



GUANGDONG TANNERY LIMITED

粤海制革有限公司

Stock Code: 01058

The number '2020' is rendered in a large, bold, sans-serif font. The digits are filled with a gradient of green and blue, matching the company's branding. The number is superimposed on a background that features a stylized globe with green foliage and leaves, suggesting a focus on environmental themes.

ENVIRONMENTAL, SOCIAL
AND GOVERNANCE REPORT



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I. ABOUT THIS REPORT

The board of directors (the “Board”) of Guangdong Tannery Limited (the “Company” or “we”) 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 environmental and social aspects of the investment holding, the processing and sale of leather businesses of the Group for the year ended 31 December 2020. The Report is disclosed 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”). The relevant provisions and details 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, and reporting the performance in this aspect. In order to determine the ESG reporting scopes, we have undergone discussion with each 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 environmental and social items for disclosure in the third section of this Report.



II. STAKEHOLDERS' ENGAGEMENT

The Group is committed to maintaining the sustainable development of its business as well as dedicated to safeguarding the environmental protection of communities in which it operates. We maintain close contacts with our stakeholders, including government/regulatory organizations, shareholders/investors, employees, customers, suppliers, community, etc. and strive to balance their opinions and interests through constructive communications in order to determine the directions of our sustainable development. We assess and determine our ESG risks, so as to ensure that the relevant risk management and internal monitoring systems are operating properly and effectively. The stakeholders' expectations and concerns, communication channels and the Group's management response are as follows:

Stakeholders	Expectation and concern	Communication channel	Management response
Government/ regulatory authorities	<ul style="list-style-type: none"> ➤ Compliance in laws and regulations ➤ Fulfill tax obligation ➤ Cooperate with national development strategy ➤ State-owned assets preservation and appreciation ➤ Combat Coronavirus Disease ("COVID-19") together 	<ul style="list-style-type: none"> ➤ Periodic reports/announcements ➤ Communicate with regulatory bodies regularly ➤ Deal with affairs through government websites and apps 	<ul style="list-style-type: none"> ➤ Uphold integrity and compliance in operations ➤ Pay tax on time, and in return contributing to the society ➤ Establish comprehensive and effective internal control system ➤ Actively implement the national development strategy ➤ Fully implement the safety production responsibility system ➤ Comply with the government's measures and guidance against COVID-19 so as to contain the spread of COVID-19

II. STAKEHOLDERS' ENGAGEMENT (Continued)

Stakeholders	Expectation and concern	Communication channel	Management response
Shareholders/ investors	<ul style="list-style-type: none"> ➤ Return on investment ➤ Information transparency ➤ Corporate governance policies ➤ Anti-corruption/fraud 	<ul style="list-style-type: none"> ➤ Disclose information on the websites of the Company and HKEx ➤ The website of the Company ➤ General meetings and other shareholders' meetings 	<ul style="list-style-type: none"> ➤ Management possesses relevant experience and professional knowledge to ensure business sustainability ➤ Ensure transparency and effective communications through regular publication of information on the websites of HKEx and the Company ➤ Make every effort to improve internal control and risk management, and establish anti-fraud system ➤ Taking efficient prevention and controlling measures to contain the spread of COVID-19 and reduce its impact on the operations of the Group
Employees	<ul style="list-style-type: none"> ➤ Labor rights ➤ Career development ➤ Compensation and welfare ➤ Health and safety ➤ Combat COVID-19 together 	<ul style="list-style-type: none"> ➤ Staff activities ➤ Employee performance appraisals ➤ Induction and on-the-job training ➤ Internal meetings and notices ➤ Get in touch via email, telephone and communication apps 	<ul style="list-style-type: none"> ➤ Set up contractual obligations to protect labor rights ➤ Encourage employees to participate in continuous education and professional trainings to improve their abilities ➤ Establish a fair, reasonable and competitive remuneration scheme ➤ Focus on occupational health and safety ➤ Continuously identify, monitor and eliminate hazards in the plant

II. STAKEHOLDERS' ENGAGEMENT (Continued)

Stakeholders	Expectation and concern	Communication channel	Management response
Customers	<ul style="list-style-type: none"> ➤ Diversified, high quality products and services ➤ Timely delivery ➤ Reasonable price ➤ Combat COVID-19 together 	<ul style="list-style-type: none"> ➤ Business visits ➤ Get in touch via email, telephone and communication apps 	<ul style="list-style-type: none"> ➤ Continuously provide diversified, high quality products and services for customer's satisfaction ➤ Establish an effective and efficient green supply chain ➤ Formulate comprehensive quality assurance process and recall procedures ➤ Ensure proper discharge of contractual obligations ➤ Taking efficient prevention and controlling measures
Suppliers	<ul style="list-style-type: none"> ➤ Stable demand ➤ Win-win cooperation ➤ Corporate reputation ➤ Combat COVID-19 together 	<ul style="list-style-type: none"> ➤ Business visits ➤ Get in touch via email, telephone and communication apps 	<ul style="list-style-type: none"> ➤ Ensure proper discharge of contractual obligations ➤ Establish policies and procedures in supply chain management ➤ Maintain long-term relationship ➤ Select suppliers with due care ➤ Fair, open and impartial bidding process ➤ Taking efficient prevention and controlling measures

