

# Environmental, Social and Governance Report

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# Environmental, Social and Governance Report (Continued)

## Scope and Reporting Period

This is the third Environmental, Social, and Governance (**ESG**) report issued by BaWang International (Group) Holding Limited and its subsidiaries (collectively referred to as the **Group**), highlighting its ESG performance, with disclosure reference made to the ESG Reporting Guide as described in Appendix 27 to the Listing Rules and Guidance set out by The Stock Exchange of Hong Kong Limited (the **Stock Exchange**).

The Group principally engaged in the manufacturing and sales of the household and personal care products. This ESG report covers the Group's overall performance in two subject areas, namely, the environmental and social aspects of its operations in Baiyun District, Guangzhou, the People's Republic of China(**PRC**) from 1 January 2018 to 31 December 2018 (the **Reporting Period**), unless otherwise stated.

The same operational site as the last Reporting Period was included in the scope of this ESG report. The total revenue has increased while the total number of employees has decreased substantially during this Reporting Period when compared with the same period last year, the reason being that the increase in the total revenue was mainly due to the substantial increase in sales through online channel, and there was layoff of redundant staff members in the traditional channel.

The board of directors of the Company (the **Board**) acknowledges that it has overall responsibility for the Group's ESG strategy and reporting and for evaluating and determining the Group's ESG related risks. On the basis of confirmation provided by the management of the Group and through on-going discussions with the management, management has confirmed to the Board, and the Board believes that the Group has in place appropriate and effective ESG risk management and internal control systems.

The Group has complied with all the "comply or explain" provisions set out in the ESG Reporting Guide during the Reporting Period.

## Stakeholder Engagement and Materiality

The Group values input and feedback of its stakeholders as they bring potential impacts to the Group's business. Key stakeholders such as shareholders, customers, employees, suppliers, government and regulators have been involved in regular engagement activities to share views and expectations regarding the Group's business operation and ESG performances.

In order to identify the most significant ESG aspects during the Reporting Period, the Group distributed quantitative surveys to stakeholders. Through the stakeholder surveys carried out during this Reporting Period, key material issues raised by the stakeholders mainly focused on the social aspects. The following topics have been identified as the most important by stakeholders:

- Product Health and Safety;
- Products Quality;
- Customer Service;
- Occupational Health and Safety; and
- Customer Privacy.

The above aspects were strictly managed through the Group's policies and guidelines. Key achievements realized during the Reporting Period also corresponds the continuous improvement made on the above material topics. The Group will continue to identify areas of improvement for the concerned aspects and keep close communication with its stakeholders to share and exchange ideas for advancing the Group's ESG management.

## Stakeholders' Feedback

The Group welcomes stakeholders' feedback on its ESG approach and performance. Please give your suggestions or share your views via email at IR@1338.hk.

## The Group's Sustainability Mission and Vision

The Group is committed to continuously enhance the product offerings of herbal based household and personal care (**HPC**) product categories and to upgrade its existing products with a view to setting the consumption trend. As the people's living standards are improving, the Group believes that they tend to pursue a healthier and more natural lifestyle. The Group is committed to satisfying their needs by providing Chinese herbal HPC products which suit their lifestyles.

The Group has extensively invested in e-commerce during the Reporting Period. Revenue from the online sales channel represented a notable increase of 54.2% from the last Reporting Period. This allows the Group to achieve a synergy on reducing cost, reducing indirect environmental impacts, and improving customer experience.

The e-commerce promoted by the Group can extensively reduce waste generation. For example, the paperless billing and transaction can reduce paper waste as online shoppers can receive confirmations, receipts, offers, newsletters, and bills through their e-mail and/or other electronic accounts. While the Group receives financial benefits from expanding e-commerce, the environment is also reaping the benefits.

### Accreditation and Certification

During the Reporting Period, the Group has complied with the relevant laws and regulations that have a significant impact on the Group. The Group also strives for achieving best industrial practices especially regarding promotion of environmental-friendly and healthy HPC products. As a result of continuous improvement on management excellence, the Group has the following highlighted achievements during the Reporting Period:

- An ingredient mixture for an anti-hair fall Chinese herbal shampoo and its manufacturing know-how were patented by the State Intellectual Property Office of China;
- Three Bawang branded series shampoos were again recognized as "The 2018 New High-Tech Products in Guangdong" by the Guangdong Provincial Science and Technology Bureau;
- The Chinese herbal skincare series shampoo and hair care products and shower gel products have been recognized as "New Hi-tech Products of Guangdong Province" by the Guangdong Provincial New Hi-tech Enterprise Association;
- The production process for haircare and skincare products has been certified to meet the requirements of:
  - a) US FDA CFSAN by reference to Cosmetic Good Manufacturing Practices (GMP) Guidelines 2008;
  - b) ISO22716 by reference to Cosmetic GMP Guidelines 2007;
- The design, development, production and service of cosmetics of protection hair and protection skin has been certified to meet the requirement of GB/T 24001-2004 – ISO 14001:2004 standard
- Bawang online flagship store was awarded "The 2018 Store Growth Prize" by JD.com;
- The Group was awarded the "The 2018 Innovative Marketing Enterprise of China's Trendy Industry Award" by Xinxin News; and
- The marketing and publicity animation series "Herbal Fairytale" was awarded "The 2018 Entertainable IP Marketing 5S Golden Prize" by the Advertiser Magazine.

