



粤海制革有限公司

GUANGDONG TANNERY LIMITED

( Stock Code: 1058 )

Environmental, Social and  
Governance Report  
**2018**



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## I. ABOUT THIS REPORT



The board of directors (the “Board”) of Guangdong Tannery Limited (the “Company”) is pleased to present this Environmental, Social and Governance (hereinafter called “ESG”) Report (the “Report”) of the Company and its subsidiaries (collectively as the “Group”). This Report summarizes the ESG policies, sustainability strategies, management approach, initiatives and performance adopted by the Group.

The Report covers the sustainability strategies, policies and performances in the ESG aspect of the investment holding and the processing and sale of leather businesses of the Group for the year ended 31 December 2018. The Report is prepared pursuant to the “comply or explain” provisions of the “Environmental, Social and Governance Reporting Guide” (the “ESG Guide”) set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“HKEX”). Details of the ESG Guide are set out at the end of the Report.

The Board is responsible for the Group’s ESG strategic formulation and reporting, evaluating and determining the Group’s ESG-related risks, as well as ensuring that appropriate and effective ESG risk management measures and internal control systems are in place. In order to determine the ESG reporting scopes, we have undergone discussion with key management personnel and identified the environmental, social and governance items concerned by major stakeholders and the Group, and assessed their importance to them, so as to choose those comparatively more important ESG items for disclosure in this Report.

## II. STAKEHOLDERS' ENGAGEMENT

The Group is committed to maintaining the sustainable development of its business as well as providing supports to environmental protection and the communities in which it operates. The Group maintains close contacts with its stakeholders, including government/regulatory authorities, shareholders/investors, employees, customers, suppliers, community, etc. and strives to balance their opinions and interests through constructive communications in order to determine the directions of its sustainable development. The Group assesses and determines its ESG risks, and ensures that the relevant risk management and internal control systems are operating effectively. The following table shows the management response to the stakeholders' expectations and concerns:

Stakeholders	Expectation and concern	Management response
Government/ regulatory authorities	<ul style="list-style-type: none"> <li>➤ Compliance in laws and regulations</li> <li>➤ Fulfill tax obligation</li> </ul>	<ul style="list-style-type: none"> <li>➤ Uphold integrity and compliance in operations</li> <li>➤ Pay tax on time, and in return contributing to the society</li> <li>➤ Establish comprehensive and effective internal control system</li> </ul>
Shareholders/ investors	<ul style="list-style-type: none"> <li>➤ Return on investment</li> <li>➤ Information transparency</li> <li>➤ Corporate governance policies</li> </ul>	<ul style="list-style-type: none"> <li>➤ Management possesses relevant experience and professional knowledge to ensure business sustainability</li> <li>➤ Ensure transparency and effective communications through regular publication of information on the websites of HKEX and the Company</li> <li>➤ Continuous improvement on internal control and risk management</li> </ul>
Employees	<ul style="list-style-type: none"> <li>➤ Labor rights</li> <li>➤ Career development</li> <li>➤ Compensation and welfare</li> <li>➤ Health and workplace safety</li> </ul>	<ul style="list-style-type: none"> <li>➤ Set up contractual obligations to protect labor rights</li> <li>➤ Encourage employees to participate in continuous education and professional trainings</li> <li>➤ Establish a fair, reasonable and competitive remuneration scheme</li> <li>➤ Focus on occupational health and safety</li> </ul>

## II. STAKEHOLDERS' ENGAGEMENT (Continued)

Stakeholders	Expectation and concern	Management response
Customers	<ul style="list-style-type: none"> <li>➤ High quality products and services</li> <li>➤ Timely delivery</li> <li>➤ Reasonable price</li> </ul>	<ul style="list-style-type: none"> <li>➤ Continuously provide high quality products and services for customer's satisfaction</li> <li>➤ Establish an effective and efficient green supply chain system</li> <li>➤ Formulate comprehensive quality assurance process and recall procedures</li> <li>➤ Ensure proper discharge of contractual obligations</li> </ul>
Suppliers	<ul style="list-style-type: none"> <li>➤ Stable demand</li> <li>➤ Good relationship with the Company</li> <li>➤ Corporate reputation</li> </ul>	<ul style="list-style-type: none"> <li>➤ Ensure proper discharge of contractual obligations</li> <li>➤ Establish policies and procedures in supply chain management</li> <li>➤ Establish and maintain strong and long-term relationship</li> <li>➤ Select suppliers with due care</li> </ul>
Community	<ul style="list-style-type: none"> <li>➤ Environmental protection</li> <li>➤ Community participation</li> <li>➤ Economic development</li> </ul>	<ul style="list-style-type: none"> <li>➤ Attend to climate change issues</li> <li>➤ Encourage employees to actively participate in charitable activities and voluntary services</li> <li>➤ Maintain good and stable financial performance and business growth</li> </ul>

### III. MATERIALITY MATRIX

During the reporting period, the Group has evaluated a number of environmental, social and operating items, and assessed their importance to stakeholders and the Group through various channels. This assessment helps to ensure that the Group's business objectives and development direction are in line with the stakeholders' expectations and requirements. The Group's and stakeholders' matters of concern are presented in the following materiality matrix:

		Materiality Matrix		
Importance to Stakeholders	High	<ul style="list-style-type: none"> <li>◆ Anti-discrimination</li> <li>◆ Protecting human rights</li> </ul>	<ul style="list-style-type: none"> <li>◆ Talent management</li> <li>◆ Staff training and promotion opportunity</li> <li>◆ Staff compensation and welfare</li> </ul>	<ul style="list-style-type: none"> <li>➤ Customers' satisfaction</li> <li>➤ Product quality and safety</li> <li>➤ Suppliers management</li> <li>◆ Occupational health and workplace safety</li> <li>◇ Application of clean production and green products</li> </ul>
	Medium	<ul style="list-style-type: none"> <li>➤ Community participation</li> </ul>	<ul style="list-style-type: none"> <li>➤ Anti-corruption</li> <li>◇ Greenhouse gas emissions</li> <li>◇ Use of energy</li> </ul>	<ul style="list-style-type: none"> <li>➤ Operational compliance</li> <li>➤ Customers' privacy protection</li> <li>◇ Exhaust air emission</li> <li>◇ Sewage discharge</li> </ul>
	Low	<ul style="list-style-type: none"> <li>◆ Preventive measures for child and forced labor</li> </ul>	<ul style="list-style-type: none"> <li>◇ Water resources utilization</li> <li>◇ Discharge of non-hazardous wastes</li> </ul>	<ul style="list-style-type: none"> <li>◇ Use of raw materials</li> <li>◇ Discharge of hazardous wastes</li> </ul>
		Low	Medium	High
		Importance to the Group		
		◇ Environmental	◆ Employee	➤ Operation

## IV. ENVIRONMENTAL PROTECTION

The Group's main emissions come from the production process of the Xuzhou tannery production plant. The tannery industry handles large quantity of animal solid wastes and corrosive chemical raw material with strong acid and alkaline. Most of the production processes are carried out in water which increases the possibility of polluting the environment. Accordingly, the Group formulates the "Environmental Protection Management System" for meeting the requirement of the increasingly stringent global environmental protection regulations, using the environmental resources effectively and systematically and enabling effectiveness assessment. The results will bring opportunities for future environmental protection projects. We have set up the environment and safety centre in the factory to centrally supervise and monitor environmental protection work, to implement the relevant national environmental laws, regulations and policies and to provide appropriate staff training to ensure that each employee has sufficient knowledge of national policies. Besides, the environment and safety centre works with the production centre to promote cleaner production, demanding use of harmless, non-toxic or low-toxicity raw and auxiliary materials as priority, and strictly monitor and evaluate all sewage discharge unit. The "Administrative Measures for Environmental Pollution Incidents" is implemented to deal with different kinds of emergent environmental pollution incidents. We investigate and analyze environmental pollution incidents in accordance with the handling procedures of "Emergency Plan for Production Safety Incidents", report the incident to relevant government departments in a timely manner, and will never conceal or do anything that harms the interests of the public, the community, the Group and the stakeholders.

The Group has been established for more than 20 years at a leading position in the industry by persistently supporting the concept of "Compliance and Integrity Operation", possessing rich experience in environmental protection management and continuously improving the tanning technology. The Group made investments each year in the facilities for prevention and control of pollution, new technology development, and kept on improving the environment within the plant. The Group takes the national environmental protection development plan as its blueprint, raises the environmental awareness at all levels within the Group to realize the deteriorating global environmental situation and hopes to have more industrial and commercial enterprises, social organizations and general public participating in environmental protection projects and working together to improve the environment, to build a better world and to promote its sustainable development.

## IV. ENVIRONMENTAL PROTECTION (Continued)

### 1. Management of Emissions

#### *Management of Atmospheric Emissions*

The Group always complies with the “Law of the People’s Republic of China on the Prevention and Control of Atmospheric Pollution” and aims at improving the quality of the atmospheric environment within the plant. Internal policies and procedures are established with reference to the state’s “Measures for Environmental Surveillance” and adhere to control the source of pollution in order to ensure that the air emissions by the plant meet the national emission standards.

The exhaust air and greenhouse gas generated by the Group are mainly come from the production plant in Xuzhou with two major sources. One of the sources comes from production procedures such as dust generated during the grinding process, volatile organic compounds produced during the tinting process, sulfur dioxide, nitrogen oxides, particulate matter generated when burning fossil fuels, etc. Another source is the stinky smell of waste meat inside the waste storage area and the hydrogen sulfide odor gas produced by the sewage treatment plant.

During the grinding process, the Group uses cloth bags to collect and compress dust in order to reduce the possibility of dust fluttering in the air. The pigments used in the tinting process must be supplied by qualified and reputational vendors who meet the national standards so as to reduce unnecessary emissions due to the use of substandard products. Besides, we strictly require all workers handling tinting process to wear gas masks or simple disposable masks for occupational health and safety purpose. In order to reduce greenhouse gas emissions in the production process and to comply with the national coal boiler remediation policy, we replaced coal with natural gas as fuel by the end of 2017. The Group also installed steam pipes to reduce greenhouse gases generated by burning fossil fuels. The waste storage zone is built with cover and located far away from the living area so as to prevent the smell from spreading to the entire plant and the surrounding environment. The Group strictly monitors the hydrogen sulfide odor gas from the sewage treatment plant and designates maintenance personnel to regularly inspect and repair the production facilities and equipment so as to reduce the chance of failure and gas pollution.