II. STAKEHOLDERS' ENGAGEMENT (Continued)

Stakeholders	Expectation and concern	Communication channel	Management response
Community	<ul style="list-style-type: none"> ➤ Environmental protection ➤ Reduce greenhouse gas emissions ➤ Reduce waste generation ➤ Effective resource utilization ➤ Community participation ➤ Economic Development and community employment ➤ Combat COVID-19 together 	<ul style="list-style-type: none"> ➤ Publish corporate information on the website of the Company and the information dissemination websites of government departments ➤ Participate in community activities 	<ul style="list-style-type: none"> ➤ Attend to climate change issues ➤ Continuously invest resources in environmental protection ➤ Actively innovate environmental protection technology ➤ Strengthen energy conservation and emission reduction management ➤ Encourage employees to actively participate in charitable activities and voluntary services ➤ Maintain good financial performance, business growth and create job opportunities ➤ Setting up a pandemic emergency, prevention and control leading group and formulate pandemic prevention and control emergency plan to prevent the further spreading of the COVID-19

III. MATERIALITY MATRIX

During the reporting period, the Group has evaluated a number of environmental, social and operating items, and continuously assessed their importance to stakeholders and the Group through various channels. These assessments help to ensure that the Group's business development is 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">◆ Anti-discrimination◆ Protecting human rights	<ul style="list-style-type: none">◆ Talent management◆ Staff training and promotion opportunity◆ Staff compensation and welfare policy	<ul style="list-style-type: none">➤ Customers' satisfaction➤ Product quality and safety➤ Suppliers management➤ Epidemic prevention and battling◆ Occupational health and safety◆ Epidemic prevention and battling✧ Application of clean production and green products✧ Epidemic prevention and battling
	Medium	<ul style="list-style-type: none">➤ Community participation	<ul style="list-style-type: none">➤ Anti-corruption/Fraud➤ Community employment✧ Greenhouse gas emissions✧ Use of energy	<ul style="list-style-type: none">➤ Operational compliance➤ Customers' privacy protection✧ Waste gas emission✧ Sewage discharge
	Low	<ul style="list-style-type: none">◆ Preventive measures for child and forced labor	<ul style="list-style-type: none">✧ Water resources utilization✧ Discharge of nonhazardous wastes	<ul style="list-style-type: none">✧ Use of raw materials✧ Discharge of hazardous wastes
		Low	Medium	High
		Importance to the Group		
		✧ Environmental	◆ Employee	➤ Operation

IV. ENVIRONMENTAL PROTECTION

The Group strictly abides by national laws and regulations on environmental protection, including the “Environmental Protection Law of the People’s Republic of China”, “Law of the People’s Republic of China on the Prevention and Control of Atmospheric Pollution”, “Law of the People’s Republic of China on the Prevention and Control of Water Pollution”, “Law of the People’s Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste”, “Law of the People’s Republic of China on Prevention and Control of Pollution From Environmental Noise”, “Energy Conservation Law of the People’s Republic of China” and the requirements and standards of the local government. In order for all levels of the Group to better understand the importance of impact on the environment, we continue to adopt various policies, measures and actions to reduce the carbon footprint, thereby reducing the adverse impact of the enterprises’ business activities and employees’ personal lives on the environment. Relevant information will be described in detail in the “Management of Emissions” and “Management of Resources Utilization” sections below.

The Group’s main emissions come from the production process of Xuzhou Tannery. 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. Faced with the current strict national environmental policies and global warming, environmental protection is undoubtedly one of the important issues in formulating the Group’s operational strategy. Accordingly, we formulate a comprehensive “Environmental Protection Management System” that meets the needs of enterprise development for meeting the requirement of environmental protection laws and regulations formulated by the state, 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 department to promote cleaner production, demanding use of harmless, non-toxic or low-toxicity raw and auxiliary materials as priority, assuring that environmental protection facilities and production facilities operate synchronously to ensure all kinds of emissions have been effectively processed and discharged that compile with standards, 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 shall not conceal or do anything that harms the interests of the public, the community, the Group and the stakeholders.

