

# **Environmental, Social and Governance (ESG) Report**

## **Sunlight Technology Holdings Limited Environmental, Social and Governance (ESG) Report**

# Environmental, Social and Governance (ESG) Report

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# Environmental, Social and Governance (ESG) Report

## 1. ABOUT THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

This report, which summarises the environmental, social and governance performance of Sunlight Technology Holdings Limited (the “Company”) in 2019, is prepared in accordance with the Environmental, Social and Governance Reporting Guide (the “Guide”) set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The scope of coverage of this report is in line with the principles for disclosure set out in the Guide.

This report covers the business operation of the Company for the year ended 31 December 2019 and summarises the overall performance of the Company in respect of environmental protection, protection for employees, production safety, fulfilment of social responsibilities and other areas.

## 2. ANALYSIS OF ENVIRONMENTAL PERFORMANCE OF THE COMPANY

The Company is principally engaged in the research and development, manufacturing and sale of coating agents and synthetic resins. We are committed to environmental protection and safety in our production. Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, we had obtained all material certificates, licences, permits and approvals in relation to environmental protection and safety production. In addition, we have obtained ISO9001:2008 quality system certification for the design, development and production of colourants and treatment agents for application on synthetic leather and successfully renewed such certificate (which has been revised to ISO9001:2015).

### 2.1 Overview of Environmental Laws and Policies in Regions Where We Mainly Operate

Laws and policies	Issuing date (last amended date) and institution	Main content
Environmental Impact Assessment Law of the PRC (《中華人民共和國環境影響評價法》)	October 2002 (last amended in December 2018), the Standing Committee of the National People's Congress	Enterprises are required to submit (i) a report on environmental impacts, (ii) a report form on environmental impacts, or (iii) a registration form on environmental impacts to the competent departments for ecology and environment according to the seriousness of the impacts. Where the environmental impact assessment documents of a construction project are not examined or approved by the examination and approval authorities, the constructing entity shall not commence construction.

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Laws and policies	Issuing date (last amended date) and institution	Main content
Norm of Energy Consumption Per Unit of Synthetic Leather 《合成革單位產品能源消耗限額》	November 2018, the Standardization Administration of the People's Republic of China	Such regulation sets out the quota on comprehensive energy consumption per unit of synthetic leather for different manufacturing processes and businesses and DMF recovery, and provides a technological foundation for eliminating outdated production capacity and controlling energy consumption.
Atmospheric Pollution Prevention and Control Law of the PRC 《中華人民共和國大氣污染防治法》	June 1988 (last amended in October 2018), the Standing Committee of the National People's Congress	Enterprises and business entities shall, in accordance with law, conduct environmental impact assessments and publish environmental impact assessment documents for projects that have an impact on the atmospheric environment; those which discharge pollutants into the atmosphere shall comply with the standards for the discharge of atmospheric pollutants and the requirements for the control on the total emission of major atmospheric pollutants. The production and business operation entities that discharge pollutants into the atmosphere shall set up outlets for the discharge of atmospheric pollutants in accordance with laws and regulations and the provisions of the competent department for ecology and environment under the State Council.
Technical Specification for Application and Issuance of Discharge Permit for Leather and fur making industry - Leather making industry 《排污許可證申請與核發技術規範制革及毛皮加工工業-制革工業》	September 2017, the Ministry of Ecology and Environment of the People's Republic of China	It sets out the requirements for basic information reporting in respect of the application for and grant of discharge permits for leather manufacturing industry, the determination of permitted emission limits, the calculation of actual emissions and the method of judging the compliance thereof, as well as the environmental management requirements (such as self-monitoring, keeping ledgers on environmental management and preparation of reports on the implementation of discharge permits), and puts forward feasible technical requirements for pollution prevention and control in leather manufacturing industry.

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Laws and policies	Issuing date (last amended date) and institution	Main content
Law of the PRC on Prevention and Control of Water Pollution 《中華人民共和國水污染防治法》	June 2008 (last amended in June 2017), the Standing Committee of the National People's Congress	New construction projects and reconstruction or expansion projects and other installations on water that directly or indirectly discharge pollutants into water bodies shall be subject to environment impact assessment in accordance with the law. The facilities for prevention and control of water pollution shall be designed, constructed and put to use simultaneously with the subject of a construction project. Enterprises that directly or indirectly discharge industrial waste water into water bodies shall discharge waste water or sewage only after obtaining a pollutant discharge permit according to the relevant provisions. Discharged water pollutants shall not exceed the national or local standards for discharge of water pollutants and the indices for control of the total discharge of major water pollutants.
Law of the PRC on the Prevention and Control of Environmental Pollution Caused by Solid Wastes 《中華人民共和國固體廢物污染環境防治法》	April 1996 (last amended in April 2020), the Standing Committee of the National People's Congress	Construction projects which generate solid waste and the construction of facilities for the storage, utilisation and disposal of solid waste shall conduct environmental impact assessment pursuant to the law. Facilities for the prevention and control of environmental pollution by solid waste are required to be designed, constructed and put into use simultaneously with the subject of the project. Facilities for the prevention and control of environmental pollution by solid waste shall be inspected and approved by the environmental protection administrative department which approves the environmental impact assessment before the project can be commenced or its subject matter can be put into use. Inspection of facilities for the prevention and control of environmental pollution by solid waste shall be carried out simultaneously with inspection of the project subject.

