



**Mengkong Holdings Limited**

**盟科控股有限公司**

(Incorporated in the Cayman Islands with limited liability)

**Stock Code: 1629**



**LEADING IN INNOVATION  
STRIVING FOR EXCELLENCE**

Environmental, Social and  
Governance Report 2017

## ABOUT THIS REPORT

This is Mengke Holdings Limited's (referred to in this report as "Mengke" or the "Company", together with its subsidiaries, the "Group") (Stock code: 1629) second annual Environmental, Social and Governance ("ESG") report ("ESG Report"). This ESG Report is published in accordance with the Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guide") as set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the "comply or explain" provisions contained therein.

## SCOPE, MATERIALITY, AND REPORTING PERIOD

The content of this ESG Report focuses on material sustainability areas, based on our most significant economic, environmental and social impacts, as well as the areas that are of the greatest interest or concern to stakeholders.

As identified by the materiality assessment, the ESG Report covers the overall performance, risks, strategies, measures and commitments of the Group in four areas, namely, working environment quality, environmental protection, operating practices and community investment, for the Group's principal business operations of manufacture of metallised packaging paper for cigarette package manufacturers in the People's Republic of China ("PRC") during the reporting period for the year ended 31 December 2017 ("Reporting Period"). Two main lines of our products are transfer metallised paper and laminated metallised paper.

All the information contained herein, including data and information of the Group's headquarters and its self-owned production facility in Yichang City, Hubei Province and Hong Kong office, comes from official documents or statistical reports of the Group. This report has been reviewed and approved by the Board of Directors.

Regarding the corporate governance structure of the Group and other relevant information, please refer to pages 25 to 32 of the Company's annual report dated 28 March 2018.

## STAKEHOLDER ENGAGEMENT

We understand that stakeholder engagement plays a pivotal role to our continuous effort in improving our ESG standard. Therefore, we have built and maintained for our shareholders, customers, employees, suppliers, other stakeholders and all interested parties various communication channels. We also endeavour to provide our stakeholders with clear information about our approaches to business operation and ESG issues. These include, but are not limit to, statutory announcements, circulars, financial reports, shareholders' meetings, corporate websites and electronic correspondence.

We welcome opinions on the Group's approaches on the ESG aspects upon reading the ESG Report. Please share with us via:

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Tel No.: (852) 2327 8009  
Fax No.: (852) 2327 8090

## ENVIRONMENT ASPECT

The Group noticed that the PRC government and clients had shown stronger awareness on environmental protection. In order to meet the requirements of the PRC government and clients and establish positive corporate image, the Group has formulated environmental protection policies and guidelines to enhance our environmental protection management, including forming an environmental protection committee to oversee and supervise our environmental protection management and to monitor the implementation of environmental protection policies and guidelines.

### Emissions

During the Reporting Period, the Group has complied with all relevant laws and regulations that have significant impacts on the Group relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste. These laws and regulations include, but not limited to, the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》), Law of the People's Republic of China on Prevention and Control of Pollution From Environmental Noise (《中華人民共和國環境噪聲污染防治法》), Law of the People's Republic of China on Appraising of Environment Impacts (《中華人民共和國環境影響評價法》), Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Wastes (《中華人民共和國固體廢物污染環境防治法》) and Decision of the State Council on Several Issues Concerning Environmental Protection (《國務院關於環境保護若干問題的決定》).

We have obtained the pollutant discharge permit during the Reporting Period, which allows us to discharge industrial waste water and sewage to water legally when conducting production activities. In addition, in order to protect the biodiversity and ecosystem, we have bespoke guidance on handling of hazardous and non-hazardous wastes arising from our manufacturing processes, which include proper disposal of waste and sewage treatment.