# Environmental, Social and Governance Report (Continued)

## A. Environmental

The Group is responsible for its impacts to the environment arising from its business operations. The Group has obtained ISO14001 Environmental Management System certification. The production of HPC products belongs to the light industry, thus no significant pollutants are involved during the manufacturing process and adverse impact to the surrounding environment is minimal. The Group has been investing and implementing various energy conservation projects in recent years, in which the overall power consumption has drastically reduced.

### A1. Emissions

The Group stringently complies with national and local laws and regulations concerning environmental protection and pollution control, including but not limited to the following:

- Environmental Protection Law of the PRC;
- Law of the PRC on the Prevention and Control of Atmospheric Pollution;
- Water Pollution Prevention and Control Law of the PRC;
- Soil Pollution Prevention and Control Law of the PRC;
- Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste; and
- Regulations on Environmental Protection in Guangdong Province.

No non-compliance with relevant laws and regulations which have a significant impact on the Group relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste had been identified during the Reporting Period.

During the Reporting Period, the Group reinforced the following environmental protection practices:

#### *Water environment*

The production and domestic wastewater were treated onsite by dissolved air flotation and anaerobic and contact oxidation processes. The treated wastewater indicators were within the permissible levels set by the Discharge Limits of Water Pollutants (DB44/26-2001).

#### *Atmospheric environment*

The Group installed various treatment facilities to control emissions from the boiler, the generator, the injection molding processes, and the canteen. All emissions were monitored and within the permissible levels set by the Emission Standard of Air Pollutants for Boilers (GB13271-2014), the Emission Limits of Air Pollutants (DB44/27-2001), and the Emission Standard of Cooking Fume (GB18483-2001).

#### *Acoustic environment*

The Group implemented various methods to control the noise from boilers, generators, air compressors, and emulsifying processes. The monitoring results were within the permissible level set by the Standard of Noise at Boundary of Industrial Enterprises (GB 12348-2008).

Other environmental aspects regarding solid waste treatment, indirect emissions and resource consumption were detailed in below sections.

#### A1.1 Air Emissions

During the Reporting Period, the manufacturing processes did not involve gaseous fuel consumption. Light goods vehicle and other mobile machinery operated on diesel have been used for daily business operations. Their combustion generated several air emissions include nitrogen oxides (NO<sub>x</sub>), sulphur oxides (SO<sub>x</sub>) and respiratory suspended particles (PM).

# Environmental, Social and Governance Report (Continued)

Mobile fuel source	Air emissions (non-GHG) from the vehicle operations		
	NO <sub>x</sub> (kg)	PM (kg)	SO <sub>x</sub> (kg)
Diesel	1,580.28	48.81	0.19

Note: Emission factors for calculations on environmental parameters throughout the report were made reference to Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the **Listing Rules**) and their referred documentation as set out by the Stock Exchange, unless stated otherwise.

## A1.2 Greenhouse Gas (GHG) Emissions

GHG emissions were generated directly from the consumption of stationary and mobile fuels, and refrigerant. Indirect GHG emissions were also generated from the consumption of purchased electricity, processing of freshwater and sewage, landfilling of waste papers, and business air travel.

There were 5,411.12 tonnes of carbon dioxide equivalent (CO<sub>2</sub>eq) GHG (mainly carbon dioxide, methane and nitrous oxide) emitted from the Group's operation during the Reporting Period. The overall intensity of the GHG emissions for the Group was 0.09 tCO<sub>2</sub>eq/m<sup>2</sup>.

The GHG reported included the following activities and scope:

- Direct (scope 1) GHG emissions from the consumption of diesel and refrigerant;
- Energy indirect (scope 2) GHG emissions from purchased electricity; and
- Other indirect (scope 3) GHG emissions from business air travel, municipal freshwater and sewage processing, and paper waste disposed at landfills.

Scope of GHG emissions	Emission sources		GHG Emission	Sub-total	Total GHG emission
			(in tCO <sub>2</sub> eq)	(in tCO <sub>2</sub> eq)	(in percentage)
Scope 1 Direct emission <sup>1</sup>	Combustion of fuels in stationary sources	Diesel	0.59	68.88	1%
	Combustion of fuels in mobile sources	Diesel	32.09		
	Consumption of refrigerant	R22	36.20		
Scope 2 Energy indirect emission <sup>2</sup>	Purchased electricity		5,231.55	5,231.55	97%
Scope 3 Other indirect emission	Paper waste disposed at landfills		1.20	110.69	2%
	Electricity used for processing fresh water by government departments/third parties		63.68		
	Electricity used for processing sewage by government departments/third parties		22.19		
	Business air travel by employees <sup>3</sup>		23.62		
Total			5,411.12		100%

Note 1: Emission factors were made reference to Appendix 27 to the Listing Rules and their referred documentation as set out by Stock Exchange, unless stated otherwise.

