including sulphurous. After chemical sewage treatment, hair and residuals in sewage will be filtered out and fluid and solids will also be separated. Desulfurized liquid will then be integrated with the other water and stored in the sewage treatment plant. National environmental authorities can monitor the emission of ammoniacal nitrogen and chemical oxygen demand (COD) data in our plant at any time through an on-line automatic monitor system. So far, we always meet these two concentration standards. We use recycled water to clean the floor to minimize the use of water resources.



Sewage Treatment Plant

B. ENVIRONMENTAL PROTECTION (CONTINUED)

MANAGEMENT OF EMISSIONS (CONTINUED)

2. *Management of Atmospheric Emission*

The exhaust air and greenhouse gases come from fur processing in the factory and hydrogen sulfide comes from the sewage treatment plant. Workers are required to wear masks, and such gases are discharged at high altitude to reduce the smell in the plant and the surrounding area.

3. *Management of Wastes*

Hazardous Wastes

(a) Mud treatment

There are two types of treatments to integrated sewage. One is precipitation using physical or chemical method to turn non-toxic mixed wastes in mud into solid wastes. Since solid is heavier than water and after application of chemicals, solid precipitate naturally. Wet precipitates is then dehydrated by dehydration machine leaving non-hazardous solid wastes, which are non-toxic and free of heavy metal and is sent to local landfills once every two months. We are required to provide a test report to local landfills on the composition of the waste mud as confirmed by the environmental department. The whole process complies with the national environmental policy.

B. ENVIRONMENTAL PROTECTION (CONTINUED)

MANAGEMENT OF EMISSIONS (CONTINUED)

3. *Management of Wastes (continued)*

Hazardous Wastes (continued)

(a) Mud treatment (continued)

Another type is centralized treatment of sewage containing chromium – 90% of chromium extracted from sewage dehydration can be reused by adding sulfuric acid to produce chromium salt. Two methods can be used. The first way is producing sulfate from catalytic oxidation of sulfide ions and mix with iron salt to get ferric sulfide. It almost fulfills the integrated sewage requirements. The second way is to generate chromium sulfate from chromic mud and acid; and put into use in production. This is advanced technology in the tannery industry and chromium production industry of China because of the more thorough recycling of wastes and sewage.



Centralized treatment of sewage containing chromium

B. ENVIRONMENTAL PROTECTION (CONTINUED)

MANAGEMENT OF EMISSIONS (CONTINUED)

3. *Management of Wastes (continued)*

Hazardous Wastes (continued)

(b) Chromium residue

Transportation of chromium residues has to be reported to the local environmental protection department, then report to the Municipal Environmental Protection Bureau, Jiangsu Province and Zhejiang Provincial Environmental Protection Office. Information of weights, packaging, vehicles, drivers, chassis number and other information relating to the transportation should be recorded in the system and strictly controlled. The vehicles for transportation of chromium residues from the factories to the processing center must follow specified routes. Upon arrival at the destination, the residuals are weighed again before storage and cease of monitoring process.

Non-hazardous Wastes

We have established procedures to handle waste materials (such as PVC and other waste plastic, scrap metal, rubber tube, steel, drum, tires, steel tiles, etc.). The wastes are categorized and stored in the designated area and then handled by the designated recycler. As the residual fur are free from heavy metals, the Department of Urban Management arranges to have them buried in local landfill. The residual meat from cowhide is stored in the designated location, and then sold to recycler.

4. *Compliance*

During the reporting period, there were no confirmed non-compliance incidents in relation to environmental protection that have a significant impact on the Group.



Scrap metal

B. ENVIRONMENTAL PROTECTION (CONTINUED)

MANAGEMENT OF RESOURCES UTILIZATION

To comply with the relevant laws, regulations and policies on resource conservation, the production departments and offices of the Group have set up various resource saving measures to raise the awareness of our employees to understand the importance of resource conservation. They are encouraged to make full use of resources, to maximize the effectiveness and to avoid wastage.

1. *Use of Electricity*

We focus on our manufactory plant design, in particular for equipment and assembly line arrangement for safety reason and for efficient use of space to enhance production efficiency; to save power and to increase profit. In order to save power, lighting, electric fans, air conditioning, computers and other electrical equipment should be switched off when they are not attended for a long time. All unused electrical appliances are turned off after work.