## IV. ENVIRONMENTAL PROTECTION (Continued)

### 1. Management of Emissions (Continued)

#### *Management of Sewage*

The sewage generated by the Group in its operations mainly includes domestic sewage from the office and sewage containing chromium and sulfur from the production process. Domestic sewage is directly discharged to local sewage treatment plants through main pipelines. Sewage containing sulphur and chromium is produced in the unhairing and tanning processes respectively. The sewage is transported through separate pipelines to different sewage collection tank in the plant. After multiple sedimentations and biological or chemical treatments, sewage which meets national discharge standards is discharged to the local sewage treatment plant directly for further treatment, and finally discharged to the sea through the North Jiangsu pipe network. The sewage containing chromium and sulfur is converted from hazardous sewage to non-hazardous sewage after various treatments, and complies with national discharge standards. Hence, the Group does not discharge any hazardous sewage.



Integrated water tank and drum grille

For handling sewage containing chromium and sulfur, the Group strictly complies with the "Environmental Pollutant Emission Standards for Tanning and Fur Processing Industry" issued by the Ministry of Ecology and Environment and the notice on "Action Plan for Water Pollution Prevention and Treatment" issued by the State Council. The Group sets up sewage treatment station and on-line automatic monitoring system in the plant in accordance with the "Measures for Environmental Surveillance" and "Measures for Automatic Surveillance of Pollution". The National environmental authorities can monitor the emission of ammoniacal nitrogen and chemical oxygen demand data in our plant at any time through the internet. The environment and safety centre conducts sample testing of each sewage outlet regularly, and keeps record as the basis for management purposes. In addition, the Group entrusts qualified companies to conduct inspections on sewage quarterly. During the reporting period, there were no excessive discharge having been recorded in the inspection report.

The Group strictly regulates the workflow of the production plant. The equipment department and the environment and safety centre repair and maintain the sewage treatment facilities periodically to ensure that the production and environmental protection facilities function properly. All newly hired employees have to attend the "3-Level safety training" to ensure that all employees possess the required professional knowledge and skills to operate the production and environmental protection facilities so as to be able to work safely and to prevent environmental pollution caused by improper use of facilities. We built cover at the sewage treatment station, set up multiple liquid-solid separation devices and regularly cleaned the sewage pipes to prevent the fur residue from clogging the drainage pipes and causing sewage overflow and to reduce the chance of sewage pollution. As the employees support our emission mitigation and water conservation measures actively, the Group's non-hazardous waste water discharged during the reporting period was 458,893 tonnes, a decrease of approximately 38,247<sup>1</sup> tonnes or 7.7%<sup>1</sup> from previous year and its intensity also decreased by approximately 7.32% as compared to last year.

*Note:*

<sup>1</sup> The water level of sewage tank in the local sewage treatment plant was abnormal in certain months of 2017 and 2018, leading to the discharge readings of sewage tank in Xuzhou plant being higher than the actual situation. Therefore, the data for these months were estimated based on on-site observations.

## IV. ENVIRONMENTAL PROTECTION (Continued)

### 1. Management of Emissions (Continued)

#### *Management of Solid Wastes*

The Group has always complied with the "Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Wastes". We have formulated "Measures for Management of Solid Wastes" to regulate hazardous and non-hazardous solid or semi-solid wastes generated from operations. The commissioner of the environment and safety centre regularly and randomly inspects each production unit, reports to the management any potential hazards of the production plants and proposes remediation plans. The environment and safety centre and the engineering department coordinate in evaluating the environmental impacts of all new, expansion or reconstruction projects. Environmental factors are taken into account in preparing the development plan so as to reduce the solid waste produced during and after the construction. In addition, the Group's professional team optimizes and improves the production process continuously and takes the "clean production" attitude actively. The Group wishes to promote technological exchanges internationally in the future for product quality enhancement, to raise its competitiveness and to reduce the negative impact on the environment.

The Group's hazardous waste is mainly chromium sludge. It is precipitated in the sewage collection tank after treatment of sewage containing chromium. Chromium is a toxic and harmful heavy metal, and therefore we use different ditches to separate sewage containing chromium from other waste water to prevent environmental pollution caused by leakage of sewage containing chromium. In order to reduce the transportation volume of chromium sludge, the sewage containing chromium is treated until the discharge standard is reached. The chromium sludge is then reused in the production process after acid dissolution, hydrolysis, filtration processes, etc., and the reuse rate is up to 90%.

The Group handles the remaining non-recyclable chromium residues according to the national "Hazardous Waste Transportation Management Measures" and the internal "Solid Waste Management Measures". Responsible departments report and apply to the National Environmental Protection Bureau for the transportation of hazardous waste, set up and implement an information management system to keep track of its movement and entrust recyclers with the "Hazardous Waste Management Permit" to handle and transport the hazardous wastes. As the Environmental Protection Agency ("EPA") closely monitors the transportation of chromium sludge from the plant to the designated disposal location to ensure elimination of illegal disposal causing pollution to the environment, the Group has to report the waste weight, transportation route, driver information, etc. to the EPA. Since 90% of the chromium sludge produced is reused in the production process, the Group has only produced 25.99 tonnes of hazardous solid waste in 2018.

## IV. ENVIRONMENTAL PROTECTION (Continued)

### 1. Management of Emissions (Continued)

#### *Management of Solid Wastes (Continued)*

The Group advocates materials recycling to reduce waste generation. Wastes (such as pallets, barrels) can be reused in the production process after disinfection. The Group categorizes and stores other harmless and non-recyclable wastes (such as waste plastics, scrap metal, waste rubber pipes, scrap steel, scrap iron drums, waste tires, scrap steel tiles, etc.) in the designated zone, which are then handled by qualified recycler. Besides, the Group separately stores the sludge being precipitated in the non-hazardous sewage tank. Since the local waste landfill was full, no non-hazardous sludge was transported during the reporting period. The Group has discussed this issue with the local government to avoid excessive sludge storage within the plant.