Note 2: Combined margin emission factor of 0.63 tCO<sub>2</sub>eq./MWh was used for purchased electricity in Guangdong Province, the PRC.

# Environmental, Social and Governance Report (Continued)

## A1.3 Hazardous Waste

The business operations of the Group did not generate major hazardous waste during the Reporting Period.

## A1.4 Non-hazardous Waste

The Group generated an approximate 229 tonnes of non-hazardous waste in the aggregate during the Reporting Period, which was mainly sludge from waste water treatment. They were all collected and handled by Guangzhou Baiyun Hetai New Wall Material Co., Ltd. for downstream recycling. This allows a substantial reduction on final waste disposal and promoting the circular economy as a whole. Other than sludge, non-hazardous waste was also generated from production lines and comprised mainly packaging materials. They were all collected by Guangzhou Jinxin Renewable Resources Recycling Co., Ltd. for downstream recycling.

Non-hazardous waste	Annual waste amount	Unit
Sludge	228.60	Tonnes
Carton	99.36	Kg
Plastic sheet	22.31	Kg
Paper core	237	Pieces
Waste paper (non-office)	9.62	Kg

## A1.5 Measures to Mitigate Emissions

To control direct emissions from the diesel-fuelled lorries, the Group specifies that the initial delivery volume for customers to be above RMB 30,000. In addition, the Group has partnered with professional logistics companies, which can efficiently manage bulk delivery.

For indirect emissions, the largest source of GHG emissions for the Group was due to purchased electricity. The Group has centralized the production process and optimized the power consumption required by the cold-water machines for production.

To reduce indirect emissions from personal vehicles, the Group has outsourced two commuting buses for its employees, which will transfer employees within the same region to the designated metro stations. By offering commuting buses and encouraging employees to take public transportation, the Group allows employees to reduce their everyday use of their personal vehicles.

## A1.6 Wastes Reduction and Initiatives

The Group recycled production waste as much as possible for resource conservation, which also brings economic benefits for the Group. All on-site industrial wastes were collected by the designated waste handlers for downstream recycling, instead of disposed at landfills or being incinerated. To reduce office waste, according to the Employee Handbook, employees have the priority to purchase used office equipment at a discounted rate.

# Environmental, Social and Governance Report (Continued)

## A2. Use of Resources

The Group conserves resources for environmental preservation and operational efficiency purposes. To meet the Group's environmental commitments, various efficiency-initiatives throughout the Group's operations have been implement for minimising the use of energy, water consumption and use of packaging materials. Through actively monitoring and managing the use of resources, the aim is for the Group to reduce its operating costs as well as environmental footprint.

### A2.1 Energy Consumption

During the Reporting Period, direct electricity consumption by the Group was 8,299,440 Kilowatt-hour (kWh). Consumption of diesel was also converted to kWh unit. The Group's business operations resulted in total energy consumption of 8,418,447.35 kWh, with an intensity of 147.69 kWh/m<sup>2</sup>. Compared with the last Reporting Period, the slight increase in energy intensity was possibly due to the increased production.

### A2.2 Water Consumption

During the Reporting Period, the total water consumption for the Group was 158,206m<sup>3</sup>, with an intensity of 2.78m<sup>3</sup>/m<sup>2</sup>. Compared with the last Reporting Period, there was a slight increase in water intensity. To safeguard water quality and steady supply for production and to ensure water sources were fit for purpose, fresh water was mainly supplied by Guangzhou Water Supply Company. No issues on sourcing water were reported during the Reporting Period.

### Wastewater Discharge

The Group regularly monitors its performance index in terms of wastewater discharge (pH value, suspended solids, sulphide, chemical oxygen demand, 5-day biochemical oxygen demand, ammonia nitrogen, animal or plant oil, petroleum type, colour, total nitrogen, surface activity of cations, total phosphorus content), noise in various working spaces, air exhaust (dust, sulphur dioxide, nitrogen oxide and smoke). The Environmental Monitoring Station of Guangzhou Baiyun District also monitors the effluent generated by the Group, and no exceedances were reported during the Reporting Period.

### A2.3 Energy Use Efficiency Initiatives

The Group ensures the rational use of energy resources. All employees shall turn off air-conditioners, printers, computers and monitors after office hours. In cases of serious violation of such energy saving practices, the involved department will be fined.

### A2.4 Water Use Efficiency Initiatives

The Group continuously conserves water resources. As a water reduction measure, the Group reuses wastewater for flushing toilets after on-site wastewater treatment.

### A2.5 Packaging Material

A total amount of 4,000 tonnes of packaging materials were consumed during the Reporting Period. All packaging materials were used for sold products. With customers' approval, the Group uses recyclable materials for packaging.