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Laws and policies	Issuing date (last amended date) and institution	Main content
Action Plan for Reducing Volatile Organic Compounds in Key Industries (《重點行業揮發性有機物削減行動計劃》)	July 2016, the Ministry of Industry and Information Technology, the Ministry of Finance	For the synthetic leather industry, it sets out the objectives to focus on promoting the application of waterborne and solvent-free polyurethane, thermoplastic polyurethane elastomer and polyolefin heat shrinkable elastomer resins to replace organic solvents during the production of artificial leather, synthetic leather and microfiber leather.
Technical Roadmap for Water Saving and Emission Reduction in Leather Manufacturing Industry (《制革行業節水減排技術路線圖》)	August 2015, China Leather Manufacturing Industry Association	It clarifies the objectives for water saving and emission reduction for the leather manufacturing industry in the next five to ten years. By 2020, through the widespread access to water saving and emission reduction technologies during the 13th five-year period and assuming that the leather production volume in the industry remaining unchanged, the annual emissions of wastewater, CODCr, ammonia nitrogen, total nitrogen and total chromium shall decrease by 9.7%, 30.5%, 39.8%, 35.5% and 27.7%, respectively, from 2014. By 2025, the annual emissions of wastewater, CODCr, ammonia nitrogen, total nitrogen and total chromium shall decrease by 19.3%, 37.9%, 59.6%, 53.9% and 48.3%, respectively, from 2014.
Environmental Protection Law of the PRC (《中華人民共和國環境保護法》)	December 1989 (last amended in April 2014), the Standing Committee of the National People's Congress	Environment impact assessment shall be carried out in accordance with the law when formulating the relevant development and utilisation plans and construction projects which will have an impact on environment. Development and utilisation plans which have not undergone environment impact assessment in accordance with the law shall not be organised or implemented. Construction projects which have not undergone environment impact assessment shall not be commenced. Pollution prevention facilities for construction projects shall be designed, constructed and put into use simultaneously with the subject project. The state shall implement a pollutant discharge permit administration system in accordance with the law. Enterprises subject to the pollutant discharge permit administration regime shall discharge pollutants in accordance with the requirements of the pollutant discharge permit; discharge of pollutants shall not be allowed without a pollutant discharge permit.

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## 2.2 Analysis of Emissions Generated by the Company

### 2.2.1 Analysis of relevant emission indicators of the Company

#### *Exhaust gas emissions*

The Company's exhaust gas emissions are mainly generated during the manufacturing process after disposal, and by the combustion of gasoline and diesel by motor vehicles during the operating activities. The exhaust gas emissions from the combustion of the relevant fossil fuels include main pollutants such as nitrogen oxides (NO<sub>x</sub>), sulphur oxides (SO<sub>x</sub>), suspended particulate matter (PM). In 2019, the Company generated total emissions of 186.7 kg of nitrogen oxides, 5.3 kg of sulphur oxides and 17.2 kg of suspended particulate matter during its production and operating activities.

#### *Greenhouse gas emissions*

The greenhouse gas emissions generated by the Company mainly originated from the combustion of gasoline by motor vehicles, the natural gas combustion and the use of electricity in its business. Greenhouse gas emissions include two major scopes: direct greenhouse gas emissions and indirect greenhouse gas emissions. The table below shows the greenhouse gas emissions of the Company in 2019:

Type of greenhouse gas emission	Direct emissions (Unit: tonne of carbon dioxide equivalent)	Indirect emissions (Unit: tonne of carbon dioxide equivalent)
Carbon dioxide (CO <sub>2</sub> )	66.4	1,350.3
Methane (CH <sub>4</sub> )	0.1	0.3
Nitrous oxide (N <sub>2</sub> O)	5.8	6.4
<b>Total</b>	<b>72.3</b>	<b>1,357.0</b>

In 2019, the Company generated total carbon emissions of approximately 1,429.3 tonnes of carbon dioxide equivalent, with an emission intensity of 782.4 tonnes of carbon dioxide equivalent/RMB100 million.

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### *Hazardous/non-hazardous waste*

The Company has formulated clear and specific guidelines on waste management. We strictly comply with local waste separation standards for separating and storing different waste accordingly. The table below sets out the waste generated by the Company in 2019.

Type of toxic and hazardous waste	Unit	Emissions in 2019
Waste resin solutions	tonne	8.7
Filtered colourant residue	tonne	16.2
Scrap of activated carbon	tonne	3.9
Packaging waste and cleaning debris	tonne	88.1

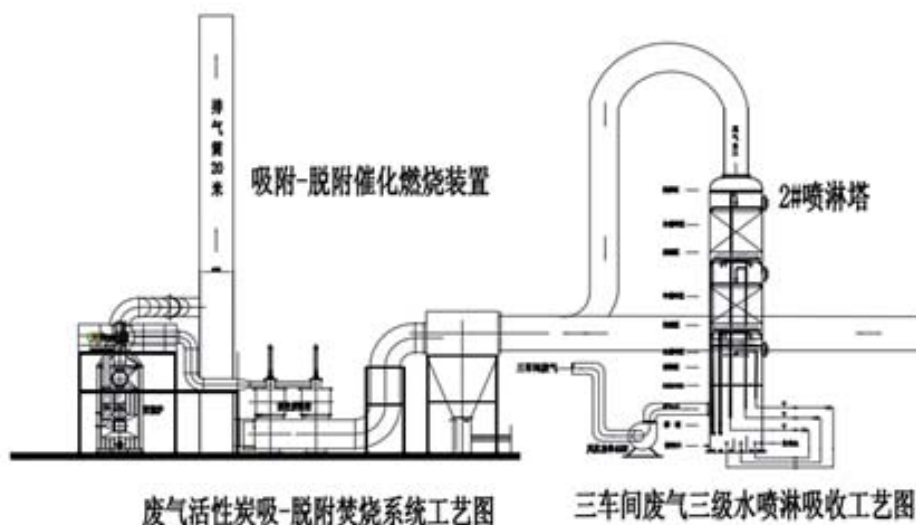
Type of non-hazardous waste	Unit	Emissions in 2019
Industrial wastewater	tonne	1,702.0
Solid waste	tonne	4.6

### *Measures to reduce emissions and the results achieved*

The waste gas in the factory area mainly consists of: industrial waste gas produced in the production process, waste gas produced by the waste water treatment system, and waste gas produced by the combustion of the canteen stove. For the industrial waste gas produced in the production process, the Company collects it from the suction hood to the waste gas treatment device, and uses the "three-stage water spray + activated carbon adsorption + catalytic combustion" method to remove pollutants in the gas. For the waste gas (mainly hydrogen sulfide and ammonia gas generated by microbial activities in the biochemical system) generated by the waste water treatment system (sewage station), it will be discharged through the closed oxidation absorption treatment. For the exhaust gas produced by the cooking of the canteen stove, because the total amount is small, it is uniformly led from the flue to the roof of the building, and is discharged after being processed by the flue gas purification device.