Unhairing  
equipment

Non-hazardous  
sludge

The data relating to the hazardous and non-hazardous solid wastes produced by the Group during the reporting period are as follows:

	2018 (Tonnes)	2017 (Tonnes)
<b>Hazardous solid wastes:</b>		
Total	25.99	23.77
Intensity <sup>3</sup>	0.01	0.01
<b>Non-hazardous solid wastes:</b>		
Total	9,612.87 <sup>2</sup>	8,774.00 <sup>1</sup>
Intensity <sup>3</sup>	5.36	5.36

*Notes:*

- The Group did not collect data on the amount of non-hazardous waste produced from time to time, but estimated them based on the actual amount of wastes being transported.
- During the reporting period, the Group did not transport any non-hazardous wastes, and hence we did not have official figures for disclosure and the estimation for non-hazardous wastes is based on the ratio of 2018 and 2017 production level.

Besides, the Group started subcontracting business with customers in 2018. The Group did not collect separate set of data on non-hazardous waste produced from this new line of business. Hence, the Group estimated the volume of non-hazardous wastes generated based on the leather production level as a whole.

- Emission intensity is based on every 10,000 square feet of leather produced. Since the volume of non-hazardous solid wastes produced was estimated according to production level, the intensity for both years remain the same.

## IV. ENVIRONMENTAL PROTECTION (Continued)

### 2. Management of Resources Utilization

To comply with the relevant laws, regulations and policies on resource conservation, the production centre and the general office of the Group have set up various measures to remind its employees of the importance of resource conservation and to encourage them to make the best use of resources so as to maximize their effectiveness and to avoid wastage.

#### *Energy Conservation*

##### *Steam and Natural Gas Conservation*

Steam and natural gas are mainly used in production lines. In order to comply with the national policy on coal-fired boilers and reduce greenhouse gas emissions, the Group ceased to use coal and started using natural gas and steam as energy source at the end of 2017

Steam used by the Group for running production equipment is either acquired from suppliers or generated from burning natural gas in the plant. The use of steam itself does not produce any greenhouse gas, but steam is produced by burning fuel, resulting in greenhouse gas and exhaust air emissions. Therefore, the Group has adopted various measures to save the use of steam and natural gas. In 2018, we installed thermostatic steam trap in steam pipe networks and equipment. Condensates, air and non-condensing gas are emitted automatically and the trap can prevent leakage of steam, thus reducing heat loss and natural gas usage. The pipeline valve is shut off when natural gas is not in use. The equipment department is required to report the volume of steam and natural gas to the finance department monthly, and explain the reason in case the actual consumption exceeds the budgeted amount. The equipment department regularly inspects and repairs natural gas and steam pipelines to avoid unnecessary waste caused by leakage. Leakage of natural gas also poses safety problems.



Natural gas boiler and  
gas pressure regulator

As natural gas is clean energy source, the “coal to gas” policy implemented throughout the year helped to reduce greenhouse gas emissions, and hence the Group’s greenhouse gas emissions and its intensity decreased by 80.49% and 77.39% respectively during the reporting period.

## IV. ENVIRONMENTAL PROTECTION (Continued)

### 2. Management of Resources Utilization (Continued)

#### *Energy Conservation (Continued)*

##### *Gasoline and Diesel Conservation*

Gasoline and diesel are mainly used in vehicles. Drivers must plan their routes in advance. If passengers travel to the same or close destinations, they will be arranged to use the same vehicle to reduce petrol and diesel consumption. The engineering department regularly repairs and maintains vehicles to improve energy efficiency, and to reduce the extra fuel use and exhaust air emission resulting from the failures of vehicle's part.

During the reporting period, the Group's energy consumption and Scope 1 greenhouse gas emissions data are as follows:

Scope 1	2018		2017	
	Fuel consumption	Carbon dioxide equivalent emissions (Tonnes)	Fuel consumption	Carbon dioxide equivalent emissions (Tonnes)
Natural gas	498,966.11 M <sup>3</sup>	913.84	—	—
Coal	—	—	1,914.00 Tonnes	5,052.96
Gasoline	17.64 Tonnes	54.78	17.62 Tonnes	54.68
Diesel	10.68 Tonnes	34.04	10.09 Tonnes	32.16
<i>Total emission</i>		<i>1,002.66</i>		<i>5,139.80</i>
<i>Emission intensity<sup>1</sup></i>		<i>0.71</i>		<i>3.14</i>

*Note:*

1 Emission intensity is based on every 10,000 square feet of leather produced.

#### *Electricity Conservation*

The Group focuses on the design of the production plant and places the machineries and transportation systems in the safest and the most convenient location to reduce energy use. The administration department, environment and safety centre, and human resources department work together to formulate energy management policies, promote energy management work, increase production efficiency and save electricity, thereby reducing energy loss and enhancing profitability. Since certain production process needs to be operated at high temperature environment, large ice cubes are placed inside the production plant to replace the use of air conditioners which generates greenhouse gas as well as to reduce indoor temperature and the chance of employees suffering from heatstroke.

## IV. ENVIRONMENTAL PROTECTION (Continued)

### 2. Management of Resources Utilization (Continued)

#### *Electricity Conservation (Continued)*

Besides, the Group has set up a series of energy saving measures in the production plant and office. For example, using natural light, adjusting the light by means of zoning control, switching off electrical appliances such as lights, electric fans, air-conditioners, computers, etc. during noon break and after work, and prohibiting random switching on and off of production machineries. During the reporting period, the Group's electricity consumption was 7,083.57 megawatt hours ("MWh") Due to a decline in the production volume, the electricity consumption decreased by approximately 1,943.94 MWh or 21.53% from previous year. Besides, as the employees actively support our energy saving measures, the Group's electricity consumption intensity in the reporting period decreased by approximately 8.52% compared with previous year.