Packaging materials	Annual consumption (in tonnes)
Packaging bottle & attachments	1,800
Graphic carton and label	1,000
Carton and paper board	900
Plastic wrapping	300

# Environmental, Social and Governance Report (Continued)

## A3. The Environment and Natural Resources

### A3.1 Significant Impacts of Activities on the Environment

The Group's operations did not cause significant adverse impacts on the environment and natural resources. The Group continuously monitors air emission, wastewater discharge, and noise level to ensure minimum impacts on the surrounding environment and creation of a healthier environment for its workers. The Group did not receive any complaints from the surrounding community regarding air pollution, odour, noise, or night light pollution.



## B. Social

### 1. Employment and labour practices

The Group stringently complies with national and local laws and regulations concerning employment and labour practices, including but not limited to the followings:

- Labour Law of the PRC;
- Labour Contract Law of the PRC;
- Law of the PRC on the Protection of Rights and Interests of Women;
- Law of the PRC on the Protection of Minors;
- Law of the PRC on the Protection of Disabled Persons;
- Trade Unions related laws and/or regulations of the PRC;
- Social insurance Law of the PRC;
- Regulation on Paid Annual Leave for Employees; and
- Provisions on the Prohibition of Using Child Labour.

No non-compliance with 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 had been identified during the Reporting Period.

#### B1. Employment

The Group had a total number of 626 employees as of 31 December 2018, with 99.8% came from various provinces in the PRC and the rest came from Hong Kong. The annual employee turnover rate was 9% with 59 employees left the Group during the Reporting Period, in which the Group offered compensation of over RMB 1.7 million for the employees who left the Group's employment.

During the Reporting Period, there were no major changes in policies relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunities, diversity and anti-discrimination for the Group. The termination of labour contracts includes different types and categories, such as resignation, dismissal, and termination under various situations. The recruitment procedure is guided by the Labour Law of the PRC.

The employees' benefits and welfare have been provided under applicable laws and regulations. During this Reporting Period, to further motivate the Group's distributors and sales team, incentive leisure travel scheme for the participating distributors and internal staff members was offered for free to those who completed the predetermined sales target for a specified period.

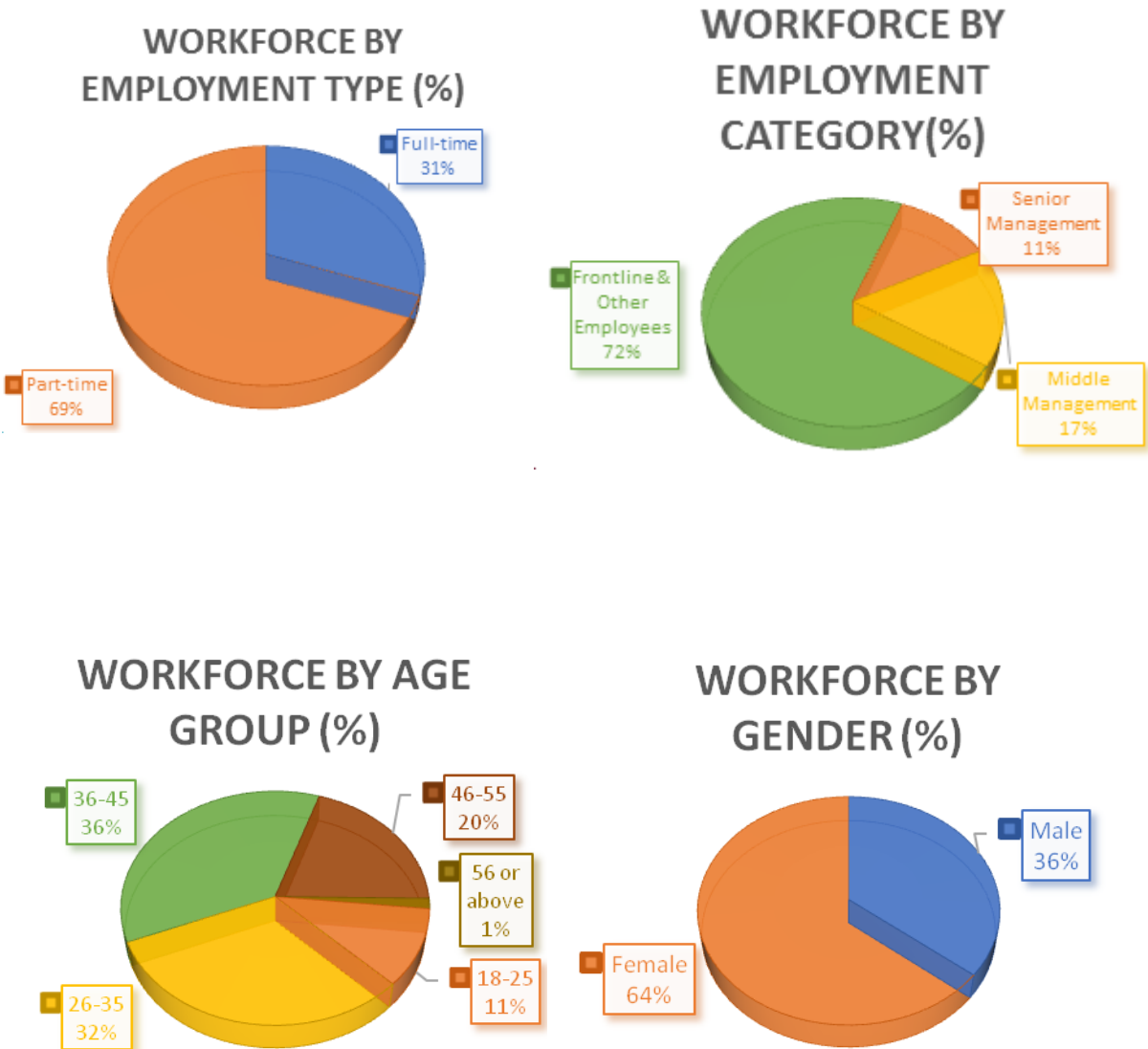
Employees are entitled to statutory holidays, basic social and housing insurance, as well as a discounted price for purchasing the Group's products. Free shuttle bus, meals, accommodation, and annual health check are provided to all employees, and they are encouraged to join company activities such as sports competition and annual outing. Working hours are arranged in accordance with the law and according to the employee's specific job position. Standardized working hours and rest period for different departments of the business operation have been stipulated as part of the Group's policy on human resources management. If overtime working is required, employees must seek approval in advance via the standard procedure. The Group allows employees to apply for compensatory leave for overtime working.