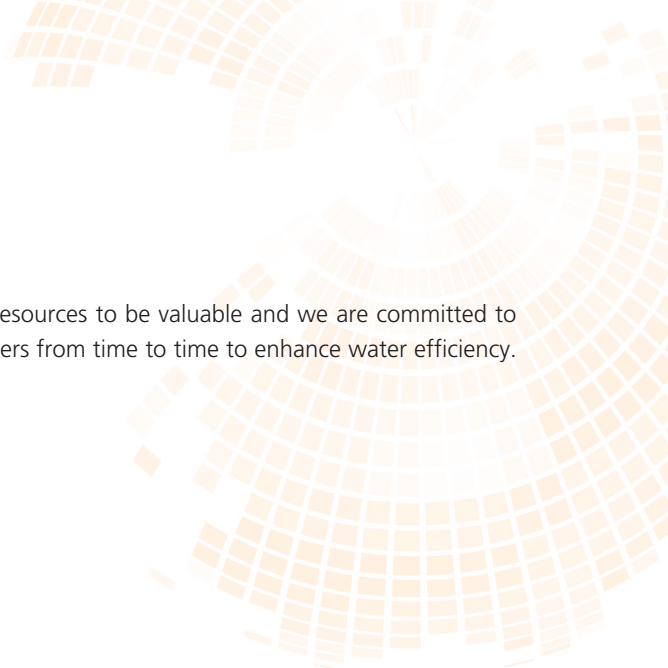
We classify solid waste by types. Reusable waste, such as paper, will be reused in our office. Other waste papers and scrap metal were collected and handled by third-party qualified organisation. Regarding office waste, apart from dumping waste at the designated place in line with the requirements of the property management office of the office premises, we also categorise the waste and engage a contractor to collect toner cartridge and large water bottles for recycle purpose. Meanwhile, we regularly monitor the level of consumption of paper, toner cartridges and ink cartridges.

### Use of Resources

Regarding use of resources and natural resources, we implement various measures to reduce wastage and consumption levels in our headquarter's production facility and offices. We focus on enhancing efficiency, through upgrading machines or adopting advanced technologies in production, to minimise emissions (such as waste gas and waste water) and use of resources and natural resources (including electrical power, water, cardboard, metallised film and other raw materials). These measures include:

#### *Energy and water conservation*

- Maintain suitable indoor temperature
- Switch off all idling electrical appliances, lights and office equipment
- Encourage water conservation
- Use energy-saving electrical appliances such as those with "Grade 1" energy label
- Utilise day-time natural lighting in offices whenever possible
- Install LED or other lighting systems with better energy efficiency



Water that we consume is mainly tap water. The Group considers water resources to be valuable and we are committed to promoting the concept of water conservation. We call on our factory workers from time to time to enhance water efficiency. In offices, we put up signs to remind staff to conserve water.

#### *Waste reduction*

- Promote electronic mailing and electronic filing system
- Encourage reuse and recycling of paper and other stationery
- Avoid using disposable tableware
- Recycle ink cartridges, copier toner containers

Meanwhile, we continuously review our environmental practices and take improving measures when necessary.

### **Environment and Natural Resources**

#### *Environmental-friendly products*

The PRC government encourages the procurement of transfer metallised papers in cigarette packaging as one of the initiatives regarding environmental protection. It is because transfer metallised papers are more environmentally friendly than laminated metallised papers as the plastic transparent layer of the metallised film for transfer metallised paper is removed after lamination and is therefore recyclable. We have strong research and development capabilities in the area of high-end environmentally friendly metallised packaging paper.

Our product research and development team has extensive experience in metallised packaging paper production and it is committed to improving technology to meet the environmental standards. Moreover, we have developed proprietary technologies for producing high-end environmentally friendly metallised cigarette packaging paper with enhanced anti-counterfeiting features primarily for the external packaging needs for mid to high-end cigarette brands. We will make significant investments in further improving our research and development capabilities, in order to contribute to the environmental development of the industry.

#### *Raising awareness*

In addition, we believe that it is critical that our employees share the same values to protect our environment. Hence, we have stepped up our efforts in promoting environmental awareness among our employees. We often put up various notices to remind them of our environmental protection measures and provide updates and information about environmental issues and the Group's latest environmental initiatives.

During the Reporting Period, we had not received any notice or warning in relation to pollution in respect of our production, nor had we been subject to any fines, penalties or other legal actions by government agencies in the PRC resulting from any material breach of environmental protection laws in the PRC and, so far as our Directors are aware after making all reasonable enquiries, there was no ongoing or pending action by any PRC environmental government agencies in respect thereof.