During the reporting period, the Group's electricity consumption and Scope 2 greenhouse gas emissions data are as follows:

Scope 2	2018		2017	
	Fuel consumption	Carbon dioxide equivalent emissions (Tonnes)	Fuel consumption	Carbon dioxide equivalent emissions (Tonnes)
Electricity	7,083.57 MWh	5,727.64	9,027.51 MWh	7,299.51
Steam <sup>1</sup>	13,324.36 Tonnes	N/A <sup>1</sup>	—	—
<i>Total emission</i>		<i>5,727.64</i>		<i>7,299.51</i>
<i>Emission intensity<sup>2</sup></i>		<i>4.08</i>		<i>4.46</i>

*Notes:*

- 1 Steam is generated from burning wood, plants, biomass fuels or other energy sources in boiler; while the fuel burning process produces exhaust air (such as sulfur dioxide, nitrogen oxides, dust, etc.) and greenhouse gases. The Group started purchasing steam from suppliers since the beginning of 2018. As the suppliers were unable to provide the types and composition of the fuel used for producing the steam, the Group does not have the necessary information to calculate the exhaust air and greenhouse gas emissions.
- 2 Emission intensity is based on every 10,000 square feet of leather produced.

## IV. ENVIRONMENTAL PROTECTION (Continued)

### 2. Management of Resources Utilization (Continued)

#### *Water Conservation*

The water used by the Group is provided by the Government, and mainly for the production of leather and daily general usage. During the reporting period, although we did not face any problems regarding water supply, we have actively adopted various measures to educate our staffs to save water from daily life. In order to establish proper attitude towards the use of water in the factory, we have posted water saving sign at prominent places to remind employees of controlling the water flow when washing hands, minimizing tap water flow and switching off the tap after use. The maintenance department reduces water pressure, inspects water facilities, hidden water pipes and internal water supply systems, etc., regularly, and repairs damaged water tanks, water taps and other water supply facilities in a timely manner in order to prevent water leakage and unnecessary wastage. The maintenance department also need to keep properly all inspection and repair record. At the initial stage of the production process, the Group uses water to disinfect raw materials. Sewage produced therefrom together with the water used in canteen for cleaning are both non-toxic, and hence they are collected and reused in floor cleaning or watering plants so as to minimize water usage. During the reporting period, on top of leather production by the Xuzhou plant, the Group also processed cowhide into semi-finished leather for customers which involved the tanning process and required to soak and clean the cowhide in water. This process used large amounts of water. Although the drop in leather production level has led to less water use, plenty of water was consumed by the new business line. During the reporting period, the Group's water consumption was approximately 283,515.00 tonnes, representing a decrease of 29,983 tonnes or 9.56% from previous year. As the employees actively support the Group's water conservation measures, the water consumption intensity decreased by approximately 9.20% from previous year.

#### *Paper Conservation*

The Group advocates green office policy and paper conservation to reduce waste production. Employees are encouraged to "think before print", to carefully consider which file to print before printing, to establish an electronic filing system, to distribute and read documents in electronic format, to set double-sided printing as default and to recycle the single-sided used papers. Waste papers are collected in recycling bin and handled by qualified recyclers. During the reporting period, the Group's processing and sale of leather business consumed approximately 0.81 tons of paper, representing a decrease of approximately 0.19 tons or 19.00% from the previous year. The main reason for the drop was due to decrease in sales volume by approximately 21.74%.

#### *Compliance*

During the reporting period, the Group did not involve in any non-compliance incidents relating to environmental protection that have a significant impact on the Group.

## IV. ENVIRONMENTAL PROTECTION (Continued)

### 3. The Environment and Natural Resources

The Group is committed to and focuses on preserving the natural environment, setting an example and influencing each individual to build a better environment and to improve its livability. In order to arouse the awareness of its people and let them realize how one's action impacts the environment, the Group continues to implement various policies, measures and actions to reduce the carbon footprint and to minimize the impact from individuals' personal life and business activities (Please refer to "Management of Emissions" and "Management of Resources Utilization" above for details). The Group will continue to increase investment in different environmental protection projects, to re-visit and identify the sources of wastes produced in operation, to evaluate the impact on the environment for use of resources and to enhance the environmentally friendly facilities and ancillary equipment. The Group makes reference to the national environmental protection development plan in preparing its blueprint, adopting different green management policies, implementing sustainable development business strategies and hoping to bring positive impact on the environment.



## V. EMPLOYMENT AND LABOR PRACTICES

Employees are the Group's most valuable assets. The Group adheres to the "people-oriented" governance philosophy and establishes a comprehensive talent management mechanism to attract and retain competent talents for sustainable development of its business. The Group is committed to providing an equitable, non-discriminatory, harmonious and safe working environment with mutual respect, trust and teamwork. The Group encourages creativity, flexibility and commitment to accomplish its corporate mission of providing high quality products and services to customers. In order to attract, retain and reward talents, the Group offers commensurate remuneration, various benefits and personal growth and career development related training programs. Besides, the Group promotes work-life balance to enhance team cohesiveness by organizing leisure-time recreational activities to enrich employee's life.