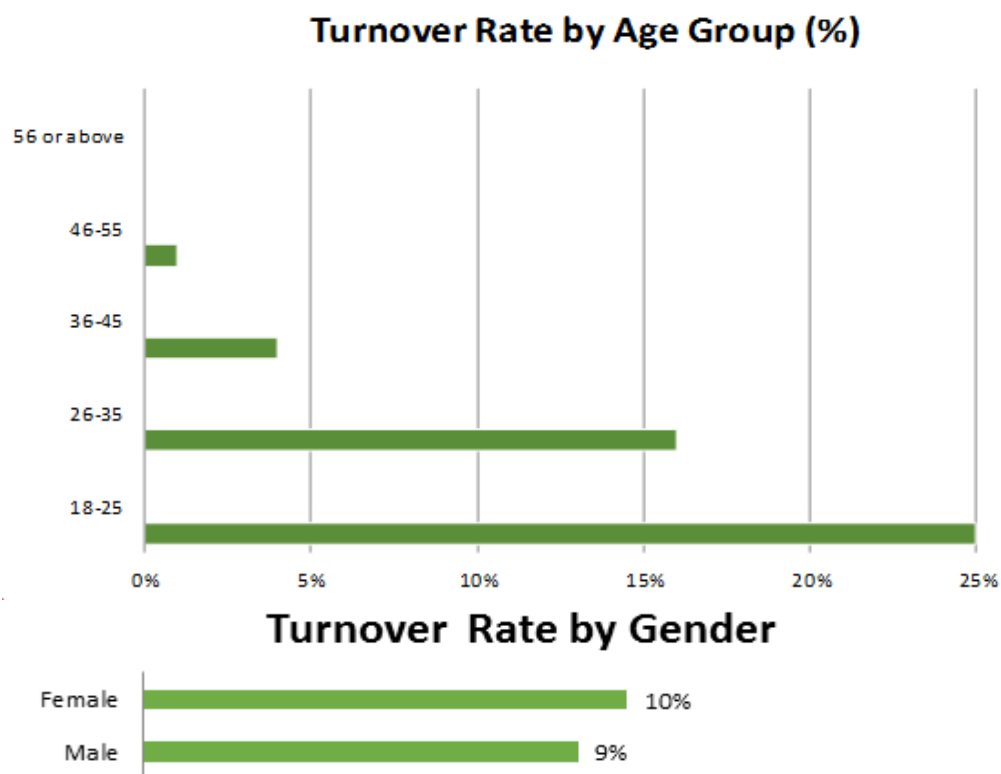
The appraisal, promotion, and rewarding and penalty system were outlined in the employment contracts and staff manual. The Group carries out annual performance appraisal for employees, which mainly focuses on two areas: (1) result — meeting the target; (2) process — fits with the Group's policies, values and requirements/expectations stated in staff manual. Bonus distribution, salary adjustment, training, promotion, transfer of job position, talent management may be considered and discussed upon reviewing the performance results.

# Environmental, Social and Governance Report (Continued)

The Group offers opportunities for employees to develop their career and challenge their potential. The Group gives priority to internal employees as candidates shall any job vacancies arise. The Group’s Promotion Management System provides standardized terms and conditions and approval authority regarding promotion.