2. *Use of Coal*

We have established procedures for coal sampling and inspection to strengthen the coal quality control and to ensure that the industrial coal combustion standard is met. Observation and sample testing, including calorific value of coal which affects the quantity required, are carried out. We mix coal evenly and crush large ones into small pieces to increase efficiency and add about 5 to 10 percent of water to dry coal to raise its viscosity so that it burns thoroughly with less carbon particles. Besides, hot water from scale thermal equipment is recycled and used in furnace so as to raise its temperature and improve its thermal performance and consequently use less coal. Natural gas can be a substitute of coal in the future.

3. *Use of Water*

Water conservation should become part of our daily life. Various measures are set up to raise our staff's awareness, including restricting use of drinking water in other ways; controlling water level for washing hands; and turning off water taps when not in use. Water supplies facilities are regularly inspected to keep them in good condition and to avoid leakage resulting in water wastage. If problem is found, they are repaired or replaced immediately and maintenance record is kept.

4. *Use of Paper*

We promote saving papers and avoid wastage. We unify purchasing of papers; minimize photocopying and printing; collect and reuse single-sided papers; recycle double-sided printed papers and distribute files in electronic format whenever applicable.



C. EMPLOYMENT AND LABOUR PRACTICES

We devote to build a harmonious and comfortable workplace and a sound management system. We care about our people's work-life balance, their physical and mental health; enriching employees' lives, promoting better team cohesion and providing them with career development opportunities by organizing regular staff training and cultural activities.

TALENT SELECTION

We commit to protect human rights and privacy of employees, and prohibits undue discrimination. We adopt written and/or interview to select employees following the principles of fairness, impartiality and honesty and using knowledge, ability, integrity, physical fitness and job requirements as standard selection criteria. We provide equal opportunities to employees in terms of compensation and benefits, promotion, performance appraisal, training and career development and they are not discriminated against or denied from any opportunity because of their disability, age, sex, race, religion or nationality. We deploy our human resources according to their personal character, knowledge, physique, ability, and their performance in compliance of our policies and staff manual etc. We observe and strictly comply with the relevant labour laws and regulations and unethical hiring, including child labour and forced labour, is prohibited.

C. EMPLOYMENT AND LABOUR PRACTICES (CONTINUED)

COMPENSATION AND WELFARE

We always uphold harmonious relationship with employees to create a win-win situation. Basic remuneration of employees includes salaries, bonuses, job subsidies, overtime compensation and overtime meal allowances. All staff in Mainland China participate in social security scheme including “five insurances and housing provident fund” (Hong Kong staff participate in the Mandatory Provident Fund Scheme). In addition, we provide hospitalization and medical insurance protection, general body check subsidies and free and subsidized lunch to staff. Staff can enjoy their breakfast at a symbolic charge of RMB\$1 and free dinner is provided to staff who require to work late. We implement five-day work system with 40 working hours per week. Employees in Mainland China are entitled to two-day weekends and statutory holidays stipulated in the provisions of the national laws. We follow the national laws and regulations for staff termination and compensation.

DEVELOPMENT AND TRAINING

We periodically hold a variety of educational and training activities for our people. In case of job transfer, the staff must attend professional training and attain certain required standard prior to working in the new position. Exception could be granted under special circumstances with the consent of the transferring unit’s head for training be held at other times. In addition to verbal appreciations, outstanding performers in training may be given appropriate incentives varies case by case. However, the training period may be extended appropriately for staff getting unsatisfactory results. We encourage employees to attend external education and training courses in their spare time as long as their daily work and duties are not affected.

C. EMPLOYMENT AND LABOUR PRACTICES (CONTINUED)

HEALTH AND SAFETY

Staff in production lines have to undergo body checks and reach the level-3 corporate standards of Work Safety of Standardization Administration of China. Canteen staff and assistant chefs must also pass body checks. To demonstrate our concern over staff health and occupational safety, we are now preparing to report on level-2 corporate standards.

According to our safety training management measures, staff are required to receive three-level safety training, including company level, department level and team level, prior to putting into work. All employees (including general manager) have to participate in the safety training and being assessed at least once every year. New employees must join the orientation training covering our policies and procedures and safety training on top of their department-specific training. Staff of units and production have to receive safety training prior to work. A 3-day, 3-level safety training is conducted annually to all existing staff and staff knowledge are assessed around their job scope. In addition, there is a regular comprehensive annual safety training and a daily safety inspection arranged by the safety management team. They sample check the staff safety education files; perform routine, random and comprehensive checks to ensure our workplace safety. Specialists like electricians, stoves workers, welders, etc., must possess valid licence and passed examinations recognized by the Nation before they are allowed to work.