### 1. Talent Selection

The Group is a fair opportunity employer and respects personal privacy, and it has established and implemented fair treatment policy. The appropriate candidates would be selected based on their morality, knowledge, abilities and job requirements, and regardless of their age, gender, ethnic group, religious affiliation, nationality or marital status. The policy applies to all phases of the employment relationship, including but not limited to, hiring, promotion, performance appraisal, training, personal development and termination. Xuzhou plant has been supporting the rehabilitation plan for people with disabilities. During the period, it has recruited a number of employees with physical disabilities and assigned them with appropriate job duties based on their ability and skills so that they can earn their living.

### 2. Labor Standards

The Group cherishes human rights and protects labor rights. Pursuant to relevant laws and regulations, we strictly prohibit child and forced labor and prevent any unlawful labor by conducting background checks in its hiring process. Employees' consent for working overtime is required to avoid forced overtime work, and the employees are compensated in accordance with the applicable laws and regulations. During the reporting period, the Group did not hire any applicant under the legal working age in order to comply with the local laws and regulations in respect of child and forced labour.

## V. EMPLOYMENT AND LABOR PRACTICES (Continued)

### 3. Compensation and Welfare

The Group attracts and retains quality staff with competitive remuneration packages and regularly examines their salary levels. The Group benchmarks the up-to-date remuneration data in the industry and strives to establish a fair, reasonable and competitive remuneration scheme. Employee's salary levels are determined based on knowledge and skills, experience and education level as required by each position. The basic employee benefits include salary, bonuses, job subsidies, overtime subsidies, overtime meal allowance, etc. The Group conducts periodic performance appraisal and fairly assess the bonuses, salaries increment and/or promotion recommendations based on a number of criteria (working experience, seniority, knowledge and skills, performance, contribution, etc.). Other benefits include hospital and medical care and general health checkups. To comply with the local labour laws and regulations, the Group provides social security benefits for all employees and also protects their rights of rest days and holidays. The Group handles dismissal and compensation in accordance with the applicable laws and regulations. The Group pays attention to its employees' health, encourages work-life balance by adopting a five-day work week and organizes vocational skill competitions from time to time to enhance cooperation and team cohesiveness.

### 4. Development and Training

An excellent corporate team is critical to the Group's sustainable and long-term business development. Therefore, the Group establishes a long-term talents development training strategy. The Group provides a variety of educational training for its employees in Mainland China. New hires are required to participate in a three-level safety training (please refer to the section headed "Health and Safety" below for details). Besides, employees have to attend professional training and attain the required standard prior to job transfer. In addition to public appreciations, outstanding performers in training may be given incentives as appropriate. For those failed to meet the required standard, the training period may be extended appropriately. The Group encourages its employees to attend outside education and training courses using their spare time as long as their daily work and duties are not affected.

The Group provides on-the-job training for its employees in Hong Kong. The human resources department together with the supervisors of each department introduce the corporate culture, industry knowledge and job responsibilities to new staff. Professional staff, such as finance manager and company secretary, are required to participate in external training held regularly by professional bodies in the form of seminars. The trainings received during the reporting period include human resources and financial related topics.

## V. EMPLOYMENT AND LABOR PRACTICES (Continued)

### 5. Health and Safety

The Group always puts health of its employees and safe working environment as priority, and occupational injury prevention and avoidance are especially important. To comply with “People’s Republic of China Safety Production Law”, the Group has established safety management policies and procedures applicable to the production plants in the Mainland China. The Group focuses on providing safety training to its employees and establishes safety training management and control measures, requiring its staff to receive a 3-level safety training (company level, department level and team level) prior to putting into work. Apart from the job-specific training, new employees must join the 1-day orientation training covering topics like policies and procedures and safety. Safety operation for specific positions in production units is explained to the new hires of production prior to work. All employees have to participate in a 3-day, 3-level safety training once a year and their job knowledge will be assessed. Besides, the Group organizes regular comprehensive annual safety training activities. During the reporting period, trainings on production safety, product quality, operation standards, operating procedures, anti-heatstroke, etc. were provided to the employees in dyeing, tanning, embryonic and finishing production units. The safety management team inspects the production units every day and randomly checks the staff safety training file archives to ensure the workplace is safe. Specialists like electricians, welders, etc., must possess valid license and pass examinations recognized by the Nation before they are allowed to operate the facilities.



Safety training and drill

To ensure equipment and facilities are kept in good condition and to control risk and prevent safety incidents from happening, the Group sets up equipment department which inspects production equipment and facilities and fire facilities (including fire extinguishers, fire hose, etc.) on a regular basis. Immediate repair will be arranged if abnormalities are reported, and regular inspection and repair and maintenance records are properly kept.

The Group sets up an occupational health management policy pursuant to the requirements of the “Law of the People’s Republic of China on Prevention and Control of Occupational Diseases” to protect its employees’ health, rights and interests. Protective equipment (such as masks, earplugs, uniforms, protective shoes, sawdust, etc.) that meets the national standards, together with the guideline for use, is provided to its employees. In order to provide its employees with a safe workplace, the Group has established procedures for identifying environmental factors/hazard sources, detecting hazard factors and taking appropriate measures to eliminate or control risks.

### 6. Compliance

During the reporting period, the Group did not involve in any non-compliance incidents relating to employment, health and safety, and labor standards that have significant impact on the Group.