## **SOCIAL ASPECTS**

### **EMPLOYMENT AND LABOUR PRACTICES**

#### **Recruitment, remuneration and dismissal policies**

As at 31 December 2017, the Group has employed a total of 158 employees, of which 2 were based in Hong Kong and 156 were based in the PRC, among which 109 were male and 49 were female. We endeavour to provide a fair, safe and respectful workplace environment for our staff.

The Group has formulated and strictly implemented a set of comprehensive human resources management system, which is in compliance with the Employment Ordinance (Chapter 57 of the Laws of Hong Kong) (《僱傭條例》), the PRC Labour Law (《中華人民共和國勞動法》), the PRC Labour Contract Law (《中華人民共和國勞動合同法》) and other prevailing laws and regulations.

The Group determines employee remuneration and welfare package according to job nature, qualifications and performance as well as market conditions, with reference to his/her performance appraisal. We also encourage internal promotion to provide fair and sufficient opportunities for promotion and salary increment as the recognition and reward of the employee's performance.

The Group will also pay social insurance and housing provident fund for its staff and provides commercial insurance and supplemental medical benefit in accordance with the applicable laws and industrial practice of the region.

In situations where an employee violates the Group's regulations or consistently performs his or her duties below an acceptable level, our human resources department will follow a series of procedures to terminate his or her employment contract. Terms and conditions relating to dismissal are enumerated in employment contract and other employment policy manual.

#### **Equal opportunities, diversity and inclusion**

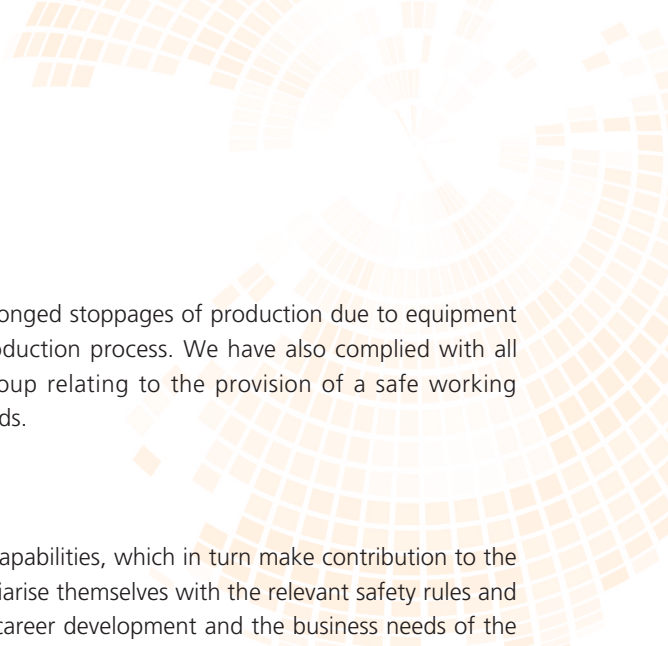
We embrace diversity and inclusion. Given our business nature, we have no specific requirements or conventions on gender, age and race in employment. The Group ensures that all employees share equal opportunities and no employee will suffer from any discrimination or be deprived of any treatment due to gender, age, race, disability, marital and family status, sexual orientation or any other reasons.

During the Reporting Period, there was no incident of non-compliance with the relevant laws and regulations that have a significant impact on the Group relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination and other benefits and welfare.

#### **Health and Safety**

The Group attaches high importance on occupational health and safety. We are subject to the PRC Labour Law and other relevant laws, administrative regulations, national standards and industrial standards which stipulate the requirements to maintain safe production conditions and to protect the occupational health of employees. Our equipment and machineries are also maintained regularly to ensure that they are safe to be operated. We also implement safety measures at our production facilities to ensure compliance with applicable regulatory requirements and to minimise the risk of injury of our employees.





During the Reporting Period, we had not experienced any material or prolonged stoppages of production due to equipment failure and we had not experienced any severe accidents during our production process. We have also complied with all relevant laws and regulations that have significant impacts on the Group relating to the provision of a safe working environment and the protection of our employees from occupational hazards.