There is no discrimination among the Group’s policies and during recruitment. No employees shall be treated differently on the basis of gender, religion, family status, sexual orientation or ethnicity. The Group believes in the concept of “Working with harmony despite differences”, respects individuals’ differences, welcomes and encourages the diversity among the workforce.





**B2. Employee Health and Safety**

The Group highly values the importance of providing a safe and accident-free working environment for employees.

Employees are responsible to be familiar with the Group’s Health and Safety Policy, systems, operating procedures, emergency response and handling procedure. Health and safety standards are given prime consideration in operations, and regulatory compliance is strongly upheld. Employees at every level are committed to, and accountable for, the delivery of the safety initiatives contained in the staff manual, with a view to maintaining a vigorous and injury-free culture. Appropriate measures are taken to continuously improve the safety and health aspects in the workplace in accordance with the hygiene of cosmetics products regulations laid down by the China Food and Drug Administration.

The Group strictly follows relevant laws and regulations such as Law of the PRC on the Prevention and Control of Occupational Diseases and the Law on Safety Production. During the Reporting Period, there was no material non-compliance with the applicable laws and regulations relating to occupational health and safety which had a material impact on the Group.

**B3. Development and Training**

The Group provides comprehensive career development and training to its employees. Training needs are identified through various channels such as performance evaluation. Staff member who have participated external training would be invited to attend an internal sharing session.

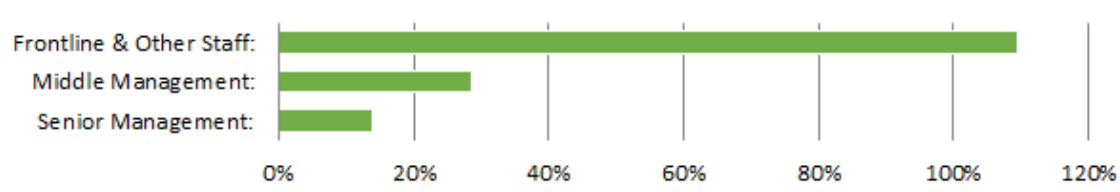
In addition to the career development provided for employees, the Group also encourages and subsidises the professional developments for Board members to ensure that their contributions to the Board remains informed and relevant. During the Reporting Period, all directors received regular updates on the Group’s business, operations, risk management and corporate governance matters, and participated in the directors’ training internally and/or offered by external professional bodies.

# Environmental, Social and Governance Report (Continued)

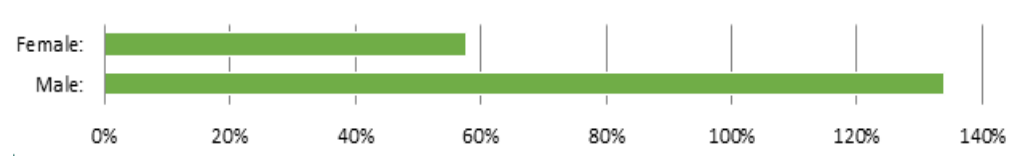
Targeting group	Training courses attended	Training frequency	Training type	Training purposes
<b>Directors</b>	<ul style="list-style-type: none"> <li>• Hong Kong legislative/regulatory compliance;</li> <li>• Directors' duties and ESG practices;</li> <li>• Financial reporting/taxation;</li> <li>• Risk management;</li> <li>• Economy/financial markets updates; and</li> <li>• Business management/investor relationships</li> </ul>	Regularly	Internal and external	<ul style="list-style-type: none"> <li>• To develop and refresh directors' knowledge and skills; and</li> <li>• To ensure that their contributions to the Board remains informed and relevant.</li> </ul>
<b>Senior management</b>	<ul style="list-style-type: none"> <li>• Management consultancy training course, including leadership, management and strategies training</li> </ul>	1-2 times per month	External	<ul style="list-style-type: none"> <li>• To understand the industry dynamics; and</li> <li>• To expand their professional networks through sharing the management experiences from senior managers of the industry.</li> </ul>
<b>Middle management</b>	<ul style="list-style-type: none"> <li>• External training courses including professional and team management training; and</li> <li>• Online courses and internal lectures also offered.</li> </ul>	1-2 times per month	Internal and external	<ul style="list-style-type: none"> <li>• To meet compliance through external professional skills training; and</li> <li>• To improve the performance for department managers.</li> </ul>
<b>Frontline and other staff</b>	<ul style="list-style-type: none"> <li>• Frontline workers attend a four-hour workshop at least once per month;</li> <li>• Marketing staff work outside the company should attend an one-day training quarterly;</li> <li>• Functional staff in headquarters should join the course from the Bawang Online Business School for no less than eight hours per month;</li> <li>• Promotion team should attend a training course in headquarters with not less than 3 days, and half-day or full-day lectures would be held in site offices occasionally;</li> <li>• Bawang Seminar Hall holds lectures on every Friday, targeting staff from various functional department, e.g., marketing department; and</li> <li>• Soft Skills Learning Booth opens on Thursday once every two weeks.</li> </ul>		Internal	<ul style="list-style-type: none"> <li>• To enhance the professional skills of the functional staffs, including recruitment skills, labour law knowledge, financial knowledge, Photoshop skills, graphic design etc.</li> </ul>

During the Reporting Period, the Group has conducted various training sessions for all employees as detailed in the following table. During the Reporting Period, a total of 76,100 training hours were completed for 532 accumulated employees.