## VI. OPERATING PRACTICES

### 1. Supply Chain Management

The Group conveys its concern on environmental issues to its suppliers and business partners, and expects them to reach the standards that meet with our expectations. The Group also serves to maintain long-term, stable strategic cooperative relationships with leading suppliers, and co-develops with its suppliers on the basis of equality and win-win situation. The Group adheres to assessing the quality and ethical standards of its business partners based on a number of criteria, including their attitudes towards environmental and social issues, prior to entering into contracts. The Group established stringent internal rules and policies in vendor evaluation and management, covering sourcing and selection of new vendors, renewal of existing vendors, and preparing an “approved vendor list”. There is proper segregation of duties from signing of contracts with suppliers to goods or service acceptance so as to ensure that the suppliers possess the required qualifications professional skills, adopt good internal management system, stable quality, on-time delivery, comply with laws and regulations and possess professional skills/qualities etc. This is to ensure that the Group’s suppliers are competitive and provide good quality products and services. The Group has established policies and procedures in supply chain management and provided various reporting channels for employees, suppliers, customers and other business parties to report violations of laws or regulations by taking advantages of one’s position. During the reporting period, the Group did not receive any reports on matters of significant relating to violations in this respect.

### 2. Product Responsibility

The Group commits to provide good quality and safe products, not only to satisfy the customers’ basic requirement, but also to meet our internal production efficiency, effectiveness and quality control targets. The quality of raw materials has direct impact on our product quality, and therefore the Group selects raw materials carefully by requiring its suppliers to provide evidence of test results to substantiate that their products are up to the national standards. The testing laboratory under the China Leather Research Institute randomly tests the Group’s products annually, and all the products are produced and delivered with a qualified test report. If the customers have product quality issue or the products fail to satisfy their requirements, they can approach the Group’s after-sales services.

Confidentiality is one of the Group’s core values. The Group has established “Customer Information Management System” to ensure its employees handle customers’ information diligently and confidentially. For any confidential information obtained through business relationships, all employees are strictly prohibited to disclose any information to third parties without proper authority unless there is a legal or professional right or duty to do so.

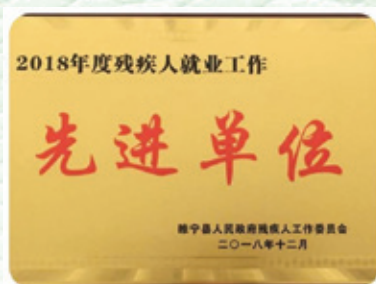
During the reporting period, there was no violation or non-compliance incident relating to product responsibility that had significant impact on the Group.

### 3. Anti-corruption

Maintaining an ethical working environment is one of the Group’s core values. The Group adopted a zero-tolerance approach for all kinds of corruption, bribery and extortion situation. Therefore, the Group established human resources management policy and staff manual to restrict the behavior of all employees and set strict penalty to restrict the collection and accepting bribes or other illegal interests. The Group demanded all employees to build up a habit of complying to policies and procedures. Employees who are in breach of the Group’s code of conduct are disciplined or dismissed. The Group sets up a comprehensive disciplinary monitoring system to cover the operation and production processes. The Group has 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. The Group handles such reports in absolute confidence, keeps on improving the whistle-blowing system, and is determinant in combating corruption and contributes in building an uncorrupted society. During the reporting period, there was no litigation of corruption involving the Group or its employees.

## VII. COMMUNITY INVESTMENT

The Group is a responsible tax payer and spares no effort in easing local employment pressure. The Group pays the “five insurance and housing provident fund” for mainland employees, contributes to the mandatory provident fund scheme for Hong Kong staffs, and assists its staff to make good plans for their retirement life. The Group has operated its factory in Mainland China for over 20 years and is one of the pillar industries in that area, exercising good practices in its business operation and actively promoting green energy-saving and environmental-friendly concepts. Besides, the Group has been regarded as a role model for the industry, contributing to social stability and building a harmonious community.



“2018 Advanced Enterprise for  
Employment of Peoples with Disability”  
Plaque

The Group was awarded “2018 Advanced Enterprise for Employment of Peoples with Disability” by CPC Suining County Committee for Peoples with Disability.

## VIII. VISION OUTLOOK

As a good corporate citizen, the Group strives to strike a balance between achieving the corporate missions and business objectives, and fulfilling social responsibility. The Group will continue to evaluate its performance on environmental protection, employee care, product quality and community investment which are important to the sustainable development of the Group.

The Group will endeavor to comply with the stringent laws and regulations of environmental protection, allocate resources and undertake various environmental improvement projects, including improving exhaust air, sewage and waste treatment facilities. The Group will also put employee satisfaction and production safety as its top priority. The Group aims at attracting more talents through ensuring occupational safety and a competitive remuneration scheme. As for product quality and customer service, the Group will continue to invest resources for product improvement so as to conform with the environmental protection requirements. The Group is committed to fulfilling its social responsibility by participating in charitable activities and promoting the community's sustainable development.

The Group aspires to become a respectable enterprise. Going forward, the Group serves to enhance its business performance through the implementation of sustainable development strategies and generate more meaningful long-term value for the enterprise and its stakeholders.