### **Development and Training**

We support our employees to develop their potentials and enhance their capabilities, which in turn make contribution to the Group. We require new employees to participate in safety training to familiarise themselves with the relevant safety rules and procedures. Considering the individual needs of the employees' personal career development and the business needs of the Group, we arrange different scopes of training for employees, including expertise and skills related to business and regulations in order to improve their quality. We provide induction training and on-going technical training to the production staff on, amongst other areas, safe operation and maintenance of equipment and machinery. Moreover, we provide training to our production staff from time to time in order to update them on production techniques and the latest technology. Through continuous development and adequate internal and external trainings, we expect the Group to keep abreast of the latest development and grow together with our employees.

### **Employee Communication**

We care for our employees and believe that harmonious employment relationship is conducive to the stable development of the Company. We do our best to maintain open dialogue with them to have a better understanding of and track progress against their career goals. Staff is required to participate in the annual performance appraisal, thereby building a platform for employees to be clear about how they intend to achieve the career objectives and how their performance should be recognised.

### **Labour Standards**

The Group is in strict compliance with the Employment Ordinance, Chapter 57 of the Laws of Hong Kong and Regulations on Labour Security Supervision issued by the State Council of the PRC, and takes reference to international labour standards in formulating internal guidance and labour system. All recruitment procedures and promotions are strictly supervised by the Group's human resources management system.

All employment contracts and staff rules have clearly defined the standards of employees' code of conduct, strictly monitoring all employees (including directors and all levels of staff) and eradicate all violations. The Group will conduct investigations, punishment or dismissal of relevant employees immediately when any illegal behaviour is being discovered. If necessary, the Group will further improve the labour mechanism against illegal behaviours.

During the Reporting Period, there was no incident of non-compliance with the relevant laws and regulations that have a significant impact on the Group relating to preventing child and forced labour.

## **OPERATING PRACTICES**

### **SUPPLY CHAIN MANAGEMENT**

The Group has years of experience in cigarette package manufacturing industry and has already established a good reputation within the industry. While we have not entered into any long-term supply contracts with our suppliers, we maintain stable and long-term relationship with our major suppliers. Our key suppliers are large paper and metallised film manufacturers, mainly providing raw materials of cigarette packaging paper including white cardboard and metallised film which are composed of aluminum foil, polyethylene terephthalate (PET) and biaxially oriented polypropylene (BOPP). Most of our key suppliers are from the PRC. Working with them helps keeping our transportation costs low and enabling us to keep abreast of local market development which facilitate us to produce products that cater to customers' needs.

We choose suppliers based on their business records, products and services quality, cost, after-sale services and transportation and other factors. We periodically invite suppliers to provide us samples for pre-assessment and our procurement department maintains a list of qualified suppliers which have passed our internal assessment as potential suppliers for future purchases.

For the purpose of selecting a supplier for procurement of raw materials, we typically invite our pre-assessed suppliers to participate in a fair, just and open tendering procedure and we assess the tenders based on their quality, price and our purchasing history. Once a supplier is selected after the close of a tender, we typically enter into a fair and reasonable supply contract with the supplier to avoid any exploitation before placing orders to procure the raw materials we require. In addition, provisions for environmental protection are incorporated into certain contracts, requesting contractors and/or suppliers to strictly observe the requirements of environmental protection. In addition to assessing our suppliers on environmental performances, we also closely monitor the quality, cost, service and delivery of their products, as well as their commitments to high moral standards, when performing their contractual obligations. In case our suppliers fail to comply with any applicable laws and regulations or are unable to fulfill their contractual obligations, we will replace them and take legal actions for any related losses when necessary.

### **PRODUCT RESPONSIBILITY**

#### **Quality Assurance**

To ensure high quality standards and maintain our good reputation within the industry, we implement stringent quality control management. Our production department is responsible for conducting the management, examination and maintenance of our production equipment from time to time in order to ensure their proper functioning and safe operation, thus enhancing our productivity and product quality. We have a set of internal guidelines on the maintenance of equipment observed by the production department and carry out periodic inspection and maintenance of our machinery and equipment.

Our production department has a set of internal manuals on standards for testing product quality and these quality control standards are implemented at each stage of the production process. Our production staff is required to record the conditions of the work in progress. The production department also works closely with the quality control department throughout the production process to ensure each production process is carried out in accordance with the quality standard. Before we deliver our final products to customers, our quality control department conducts quality assessment on each batch of final products to check that the products have been produced in accordance with the applicable standards and approved production processes. Only those final products that have fulfilled all testing requirements are delivered to our customers.