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(Industrial waste gas treatment facilities)

### Waste management

The Company separates laboratory waste and domestic waste, as well as divides laboratory waste into domestic waste, solid waste and liquid waste.



(Laboratory waste separation)



(Domestic waste separation)

The Company adopts the principle of “comprehensive utilisation and recycling” in accordance with the relevant laws and environmental regulations in the PRC. In order to avoid secondary pollution to the environment, the Company keeps using recyclable tanks such as stainless steel tanks and plastic tanks.

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大罐使用告知函

尊敬的客户：

经过多年的合作，双方结成了良好的伙伴关系。近年来，国家对环境加强了监管，为了更好的保护环境，贵司提出要求我司能够改善供货包装桶。为了提供更好的服务，我司采用1吨不锈钢罐和1吨塑料罐，该罐能够循环使用。附图：

图1：1吨不锈钢罐的包装要求：

1. 保证四个罐顶螺栓拧紧；
2. 进气阀门关闭；
3. 手柄位置垂直向上（图1）；
4. 罐体保持清洁，不能有产品残留、记号笔涂改信息、旧标签等；

标签位置如图所示

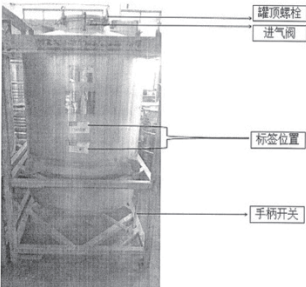


图1

图2：1吨塑料罐的包装要求：

1. 保证罐顶螺栓拧紧；
2. 手柄关闭；
3. 保持罐体清洁，不能有产品残留、记号笔涂改信息、旧标签等；

标签位置如图所示

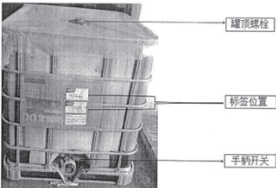


图2

1. 贵司在收到我司的1吨塑料罐或1吨不锈钢罐后，须检查外观，如外观完好，在送货单上签收。如贵司发现异常，可拒收。
2. 贵司须保证我司大罐外观干净，整洁，无凹陷，无破损且零件不缺失。如贵司在在使用过程中，造成罐体凹陷、锈蚀、零件缺失，贵司应承担我司因此造成的损失。
3. 贵司在使用好大罐后：
  - 3.1 贵司须关闭罐顶螺栓并盖好罐顶密封盖；
  - 3.2 大罐顶部的盖子盖平，螺栓拧紧；
  - 3.3 大罐顶部的进气阀门及时关闭。贵司在使用过程中，如不能一次性用完原料时，须关紧进气阀，以免空气进入引起罐体锈蚀，由此产生的一切问题，贵司不承担任何责任！如贵司由此退货，须承担3元/公斤费用。

希望贵司能理解并继续支持！我司也将一如既往地提供高质量的产品和优质服务全力支持贵司事业的发展！

顺颂商祺！

浙江振基新材料科技股份有限公司  
2016.10.10

(Notification letter for use of large tanks)

1000L 不锈钢罐循环使用协议

甲方：福建博艺材料科技有限公司  
乙方：浙江振基新材料科技股份有限公司

根据国家相关法律和环境保护的相关规定，甲乙双方本着“综合利用，循环利用”的原则，避免对环境造成二次污染，现就甲方乙方购买的环保黑色聚和树脂产品在甲方使用完后的空 1000L 不锈钢罐，乙方回收后循环使用。但在 1000L 不锈钢罐使用一段时间后，我公司生产部门反映退回的罐存在以下问题：

- 1、空罐里有较多余料且结块，余料多首先对甲方造成很大的浪费，且乙方在清洗时需要用大量的 DMF 浸泡，给乙方废水处理带来了很大麻烦。
- 2、桶盖丢失，导致余料硬化结块，使乙方在清洗时需要长时间的浸泡，给生产环节带来用桶紧张，导致乙方发货延迟。

特制订如下协议：

一、 协议期限：

1. 本协议起始日期：2019年6月1日起；
2. 本协议终止日期：甲乙双方因原材料采购合同终止，本协议自动终止。

二、 甲方职责：

1. 甲方将乙方使用后的空 1000L 不锈钢罐：
  - a.及时封盖，避免桶内余料干凝结块；
  - b.保持桶体干净；
  - c.进行分类放置和保管；
  - d.确保乙方回收的空罐残留物<1%；
  - e.罐盖齐全，无破损无漏漏现象，如盖子丢失，甲方需承担 50 元/只费用（如有违反，乙方有权利拒收）；
2. 放置中严格按照环保相关要求，进行管理，甲方不能私自处理空 1000L 不锈钢罐，如违反乙方不承担任何相关责任；
3. 退罐过程中，应有乙方司机签字确认所退罐体的情况和数量，没有签字乙方不承担任何相关责任。

4. 未达到以上退罐标准的回收罐，乙方甲方收取每个罐 300 元的清洗及处理成本的费用，收费不是目的，而是希望甲乙双方能够引起重视，共同努力保护环境。

三、 乙方职责：

1. 乙方利用每次退罐材料到甲方的机会，在车辆退罐时对方空 1000L 不锈钢罐，进行回收；
2. 乙方运输回收空 1000L 不锈钢罐时，应事先采取预防措施，防止运输过程中发生摔落等污染环境；
3. 乙方承诺对空 1000L 不锈钢罐，回收后循环利用。

四、 生效日期：

本协议经甲乙双方签字确认后生效，一式两份，双方各执一份，具有同等法律效力。

甲方（盖章）

代表

日期

乙方（盖章）

代表

日期

(Agreement in relation to recycling of 1,000-L stainless tanks)

# Environmental, Social and Governance (ESG) Report

**1000L 塑料罐循环使用协议**

甲方：宁波市天一合成有限公司  
乙方：浙江深蓝新材料科技有限公司

根据国家相关法律和环境保护的相关规定，甲乙双方本着“综合利用，循环利用”的原则，避免对环境造成二次污染，现就甲方向乙方购买的蓝色黑色浆产品，在甲方使用完后的空 1000L 塑料罐，乙方回收后循环使用。