Documentation Training



Safety Training

COMPLIANCE

During the reporting period, there were no identified violations that were related to labour practices with a significant impact on the Group.



D. OPERATIONAL PRACTICES

SUPPLY CHAIN MANAGEMENT

We have strict procurement procedures covering acceptance of new suppliers; maintenance of the approved supplier list; periodic evaluation of supplier performance; involvement of Legal Department for handling sizable projects tendering process; strict segregation of duties from signing of contracts to goods inspection and acceptance. This is to ensure that our goods and services providers possess recognized qualifications and a sound internal control system, stable quality, delivery on-time, compliance with laws and regulations possessing required professional skills and ethics and also to ensure that suppliers are competitive and that the goods and services provided are of high quality. In the coming year, we shall review our supply chain monitoring and management process with an aim to maintain high standard in raw materials selection, transportation, logistics, leather production and waste treatment, operation efficiency, product quality and satisfying the requirements in ESG, including business ethics and product standard in protecting customer health.

D. OPERATIONAL PRACTICES (CONTINUED)

PRODUCT RESPONSIBILITY

We devote in providing high quality and safe products, not only to satisfy the customers' requirements, but also to meet our internal production efficiency, effectiveness and quality control targets. The quality of raw materials has direct impact on our products. Therefore, we strictly select raw materials by requiring our suppliers to provide evidence of test results to substantiate that their materials are up to the national standards. A sample of our domestic products is sent to China Leather Research Institute for random test annually.

During the reporting period, the Group's products did not involve in any major violations of laws and regulations.

ANTI-CORRUPTION

We are committed to maintaining good corporate governance and building our ethical culture and put emphasis on setting up a comprehensive disciplinary monitoring system to cover operation and production processes. We have established channels, including mailbox and hotline, for receiving reports of suspected personal interests in carrying out one's job duties, bribes, extortion, frauds, money laundering and other illegal acts. We handle such reports in absolute confidence. We shall keep on improving our whistle-blowing system and are determinant in combating corruption and contribute in building an uncorrupted society.



Anti-corruption Training

During the reporting period, there was no litigation case of corruption involving our Group and our employees.



E. COMMUNITY INVESTMENT

We are a responsible tax payer and spare no effort in easing local employment pressure. We pay the “five insurance and housing provident fund” for mainland employees, and contribute to the mandatory provident fund scheme for Hong Kong staffs. We assist our staff to make good plans for their retirement life. Our factory in Mainland China has been set up for 21 years and is one of the pillar industries in that area. We always exercise good practices in our business operation and actively promote green energy-saving and environmental friendly concepts. We set up a role model for the industry, and to some certain extent, we have contributed to social stability and building a harmonious community.

F. HONOURS AND CERTIFICATIONS

During the reporting period, we have received the following honours and certifications:

- “Eco-leather Mark Certificate” awarded by China Leather Industry Association
- Xuzhou Nanhai Leather Factory Co., Ltd. becomes “Vice President of China Tanners Commission of China Leather Industry Association”
- “High Technology Enterprise Certificate” awarded by Science and Technology Office of Jiangsu Province, Finance Department of Jiangsu Province, Local Taxation Bureau of Jiangsu Province and National Taxation Bureau
- “Enterprise Credit Evaluation” Plaque awarded by China Leather Industry Association
- “Certificate of Enterprise Credit Grade” awarded by China Leather Industry Association
- “2016 Advanced Enterprise in Safe Production” Plaque awarded by CPC Jiangsu Suining Economic Development Zone Working Committee and Jiangsu Suining Economic Development Zone Management Committee