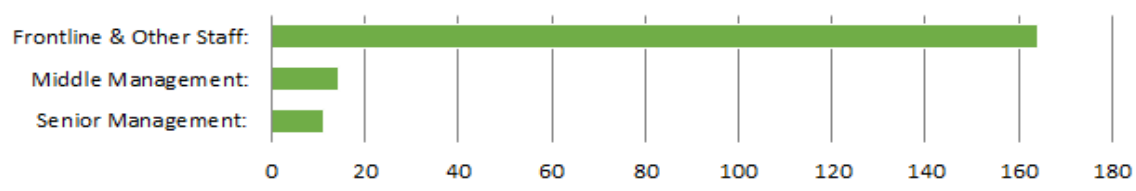
Percentage of Accumulated Employees Trained  
by Employee Category (%)



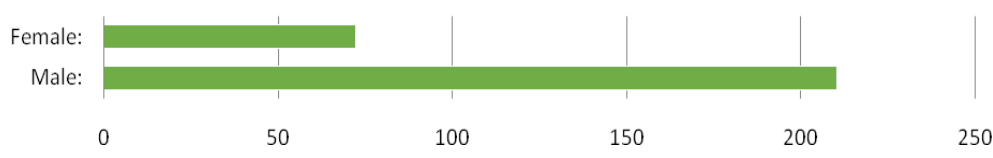
Percentage of Accumulated Employees Trained by  
Gender (%)



Average Accumulated Training Hours Completed  
per Employee by Employee Category (Hour)



Average Accumulated Training Hours Completed  
per Employee by Gender (Hour)



# Environmental, Social and Governance Report (Continued)

## B4. Labour Standards

The Group strictly follows relevant laws and regulations such as the Labour Law of the PRC, the Labour Contract Law of the PRC and the Provisions on the Prohibition of Using Child Labour. The Group has a policy relating to child labour and forced labour prevention, in which it states the standard recruitment process and steps to be taken in case of violation. To screen job candidates during recruitment, the Group reviews their resume and application forms, conducts interview tests, background checks and identification card verification.

There are no major risks associated with incidents of child labour, forced or compulsory labour within the Group's business operation. No child labour, forced, or compulsory labour was reported within any sites of the Group during the Reporting Period. The Group did not note any cases of material non-compliance relating to preventing labour laws and regulations that have a significant impact on the Group during the Reporting Period.

# Environmental, Social and Governance Report (Continued)

## 2. Operating Practices

### B5. Supply Chain Management

The Group strictly monitors the procurement procedures to ensure product compliance and final product quality is not affected by raw materials. Clear, accurate and comprehensive specifications regarding the raw materials to be sourced, for instance the relevant quality standards, sample etc. were provided to the procurement department so that the right raw materials complying with the relevant laws and regulations were procured.

The Group has no standardized policy on managing the environment and social risks of the supply chain. Nevertheless, the Group encourages suppliers to maintain a high standard on business ethics and conducts, with satisfactory environmental and social performance. During the selection and evaluation processes of distributors and suppliers of raw materials and services, the Group adopts a fair basis with defined assessment criteria to ensure that only qualified distributors and suppliers are engaged. For example, the Group screens out vendors who are known to employ child or forced labour in their operations.

During the Reporting Period, the Group has engaged more than 160 suppliers to supply raw materials, packaging materials and transport services. All of them were from various provinces in the PRC.

### B6. Product Responsibility

#### *Product Labelling, Health and Safety, and Advertising*

To enhance the sales of various branded products, the Group carried out various sales promotional activities during the Reporting Period. As a result, the Group has been ranked as one of the top 10 hair care brands in the PRC with a leading position in the anti-hair fall product category in the online sales channel. It is believed that the marketing strategy for the appointment of brand ambassador to act as a key opinion leader on the internet has made an impact on the development of the Group's online sales channel. Additional sales promoters were deployed to explain to the customers on the benefits of doing hair care through traditional Chinese medicine.

Any product labelling and advertising activities strictly follow applicable laws and regulations such as the Trademark Law of the PRC and the Anti-Unfair Competition Law of the PRC. No non-compliance with relevant laws and regulations that have a significant impact on the Group relating to health and safety, advertising, labelling and privacy matters relating to products and services provided by the Group had been identified during the Reporting Period.