但在 1000L 塑料罐使用一段时间后，我公司生产部门反映退回的罐存在以下问题：

1. 空罐里有较多余料且结块，余料多首先对甲方造成很大的浪费，且乙方在清洗时需要用大量的 DMF 浸泡，给乙方废水处理带来了很大麻烦。
2. 桶盖丢失，导致余料硬化结块，使乙方在清洗时需要长时间的浸泡，给生产回用环节带来用桶紧张，导致乙方发货延时。

特制订如下协议：

一、 协议期限：

1. 本协议起始日期：2019 年 6 月 1 日起；
2. 本协议终止日期：甲乙双方因原材料采购合同终止，本协议自动终止。

二、 甲方职责：

1. 甲方将乙方使用后的空 1000L 塑料罐：
  - a. 及时封盖，避免桶内余料干裂结块；
  - b. 保持桶体干净；
  - c. 进行分类放置和保管；
  - d. 确保乙方回收的空罐残留物 < 1%；
  - e. 桶盖齐全，无破损无漏漏现象，如盖子丢失，甲方需承担 50 元/只费用（如有违反，乙方有权利拒收）；
2. 放置中严格按照环保相关要求，进行管理。甲方不能私自处理空 1000L 塑料罐，如违反乙方不承担任何相关责任；
3. 退罐过程中，应有乙方司机签字确认所退罐体的情况和数量。没有签字乙方不承担任何相关责任。

三、 乙方职责：

1. 乙方利用每次送原材料到甲方的机会，在车辆返回时对空 1000L 塑料罐，进行回收；
2. 乙方运输回收空 1000L 塑料罐时，应事先采取预防措施，防止运输过程中发生泄露等污染环境；
3. 乙方承诺对空 1000L 塑料罐，回收后循环利用。

四、 生效日期：

本协议经甲乙双方签字盖章确认后生效，一式两份，双方各执一份，具有同等法律效力。

甲方（盖章）：\_\_\_\_\_  
代表：\_\_\_\_\_  
日期：2019 年 6 月 1 日

乙方（盖章）：\_\_\_\_\_  
代表：\_\_\_\_\_  
日期：2019 年 6 月 1 日

(Agreement in relation to recycling of 1,000-L plastic tanks)

**150L 不锈钢罐循环使用协议**

甲方：杭州卡洛实业有限公司  
乙方：浙江深蓝新材料科技有限公司

根据国家相关法律和环境保护的相关规定，甲乙双方本着“综合利用，循环利用”的原则，避免对环境造成二次污染，现就甲方向乙方购买的后段色膏 BLPK 系列产品，在甲方使用完后的空 150L 不锈钢罐，乙方回收后循环使用。

但在 150L 不锈钢罐使用一段时间后，我公司生产部门反映退回的罐存在以下问题：

1. 桶里有较多余料且结块，余料多首先对甲方造成很大的浪费，且乙方在清洗时需要用大量的 DMF 浸泡，给乙方废水处理带来了很大麻烦。
2. 桶盖与桶身分离及部分桶身存在桶盖丢失，导致余料硬化结块，使乙方在清洗时需要长时间的浸泡，给生产回用环节带来用桶紧张，导致乙方发货延时。

特制订如下协议：

一、 协议期限：

1. 本协议起始日期：2019 年 6 月 1 日起；
2. 本协议终止日期：甲乙双方因原材料采购合同终止，本协议自动终止。

二、 甲方职责：

1. 甲方将乙方使用后的空 150L 不锈钢罐：
  - a. 及时封盖，避免桶内余料干裂结块；
  - b. 保持桶体干净；
  - c. 进行分类放置和保管；
  - d. 确保乙方回收的空罐残留物 < 1%；
  - e. 桶盖齐全，退回时要求重新桶盖，无破损无漏漏现象（如有违反，乙方有权利拒收）；
2. 放置中严格按照环保相关要求，进行管理。甲方不能私自处理空 150L 不锈钢罐，如违反乙方不承担任何相关责任；
3. 退罐过程中，应有乙方司机签字确认所退罐体的情况和数量。没有签字乙方不承担任何相关责任。

三、 乙方职责：

1. 乙方利用每次送原材料到甲方的机会，在车辆返回时对空 150L 不锈钢罐进行回收；
2. 乙方运输回收空 150L 不锈钢罐时，应事先采取预防措施，防止运输过程中发生泄露等污染环境；
3. 乙方承诺对空 150L 不锈钢罐回收后循环利用。

四、 生效日期：

本协议经甲乙双方签字盖章确认后生效，一式两份，双方各执一份，具有同等法律效力。

甲方（盖章）：\_\_\_\_\_  
代表：\_\_\_\_\_  
日期：2019 年 6 月 1 日

乙方（盖章）：\_\_\_\_\_  
代表：\_\_\_\_\_  
日期：2019 年 6 月 1 日

(Agreement in relation to recycling of 150-L stainless tanks)

## Environmental, Social and Governance (ESG) Report

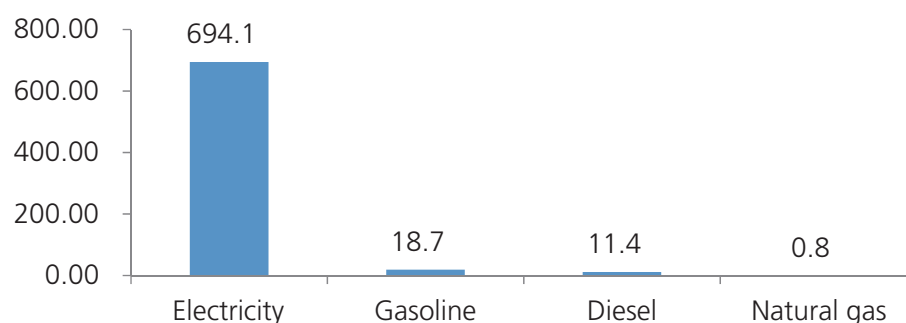
### 2.3 Analysis on the Company's Use of Resources

#### 2.3.1 Major energy consumption structure of the Company

In 2019, the Company consumed approximately 12.7 tonnes of gasoline, approximately 7.8 tonnes of diesel, and approximately 0.4 tonnes of natural gas, with an aggregate of approximately 20.9 tonnes of fossil fuels in its operation. In addition, the Company consumed approximately 1,718,000 kWh of electricity and approximately 26,000 tonnes of water resources in its operation.