F. HONOURS AND CERTIFICATIONS (CONTINUED)



Eco-leather Mark Certificate



Vice President of China Tanners
Commission of China Leather Industry
Association



High Technology Enterprise Certificate

F. HONOURS AND CERTIFICATIONS (CONTINUED)



"Enterprise Credit Evaluation" Plaque



Certificate of Enterprise Credit Grade



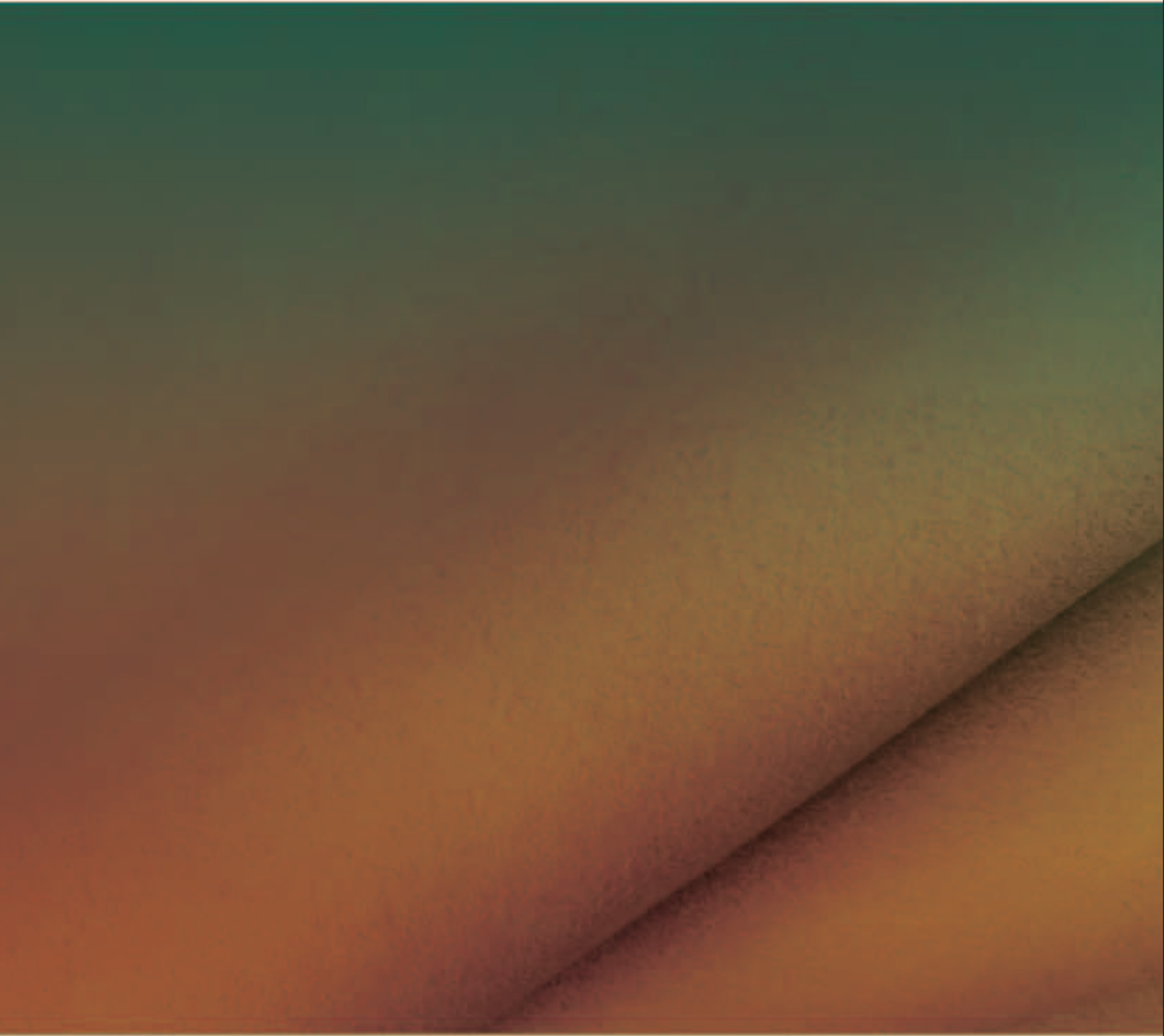
"2016 Advanced Enterprise in Safe Production" Plaque



G. SUSTAINABLE DEVELOPMENT AND TARGET ACTIONS FOR 2017

We shall strengthen our ESG performance in 2017 with the following plans and operational objectives: -

Plan/Target	Important points
To optimize existing ESG systems and procedures	<ul style="list-style-type: none"> Review the existing procedures of collecting ESG data, its integrity and accuracy Establish key performance indicators for environmental protection, prioritize and set time schedule for establishment of key performance indicators for other ESG aspects Strengthen communication with stakeholders (including investors, suppliers, customers and society), collect stakeholders' concerns and conduct in-depth analysis
To update policies and procedures of human resources, occupational health and safety, talent development and training, environmental protection, etc.	<ul style="list-style-type: none"> Enhance our rules compliance and best practice standards in environmental, social contribution and governance Address opportunities and risks associated with strategic issues, improve management efficiency and employee relationships



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