#### *Quality Assurance*

Producing safe and quality products is one of the primary considerations. Adhering to a strict quality control approach, the Group has devised a quality control system which insists in constantly examining and testing products, making sure that sub-standard raw materials, in-process materials and finished products are strictly prohibited for use and/or distribution. During these control works and testing process, the Group insists on complying with scientific methods to ensure achieving reliable and accurate test results for analysis and evaluation. The following measures and procedures for product quality and safety control are taken:

- Based on Cosmetics Safety Technical Specification (2015 Edition) and the Chinese Pharmacopoeia, the Group conducts risk assessment of hazardous materials of product ingredients such as lead, arsenic, mercury, methanol, diethylene glycol and dioxane;
- Finished products are sent to third party testing organisation (government designated) for inspection and completion of product registration of the State Food and Drug Administration; and

# Environmental, Social and Governance Report (Continued)

- Based on Cosmetics Safety Technical Specification (2015 Edition) and Certificates of Analysis (COA) of raw ingredients, the Group established industrial standards for testing and evaluation for raw materials semi-finished and finished products.

During the Reporting Period, the Group did not have any recall of products because of safety and health reasons. The Group did not have any material non-compliance of the relevant laws and regulations regarding product safety and health.

## *Data Protection*

The Group ensures strict compliance with the statutory requirements to fully meet a high standard of security and confidentiality of personal data privacy protection. The Group highly respects personal data privacy and are firmly committed to preserving the data protection principles as follows:

- The Group only collects personal data that is believed to be relevant and required to conduct business;
- The Group uses personal data only for the purpose for which data is collected or for a directly related purpose unless consent with a new purpose is obtained;
- The Group does not transfer or disclose personal data to any entity that is not a member of the Group without consent unless it is required by law or it was previously notified; and
- The Group maintains appropriate security systems and measures designed to prevent unauthorized access to personal data.

Due to the expansion of the Group's e-commerce operations during the Reporting Period, the Group protects customer data privacy via two major controlling schemes:

- Anyone who needs to access the backend to extract customer information should submit an application form to the department head and fully explain the reasons. Each entrant has a corresponding account number for tracing purposes in case there is any information leakage found; and
- The Group provides information security training to all employees, especially new employees.

There were no non-compliance cases noted in relation to our data protection that had a significant impact on the Group during Reporting Period.

## *Intellectual Property*

The Group extensively invests in research & development activities and prides itself on introducing innovative HPC products. During the Reporting Period, the Group has obtained a patent of an ingredient mixture for an anti-hair fall Chinese herbal shampoo and its manufacturing know-how, which was issued by the China National Intellectual Property Administration in June 2018.

As stated in the employment contracts, disclosure of operation related management and technology, market or financial information, confidential information of customers, products, business operations and services, and any other trade secrets employees' job position may encounter are strictly prohibited. All new employees must sign the Non-Disclosure and Confidentiality Agreement together with their labour contract. The intellectual property of the Group also covers all the designs or invention related to production process created by an employee during his/her contract period.

## **B7. Anti-corruption**

To ensure ethical conduction of business, the Group strictly follows the Anti-Unfair Competition Law of the PRC, Criminal Law of the PRC, and other laws, regulations and regulatory documents related to commercial bribery.

As stated in the employment contracts, all employees are required to carry out the Group's business operation with integrity. Potential bribery, extortion, fraud and money laundering are strictly prohibited. Employees violating such prohibition will be subject to warnings and disciplinary action, up to and including discharge.



# Environmental, Social and Governance Report (Continued)

In addition to the code of conduct on anti-bribery and anti-corruption mentioned in the staff manual, the Group has issued relevant whistle-blowing procedures in setting up a private communication channel on reporting suspicious fraudulent actions to the Company's management directly. Ongoing review of the effectiveness of the internal control systems is conducted on a regular basis in preventing the occurrence of corruption activities.

The Group has not aided, abetted, assisted or colluded with any individual who has committed, or conspired to commit any unlawful activities. No non-compliance with relevant laws and regulations that have a significant impact on the Group relating to corruption, bribery, extortion, fraud and money laundering had been identified during the Reporting Period.

## B8. Community Investment

The Group strives to implement corporate social responsibility and actively participates in public welfare activities and will consider formulating formal policies on community engagement in the future. During the Reporting Period, the Group has actively participated several community engagement events as set out below.

<b>Beneficiary/Collaborator/Partnering organization</b>	<b>Activities during the Reporting Period</b>
<b>Social Work Service Station of Yongning Street-The Next Generation Working Committee of Yongning Street</b>	Celebrating Thanksgiving Day with children from the local Caring Kindergarten
<b>Yuancun Street</b>	Celebrating Mid-Autumn Festival with children from the local Caring Kindergarten
<b>The Staff Service Station of Yuancun Street</b>	Engaging in a public welfare event of "Love Bus, Driving with Love" to celebrate Mid-Autumn Festival with bus drivers
<b>The Civil Science Park</b>	Supporting the development of the park by paying management fees so that employees can enjoy events organized by the park such as free movie nights, training, shuttle bus service and fellowship activities.