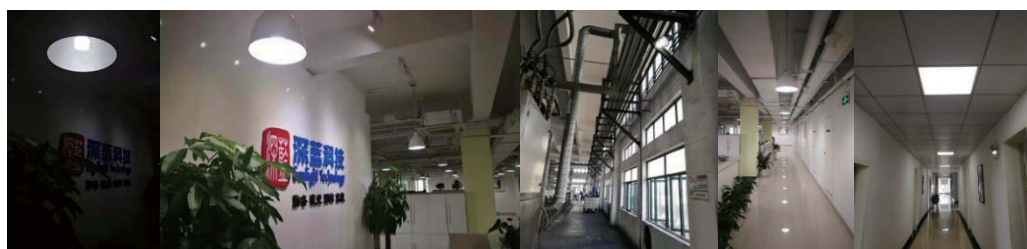
In 2019, the Company's total energy consumption in operation amounted to approximately 725.0 tonnes of standard coal, of which approximately 95.7% was electricity, 2.6% gasoline, 1.6% diesel and 0.1% natural gas.

**Comparison of various energy consumption by the Company in 2019**  
(Unit: tonne of standard coal)



#### 2.3.2 Measures adopted by the Company for efficient use of energy

In 2019, the Company took the initiative in promoting the efficient use of energy. During several work meetings, the importance of efficient use of energy is emphasized, so as to strengthen its employees' energy saving and environmental conscious throughout their production activities. Simultaneously, the Company also vigorously advocated the efficient use of energy among its production management system and imposed strict rules for the energy use process together with the relevant requirements for reducing energy consumption. For instance, the Company used environment-friendly LED lamps, generated power through solar energy, and stuck labels near faucets, lights, air conditioners and toilet paper as saving reminders.



(Environment-friendly LED lamps adopted)

## Environmental, Social and Governance (ESG) Report



(Invoices relating to power generation through solar energy)



(Reminder labels for saving water, electricity and paper use)

### 2.3.3 Analysis on relevant indicators for the Company's use of resources

#### Total energy consumption and energy consumption intensity

The table below shows various energy consumption of the Company in 2019:

Unit	Total gasoline consumption of the Company in 2019
litre	17,435.0
kg	12,727.6
kg of standard coal (kgce)	18,727.3

Unit	Total diesel consumption of the Company in 2019
litre	9,172.0
kg	7,796.2
kg of standard coal (kgce)	11,359.8

Unit	Total natural gas consumption of the Company in 2019
m <sup>3</sup>	618.0
kg	443.4
kg of standard coal (kgce)	821.9

## Environmental, Social and Governance (ESG) Report

Unit	Total electricity consumption of the Company in 2019
kWh	1,718,056.0
kg of standard coal (kgce)	694,094.6

The Company consumed total energy of 725.0 tonnes of standard coal, with an energy consumption intensity of 39.7 kg of standard coal/RMB10,000 during the year of 2019.

The Company consumed a total of 26,000 tonnes of water, with an energy consumption intensity of 1.4 tonnes/RMB10,000 during the year of 2019.

### *Drawing available water*

The Company drew available water in accordance with the relevant national laws and regulations including the Regulation on the Administration of the Water Drawing Permit and the Water Resource Fee Collection 《取水許可和水資源費徵收管理條例》, and had not experienced any problem in drawing available water.

### *Total volume of packaging materials consumed for finished goods*

The packaging materials for the products of the Company are mainly plastic, paper and metal. In 2019, total volume of packaging materials consumed by the Company for finished goods amounted to approximately 80.5 tonnes of plastic, 22.9 tonnes of paper, and 436.5 tonnes of metal.

## 2.4 Analysis Related to the Company's Impact on Environment and Natural Resources

### ***2.4.1 Analysis of significant impacts on environment and natural resources caused by the Company's business activities, and relevant measures thereof***

In order to minimize the environmental impacts of its emissions on air, greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste, the Company has developed the *Management System for Three Types of Waste* (《“三廢”管理制度》). The three types of waste include waste liquid (initial rainwater/domestic wastewater, production waste water/waste solvents), exhaust gas, waste barrels, and scrap of materials (slags), etc. The Company's management principles for the three types of waste include: (i) determination of pollution sources and pollutants in accordance with environmental laws and regulations; (ii) establishment of internal recycling system and appointment of qualified external disposal agencies; and (iii) sub-allocating disposal expenses to responsible departments for centralized assessment with its production and consumption of packaging materials. The Company recycles the waste water and waste solvents generated by it in accordance with the system.