## IX. ENVIRONMENTAL DATA AND PERFORMANCE SUMMARY

	Unit	2018	(Restated) <sup>3</sup> 2017
<b>Greenhouse gas emission ("GHG"):</b>			
<b>Scope 1<sup>1</sup>:</b>			
Total	Tonnes	1,002.66	5,139.80
Intensity <sup>5</sup>	Tonnes	0.71	3.14
<b>Scope 2<sup>2</sup>:</b>			
Total	Tonnes	5,727.64	7,299.51
Intensity <sup>5</sup>	Tonnes	4.08	4.46
<b>Air emissions:</b>			
Nitrogen oxides	Tonnes	5.92	5.85
Sulfur oxides	Tonnes	0.60	0.59
Particles	Tonnes	1.13	1.09
<b>Hazardous wastes generated<sup>4</sup>:</b>			
<b>Solid wastes generated:</b>			
Total	Tonnes	25.99	23.77
Intensity <sup>5</sup>	Tonnes	0.01	0.01
<b>Non-hazardous wastes generated:</b>			
<b>Sewage discharged:</b>			
Total	Tonnes	458,893.00	497,140.00
Intensity <sup>5</sup>	Tonnes	281.28	303.50
<b>Solid wastes generated<sup>3</sup>:</b>			
Total	Tonnes	9,612.87	8,774.00
Intensity <sup>5</sup>	Tonnes	5.36	5.36
<b>Packaging materials used:</b>			
Total	Tonnes	23.39	26.42
Intensity <sup>5</sup>	Tonnes	0.01	0.02

## IX. ENVIRONMENTAL DATA AND PERFORMANCE SUMMARY (Continued)

	Unit	2018	(Restated) <sup>3</sup> 2017
<b>Energy and water consumption:</b>			
<b>Electricity:</b>			
Total	MWh	7,083.57	9,027.51
Intensity <sup>5</sup>	MWh	4.08	4.46
<b>Diesel:</b>			
Total	Tonnes	10.68	10.09
Intensity <sup>5</sup>	Tonnes	0.01	0.01
<b>Gasoline:</b>			
Total	Tonnes	17.64	17.62
Intensity <sup>5</sup>	Tonnes	0.01	0.01
<b>Natural gas:</b>			
Total	Cubic metre	498,966.11	—
Intensity <sup>5</sup>	Cubic metre	355.64	—
<b>Steam:</b>			
Total	Tonnes	13,324.36	—
Intensity <sup>5</sup>	Tonnes	9.50	—
<b>Coal:</b>			
Total	Tonnes	—	1,914.00
Intensity <sup>5</sup>	Tonnes	—	1.17
<b>Water:</b>			
Total	Tonnes	283,515.00	313,498.00
Intensity <sup>5</sup>	Tonnes	173.78	191.39

*Notes:*

- 1 Scope 1 refers to the Group's business direct GHG emissions, including combustion of diesel, gasoline and natural gas.
- 2 Scope 2 refers to the Group's business indirect GHG emissions, including consumption of purchased electricity.
- 3 Last year's comparative figures are restated to conform with the current year's presentation.
- 4 The sewage containing chromium and sulfur generated from production is converted from hazardous sewage to non-hazardous sewage after treatment and meeting the national emission standards. Hence, there is no hazardous sewage discharged.
- 5 During the reporting period, the Group's principal activities were processing of leather and providing subcontracting business for its customers. The intensity of emissions and consumption of various key performance indicators for the leather process business was calculated based on the volume of actual production. Subcontracting business for customers involves the tanning process only. The emissions and consumption amount of various key performance indicators throughout the tanning process carries different weight in the whole leather production process, and hence the calculation was made according to the actual proportion of each process.

The intensity is based on 10,000 square feet of leather produced.

## X. “ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE”

Key Performance Indicators (“KPIs”)	Reporting Guide	Page
<b>A. Environmental</b>		
<b>Aspect A1</b>	<b>Emissions</b>	
General Disclosure	Information on: (a) the policies; and (b) 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.	6
KPI A1.1	The types of emissions and respective emissions data.	7
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	22
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	10
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	10
KPI A1.5	Description of measures to mitigate emissions and results achieved.	7
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	9
<b>Aspect A2</b>	<b>Use of Resources</b>	
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	11
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (MWh) and intensity (e.g. per unit of production volume, per facility).	12
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	14
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	11
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	14
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	22

## X. “ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE” (Continued)

Key Performance Indicators (“KPIs”)	Reporting Guide	Page
<b>Aspect A3</b>	<b>The Environment and Natural Resources</b>	
General Disclosure	Policies on minimizing the issuer’s significant impact on the environment and natural resources.	15
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	15
<b>B. Social 1</b>		
<b>Aspect B1</b>	<b>Employment and Labor Practices</b>	
General Disclosure	Information on: (a) the policies; and (b) 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.	16
<b>Aspect B2</b>	<b>Health and Safety</b>	
General Disclosure	Information on: (a) the policies; and (b) 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.	18
<b>Aspect B3</b>	<b>Development and Training</b>	
General Disclosure	Policies on improving employees’ knowledge and skills for discharging duties at work. Description of training activities.	17
<b>Aspect B4</b>	<b>Labor Standards</b>	
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labor.	16
<b>Aspect B5</b>	<b>Supply Chain Management</b>	
General Disclosure	Policies on managing environmental and social risks of the supply chain.	19

## X. “ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE” (Continued)

Key Performance Indicators (“KPIs”)	Reporting Guide	Page
<b>Aspect B6</b>	<b>Product Responsibility</b>	
General Disclosure	Information on: (a) the policies; and (b) 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.	19
<b>Aspect B7</b>	<b>Anti-corruption</b>	
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	19
<b>Aspect B8</b>	<b>Community Investment</b>	
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.	20

*Note:*

- Pursuant to Appendix 27 of the “Main Board Listing Rules”, the KPIs under Area B “Social” are recommended disclosures only. Therefore, the Group chooses not to disclose those KPIs in this report.