We maintain an effective quality control system covering all the major production processes, from procurement of raw materials, operation of machineries, to proper use of materials and packaging, in order to prevent product defects and excessive chemicals remained in our products and excessive emission of Volatile Organic Compounds (VOC).

## **Client Satisfaction**

We place great emphasis on the satisfaction of our clients. Their opinion is the strongest motivation for our continuous improvement. We are eager to understand the needs of our clients through their feedbacks and accordingly adopt appropriate measures to further improve our services. We have adopted a unified sales return policy which applies to all of our products and all customers. After receiving our products and prior to giving its final confirmation of acceptance, our customers may request us to reprocess any products which fail to meet their required product specifications. On the other hand, request for product return after a customer's final confirmation of acceptance will only be accepted if there is any product quality issue and upon re-examination of the alleged defective product by our production department, quality control department and sales department.

## **Intellectual Property Rights**

We fully understand the importance of intellectual property rights. Our core production technology and critical production processes are crucial to our continued success and development. Any infringement of our intellectual rights may seriously affect our business and reputation. Therefore, we aspire to protect our patents, brand, trademark and other intellectual property rights and eradicate all infringement of our intellectual property rights. We also ensure that our business operation processes are in compliance with the Trademark Law of the PRC (《中華人民共和國商標法》), the Implementation Rules of the PRC Patent Law (《中華人民共和國商標法實施條例》) and other relevant laws, administrative regulations, national standards and industrial standards.

## **Privacy Policy**

We have a privacy policy, pursuant to which all personal and corporate data must be collected in compliance with all relevant privacy laws. We urge our staff to protect our customers' privacy and handle all commercially sensitive or confidential information in strict confidence.

## **Advertising and labeling**

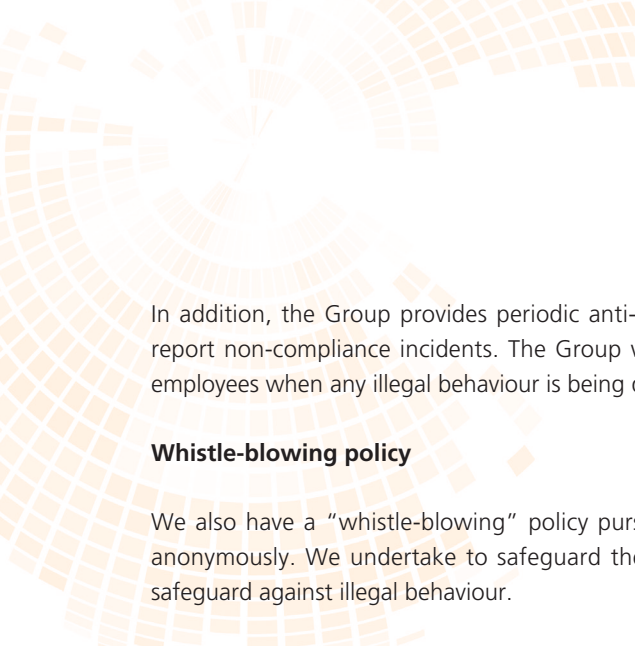
To attract clients, we carry out marketing and promotional works in an appropriate manner. We have been in compliance with all applicable laws and standards enacted by the government and industry associations. We ensure that consumers are provided with sufficient and accurate information on our services to make informed choices.

During the Reporting Period, the Group has complied with all relevant laws and regulations that have a significant impact on the Group relating to health and safety, advertising, labelling and privacy matters relating to its products and services provided.

## **ANTI-CORRUPTION**

The Group always adheres to the principle of "integrity, corruption-free" and we have formulated a set of comprehensive anti-corruption and fraudulent mechanism pinpointing the whole supply chain from upstream suppliers to downstream end-customers, thereby ensuring that our directors and every employee clearly understand our strong stance of "zero-tolerance" against any corruption, fraudulence, extortion, money laundering and bribes, and be in compliance with domestic rules and have good professional conduct.