## Environmental, Social and Governance (ESG) Report

### 3. ANALYSIS OF CORPORATE SOCIAL RESPONSIBILITY

#### 3.1 Analysis on the Company's Employment and Labour Practices

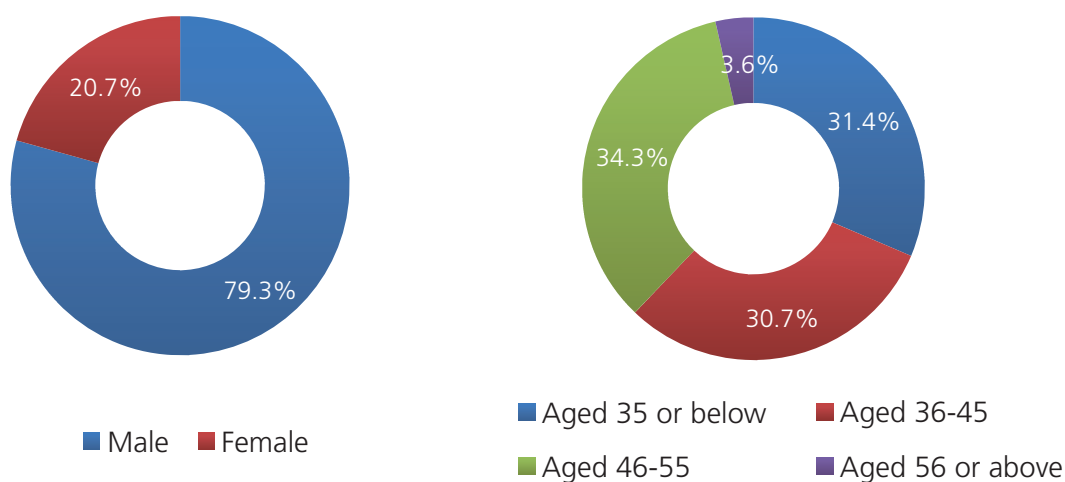
##### 3.1.1 Overview of staff employment and labour standards

###### *Employment principle*

The Company strictly complies with the Labour Law of the People's Republic of China 《中華人民共和國勞動法》 and the Labour Contract Law of the People's Republic of China 《中華人民共和國勞動合同法》, and therefore has developed refined staff employment regulations and rules, with a view of adopting the principle of equality and non-coercive on recruitment.

###### *Information on employees*

Percentage of employees of the Company by major indicators in 2019



As at 31 December 2019, the Company had a total of 140 employees.



## Environmental, Social and Governance (ESG) Report

According to the distribution by gender, the Company had a higher percentage of male employees, with 111 male employees, accounting for approximately 79.3%, and 29 female employees, accounting for approximately 20.7%. In order to create a good working environment for female employees, the Company strives to ensure that female employees are entitled to all statutory holidays and insurances. The Company's staff handbook provides that, female employees who have been pregnant for over seven months and do not have sufficient physical strengths for work may apply for pregnancy leave, and subject to the approval of department heads, are entitled to salaries of no less than 80% of local minimum salary for guaranteed living during the period of leave. During the period of pregnancy, the hours of female employees taking antenatal checkups shall be treated as working hours. For female employees who give birth legally in accordance with the requirements of laws and regulations shall obtain certifications issued by healthcare institutions at county (district) level or above. For those who need to rest for their pregnancies, their salaries during the rest period shall be calculated in accordance with the rules of the Company for sick leave. Female employees are entitled to normal maternity leave of 98 days (and can apply for leave of 15 days before the due date) and bonus leave of 30 days. Additional maternity leave of 15 days is available to those with dystocia. For female employees who have born more than one child, they are entitled to additional maternity leave of 15 days for each additional child. Female employees who have experienced spontaneous and induced abortion within three months of pregnancy are entitled to a maternity leave of 20 days, and those who have experienced spontaneous and induced abortion over three months but within seven months of pregnancy are entitled to a maternity leave of 50 days. Those having preterm birth over seven months of pregnancy are entitled to normal maternity leaves.

The age group distribution of employees of the Company is comparatively reasonable. The low average age of our employees indicates that the Company is focusing on adding energetic manpower into workforce while cherishing experienced employees.

### *Employee turnover*

In 2019, the Company's number of employees leaving was 25, which accounted for approximately 17.9% of total employees and comprised of 20 male employees and 5 female employees, of whom 11 employees were aged 35 or below and 14 employees were aged over 35.



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### *Employees' rights and benefits*

The Company provides all employees with statutory rights and benefits as strictly abiding by laws and regulations, including the Social Insurance Law of the People's Republic of China (《中華人民共和國社會保險法》), the Regulation on the Administration of Housing Accumulation Funds (《住房公積金管理條例》), the Law of the People's Republic of China on Prevention and Control of Occupational Diseases (《中華人民共和國職業病防治法》), Regulation on Work-Related Injury Insurances (《工傷保險條例》), Regulations on Unemployment Insurance (《失業保險條例》), and Law of the People's Republic of China on Population and Family Planning (《中華人民共和國人口與計劃生育法》), along with setting out clearly in its staff manual and labour contracts. Under the standard working hour system implemented by the Company in accordance with the law, employees shall work for not more than 8 hours a day and not more than 40 hours a week with a day of rest every week. In accordance with the relevant laws and regulations, the Company arranges employees to work overtime in view of business needs, as well as protects employees' legitimate right to rest. The Company provides employees with basic salary, bonus and various allowances including vehicle allowance, meal compensation, high temperature weather subsidies, travel, accommodation and other allowances, as well as benefits including staff meals, social activities, tourism and free physical examinations. In addition, the Company makes contribution in full and on time for employees in respect of housing funds and social insurance including pension insurance, medical insurance, unemployment insurance in accordance with the relevant requirements of the Labour Law of the People's Republic of China, the Social Insurance Law of the People's Republic of China, and the Regulation on the Administration of Housing Accumulation Funds. Employees are also entitled to remuneration, benefits and leaves required by laws and regulations, such as work-related injury leave, sick leave and marriage leave.

### *Employee incentives*

The Company carries out annual appraisal of employee performance, including (i) sales appraisal: one sales champion and one sales star are selected; (ii) technical appraisal: one technical champion and one technical star are selected; and (iii) production appraisal: one production champion, three advanced production workers, as well as certain advanced safety and environmental protection workers are selected. The appraisal criteria is expressly set out in the Administrative and Human Resources Management System (《行政人事管理制度》) of the Company, and the appraisals are conducted based on actual situations. Only those qualified shall be selected, while no selection shall be made if none of the employees is qualified. Promotion priority shall be given to employees with earlier commencement of employment.

## Environmental, Social and Governance (ESG) Report

### *3.1.2 Overview of protection for employee health and safety*

According to the Law of the People's Republic of China on Prevention and Control of Occupational Diseases (《中華人民共和國職業病防治法》), in order to ensure the health and safety of employees, the Company has taken the initiative to formulate the Occupational Health Management Systems (《職業衛生管理制度》), thus setting out a series of responsibilities and safety measures relating to occupational health, which includes, among others, the responsibility system for prevention and control of occupational hazards, the occupational health hazard warning and notification system, the occupational health publicity, education and training system, the occupational hazard declaration system, the system for daily monitoring and management of occupational hazards, the occupational health monitoring file management system, the system for maintenance and repair of occupational hazard protection facilities, the occupational hazard accident handling and reporting system, the rules and regulations for prevention and control of occupational hazards, the "three simultaneousness" management system for occupational health of construction projects, the emergency rescue and management system for occupational hazards, and other occupational disease prevention and control systems stipulated by laws, regulations and rules.

#### *Measures on occupational health and safety*

- Labour protection, working conditions and protection against occupational hazards

The Company attaches great importance to the safety protection of employees, as well as the prevention against occupational diseases, thus setting out the provisions regarding labour protection, working conditions and protection against occupational hazards clearly in the employment contracts. Such provisions include, among others, that the Company shall establish production safety systems in accordance with the relevant laws and regulations in the PRC, and that employees shall strictly comply with the labour safety system of the Company established thereof. Operation against the rules is strictly prohibited for both parties, aiming to prevent accidents during the employment and therefore reduce occupational hazards. In accordance with the regulations in the PRC relating to labour safety and health, the Company arranges and improves necessary safety protection measures, as well as distributes necessary supplies for employees as their positions required. The Company keeps employees informed of potential occupational hazards and the associated consequences during their the work processes. It has established a refined responsibility system for the prevention and control of occupational diseases, and has developed and implemented measures to prevent occupational diseases. Under the high temperature in summer, the Company shall adjust the work intensity appropriately and grant subsidies.

## Environmental, Social and Governance (ESG) Report

### – Safety training and fire drills

In 2019, the Company actively held safety training and fire drill activities, including general safety awareness training for staff, safety and environmental management training, safety training for operation in limited space and at heights, safety knowledge training for heatstroke prevention under high temperature in summer, emergency drills for hazardous chemicals leakage and associated fire accidents, emergency drills for fire accidents caused by ignition operation and hazardous chemicals, and other relevant training and drills.

### **3.1.3 Overview of staff development and training**

In order to support the personal growth of employees, the Company provides various forms of on-the-job training and off-the-job training for employees. In 2019, the Company held various special training courses including induction training for new employees, emergency drills, safety education and training, and risk management training. The Company held a total of 14 training sessions in the year, with a total of approximately 288 training hours and over 480 participants. The following table represents the details of the training:

Main topics	Number of staff participated in	Training hours
Training for new employees	38	152
Emergency drill for hazardous chemicals leak fire	89	4
Emergency drill for fire accidents of hot chemicals	91	4
Three-level education and training for new employees	27	72
Annual safety education and training for employees	89	20
Publicity, education and training for Zhejiang Province		
Safety Production Regulations	12	4
Safety and Environmental Management Training	8	4
Training for department staff management due diligence	11	4
Training for all staff safety awareness training	61	4
Training for summer high temperature heatstroke safety knowledge	11	4
Interpretation of the new version of work injury regulations	11	4
Safety training for limited space and height work	11	4
Risk management training	10	4
Use of firefighting facilities and fire prevention and suppression	11	4

## Environmental, Social and Governance (ESG) Report

### ***3.1.4 Standards and measures for preventing of child or forced labour***

In strict compliance with the requirements of the Labour Law of the People's Republic of China (《中華人民共和國勞動法》), the Company avoids any hiring of child or forced labour in its business operation, and firmly insist on a zero tolerance approach to child or forced labour in any form. We also require our suppliers to avoid any hiring of child or forced labour during the assessment on them.

## **3.2 Analysis of Operation and Management**

### ***3.2.1 Overview of supply chain management***

The Company has established clear rules on the selection and management of suppliers, so as to ensure that suppliers are appropriately managed and selected. The Company has imposed seven requirements for the selection of suppliers, pursuant to which, the suppliers shall be: (1) eligible as independent legal entities, which are able to provide business licences and bank information, and (if special qualifications are required) relevant qualifications and certificates; (2) abiding by the laws and regulations in the PRC and the relevant social responsibilities and ethics, in particular those relating to the protection of labour rights, health and safety, environmental protection and business ethics; (3) adequate in capital strengths and supply capacities which are in line with their supply sizes and the ability to deliver on schedule; (4) acknowledged on the procurement needs of the Company and capable to provide corresponding technical indicators and safety and environment certificates when supplying materials; (5) capable to arrange business personnel, who are familiar with the material supplied thereof, for contacting us, so as to ensure that their material supplied meet our requirements. (6) operating with processes that meet the management requirements of the Company, as well as comply with the relevant regulations and rules of the Company; and (7) abiding by business ethics and therefore shall not disclose any business or technical information of the Company to any entity or individual without the consent of the Company.

As at 31 December 2019, the Company had a total of 259 suppliers, including 256 raw material suppliers and 3 goods transportation suppliers. New suppliers must undergo supply trials and pass assessment before inclusion in the List of Qualified Suppliers (《合格供應商名錄》), which will then be reported to the procurement department manager and chief engineer for review and general manager for approval, thus filing by the procurement department. For the annual confirmation of list of qualified suppliers, the procurement department will prepare a list of proposed qualified suppliers based on the assessment results of suppliers for the previous year, and afterwards report it to the procurement department manager and chief engineer for their review and confirmation, and finally implemented by the procurement department.

## Environmental, Social and Governance (ESG) Report

The Company arranges a supplier assessment in every January, during which the procurement department examines whether the qualification certificates of suppliers are valid and capable to meet supplier requirements. The procurement department scores the annual performance of suppliers based on the data recorded in the database: 60 points for the supplier's quality, covering product quality, packaging quality and weight deficiency, etc. The score is based on the qualified rate, which is calculated based on the number of batches of supplies and the number of qualified batches; 20 points for transaction conditions, covering the comparison of prices, credit term and payment method, etc. The score is based on the credit term, payment condition and number of days for monthly payment, etc; 20 points for the supplier's services. Suppliers' services are assessed in terms of delivery ability, service response and cooperation in development, etc. The annual assessment score of each supplier is calculated by combining the three items above. The supplier assessment results shall be to the procurement department manager and chief engineer for review and confirmation. Suppliers with a score of over 85 points are outstanding suppliers which shall be given priority in procurement. Suppliers with a score of 60 to 85 points are general qualified suppliers. Suppliers with a score of less than 60 points (or a quality score of less than 48 points) will be removed from the list of qualified suppliers. In case of any special need to retain any particular supplier, it must be discussed and approved by the procurement department and the technical department, which is then subject to the approval of general manager or authorised representative. Any supplier with unresolved disputes with the Company shall not be included in the list of suppliers again without undergoing comprehensive assessment. The assessment records shall be maintained by the procurement department.