In addition, the Group provides periodic anti-corruption training and information to employees and encourages them to report non-compliance incidents. The Group will immediately conduct investigations, punishment or dismissal of relevant employees when any illegal behaviour is being discovered.

#### **Whistle-blowing policy**

We also have a “whistle-blowing” policy pursuant to which our employees can report any wrongdoing and misconduct anonymously. We undertake to safeguard their identity. If necessary, the Group will further improve the mechanism to safeguard against illegal behaviour.

During the Reporting Period, no corruption, fraudulent, extortion or money laundering incident was discovered within the Group. The Group has complied with all relevant laws and regulations that have significant impacts on the Group relating to bribery, extortion, fraud and money laundering.

### **COMMUNITY**

#### **COMMUNITY INVESTMENT**

The Group values corporate social responsibility and actively explores options in coordinating charitable activities and collaborating with other organisations in different areas, such as education, culture, poverty relief, and so on. We aim to demonstrate positive influence of corporate values by raising employees’ awareness of caring for the community and mutual help.

During the Reporting Period, the Group actively communicated with different institutions in the community where it located, understands their situation, organises and participates in various community activities. We will take their view into consideration when planning for our business operations. We hope to build the corporate culture of “lending a helping hand” through setting up an example by ourselves. We also encourage our staff to actively participate in community activities and promote the relationship between our employees and community.

## Appendix I: Data Highlights

The following table summarises the key data in relation to the environmental, social and governance aspects of the Group during the Reporting Period:

Environment	Emissions	NOx	0kg
		SOx	0kg
		CO2 (by electricity consumption)	3,159,850kg
		CO2 (by fuel consumption)	0kg
		CO2 (by paper consumption)	1,053kg
	Consumption	Electricity	3,423,828kWh
		Fuel (diesel/Petroleum)	0litre
		Fuel (gas)	0MJ
		Water	27,752m3
		Paper	0.4tonne
		Plastic (packaging materials)	7tonne
		Corrugated container/paper (packaging materials)	3.9tonne
		Toner/ink cartridges	25
Workforce	Total		158
	By gender	— Male	69%
		— Female	31%
	By employment type	— Permanent	100%
		— Part-time	0%
	By age	— Below 30	17%
		— 30-39	38%
		— 40-49	33%
		— 50 or above	12%
	New hires	— Male	21
		— Female	6
	Turnover	— Male	36
		— Female	2
Training	Total training hours	— Executives (male)	45Hours
		— Executives (female)	45Hours
		— Others (male)	46Hours
		— Others (female)	46Hours

## Appendix II: ESG Reporting Guide of The Stock Exchange of Hong Kong Limited

Subject Areas	Content	Section in This ESG Report
<b>A. Environmental Aspect</b>		
A1 Emissions		
General Disclosure	Information on the policies; and compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Environment — Emissions
A2 Use of Resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Environment — Use of Resources
A3 Environment and Natural Resources		
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	Environment — Environment and Natural Resources
<b>B. Social Aspect</b>		
<b><i>Employment and Labour Practices</i></b>		
B1 Employment		
General Disclosure	Information on the policies; and compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Employment and Labour Practices — Recruitment, Remuneration and Dismissal Policies; Equal Opportunities, Diversity and Inclusion
B1.1		
KPI	Total workforce by gender, employment type, age group and geographical location.	Data Highlights
B1.2		
KPI	Employee turnover rate by gender, age group and geographical location.	Data Highlights
B2 Health and Safety		
General Disclosure	Information on the policies; and compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Employment and Labour Practices — Health and Safety
B2.2		
KPI	Lost working days due to work injury.	N/A

Subject Areas	Content	Section in This ESG Report
B3 Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Employment and Labour Practices — Development and Training
B4 Labour Standard		
General Disclosure	Information on the policies; and compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Employment and Labour Practices — Labour Standards
<b>Operating Practices</b>		
B5 Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Operating Practices — Supply Chain Management
B6 Product Responsibility		
General Disclosure	Information on the policies; and compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Operating Practices — Product Responsibility
B7 Anti-corruption		
General Disclosure	Information on the policies; and compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Operating Practices — Anti-corruption
<b>Community</b>		
B8 Community Investment		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Community — Community Investment