### 3.2.2 Overview of product safety

#### *Product responsibility*

The Company strictly abides by the regulations including the Product Quality Law of the People's Republic of China (《中華人民共和國產品質量法》) and the Regulation of the People's Republic of China on the Administration of Production License for Industrial Products (《中華人民共和國工業產品生產許可證管理條例》). In 2019, the Company had no products required to be recalled due to safety and health issues, 31 effective complaints and an effective complaint ratio of 0.46%.

In upholding its operation concept of "market-centred and customer-oriented strategies", the Company has formulated a complaint management system for strengthening its aftersales services for products, as well as fulfilling customers' everchanging needs and improving their satisfaction. In case of any complaint, the Company shall deal with it immediately in accordance with the system. The complaints and unusual situations of the Company are all managed by the general manager. A complainant may submit any complaint by filling up the 5012 complaint and unusual situation report, which shall be subject to the review and approval of department manager, and thus passing to the general manager. If a customer's complaint involves product quality, of which the production batch number has been generated for one month or below, the sales department shall examine the inventory and sales of the whole batch of products, and shall fill up the record thereof. In connection with the complaint, the general manager shall determine the loss of the Company, while the responsible department shall carry out analysis and make improvement, as well as conduct assessment on responsible persons. If it is determined that the complaint on product is attributable to the deficiency of raw materials, a raw material report shall also be completed separately. The administrative department shall keep tracking on the complaint handling process. Each department shall pay attention to the timeliness.

## Environmental, Social and Governance (ESG) Report

The Group has put emphasis on quality control in all aspects of its business, with a view of protecting its brand value and image. The Company has developed a quality management system, which sets out three principles for quality management: (i) determining work objectives and sorting out management process; (ii) a practical and realistic attitude shall be adopted for day-to-day work, which shall be carried out based on facts and well-documented; and (iii) the management shall be engaged in monitoring, giving feedback and continuous improvement. The Company sets annual quality objectives at the beginning of each year, and afterwards carries out assessment at the end of each year. The assessment covers (i) complaint ratio; (ii) compensation ratio; (iii) raw materials downgrading ratio; (iv) product downgrading ratio; and (v) product failure ratio. The Company has set up a quality management section in the manufacturing department which is mainly responsible for managing the quality work of the manufacturing department, as well as sorting out the relevant quality management process of the Company. The production section is responsible for monitoring the process of daily raw materials, intermediates, products, packaging products, while the quality management section is responsible for quality management (spot check).

For all of the new materials or the same type of raw materials provided by different suppliers (except for the products originated from the same manufacturer provided by different suppliers), samples shall first be obtained for testing and determining for whether such materials shall be adopted. Before the bulk procurement for mass production, all new materials, new products and new formulas must undergo pilot tests. In addition, the number of batches for pilot test shall be controlled by the means of commencing its production with the smallest amount, and thus preventing large amount of experimental defects during the test. To maintain strict control over the product quality appraisal process, the Company has formulated a complete set of sampling, as well as the sample retention principles thereof. With regard to product returning, the Company has developed a standard product-returning procedure, covering the workflows of product inspection, registration and cost accounting.

### *Product concept*

The Company adheres to the concept of eco-green, environmental protection and sustainable development and is a founding member of China Synthetic Leather Green Supply Chain Industrial Innovation Strategic Alliance (中國合成革綠色供應鏈產業創新戰略聯盟). At the same time, the Company responds to the PRC government's call for environmental protection by providing customers with water-based colour paste.



(Certificate of China Synthetic Leather Green Supply Chain Industrial Innovation Strategic Alliance)

## Environmental, Social and Governance (ESG) Report

### *Intellectual property rights management*

In accordance with the Patent Law of the People's Republic of China (《中華人民共和國專利法》), the Detailed Rules for the Implementation of the Patent Law of the People's Republic of China (《中華人民共和國專利法實施細則》) and other relevant regulations, the Company has formulated a detailed patent management system, which covers seven areas including, among others, general principles for patent management, patent application, patent awards, responsibilities and penalties, as well as patent transfer, so as to effectively standardize the Company's mechanism for use and protection of patents.

### **3.2.3 Brief analysis of anti-corruption measures of the Company**

The Company strictly abides by the Anti-Corruption Law of the People's Republic of China (《中華人民共和國反腐敗法》) and the Anti-Money Laundering Law of the People's Republic of China (《中華人民共和國反洗錢法》), and has made clear undertakings in respect of the responsibilities of various positions in respect of avoiding any conflict of interest with the Company, thus requiring them to report conflicts of interest in a timely manner to the Company. Its staff handbook sets out clear regulations on the punishment of violations: if any employee is found to have accepted bribery by taking advantage of his/her job or position, the Company shall terminate the employment contract with him/her without paying financial compensation. During the reporting period, no corruption case has been filed against the Company.

### **3.2.4 Overview of community engagement of the Company**

In 2019, the Company demonstrated its commitment to its corporate social responsibilities. The Company participated in the 20th "Spring Breeze Action" organised by Jiande Charity Association. The funds raised through the activity were mainly utilised for the condolence visits to families either receiving low income subsidies, having financial difficulties or being supported by five guarantees in rural areas at the Chinese New Year festival, as well as the expenses for other projects (such as visits to employees and families with financial difficulties and left-behind children, the Cool Summer Visit, Spring Breeze Students Assistance, Visit on Senior's Day, Temporary Assistance and Giving-Back Assistance).