IV. ENVIRONMENTAL PROTECTION (Continued)

China continues to strengthen the environmental protection management of the industry, and the environmental protection requirements for cleaner production processes, water recycling and other aspects have become more stringent. In 2020, the county government actively engaged in urban planning to continuously improve local amenities. The Group also stepped up its investment in environmental projects to ensure compliance with pollutant emission standards and renovated the internal environment of its plant to enhance the working and living environment of employees (please refer to the “Management of Emissions” section below for details). To ensure that we are capable of dealing with environmental incidents promptly and safely to prevent serious pollution or casualties due to the spread of the incidents, we engaged a professional testing agency during the year to help us formulate the “Contingency Plan for Environmental Emergencies” in accordance with the laws, regulations and guidelines for preparation of national and local governments. We also entered into an emergency rescue mutual assistance agreement with the surrounding enterprises of our plant to avoid the lack of supplies in the event of an accident. Meanwhile, the environmental protection work at the management and operation levels was further improved on the back of regular drills and training, resulting in the further consolidation of the foundation of the Group.

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 tannery 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 (VOCs) produced during the tinting process, greenhouse gas generated when burning natural gas and using electricity, etc. Another source is the odor from waste meat inside the waste storage area and the hydrogen sulfide odor gas produced by the sewage treatment plant.

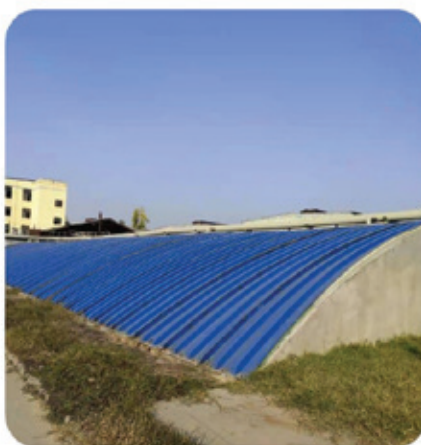
During the grinding process, the Group uses cloth bags to collect and compress dust in piles in order to reduce the possibility of dust fluttering in the air. The pigments used in the tinting process must be supplied by qualified and reputational vendors who meet the national standards so as to reduce unnecessary emissions due to the use of substandard products. In addition, the installation of VOCs treatment facilities in the plant can further reduce the greenhouse gas emissions into the atmosphere. Besides, we strictly require all workers handling tinting process to wear gas masks or disposable masks for occupational health and safety purpose. In order to comply with the clean production policy promoted by the nation, the Group has used clean energy such as steam and natural gas instead of coal as the fuel for heating, so as to reduce greenhouse gas emissions. The waste meat scrap and waste fur storage zone is built with cover, using rain cloth and located far away from the living area, and handled the waste on a regular basis, so as to prevent the strong smell from spreading owing to waste stocking 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 their chance of failure and gas pollution.

IV. ENVIRONMENTAL PROTECTION (Continued)

1. Management of Emissions (Continued)

Management of Atmospheric Emissions (Continued)

During the reporting period, the Group invested approximately RMB1.1 million in total to cover and seal the desulfurization pool and adjustment pool of the sewage treatment station of Xuzhou Tannery and add exhaust collection and treatment equipment in the raw leather warehouse, desulfurization pool and adjustment pool. The equipment adopts alkaline washing and oxidative washing processes, which can strengthen the treatment of various unorganized exhaust and reduce the concentration of hydrogen sulfide and odor emitted to ensure compliance with air emission standards. The construction and actual operation of the equipment were inspected and accepted by a professional testing agency to further ensure that air emissions will meet the standard limits in the "Odorous Pollutant Emission Standard" after treatment. In addition, we engaged a professional, licensed treatment company to remove the sludge, meat scraps and waste fur accumulated in the sludge collection area and waste storage area. A timely cleaning mechanism with long-term efficiency was also established to avoid waste accumulation and greatly reduce the spread of odorous air that affects the surrounding environment.



The addition of waste gas collection and processing equipment and the completion of the addition of roof for sewage treatment station



Conditions of sludge collection area before and after the removal of sludge

IV. ENVIRONMENTAL PROTECTION (Continued)

1. Management of Emissions (Continued)

Management of Sewage Discharge

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 of tannery. Domestic sewage is directly discharged to local sewage treatment plants through main pipes. Sewage containing sulphur and chromium is produced in the unhairing and tanning processes respectively. The sewage is transported through separate pipes to different sewage collection pool 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, we do not have any hazardous sewage discharged.

For handling sewage containing chromium and sulfur, the Group strictly complies with the “Law of the People’s Republic of China on the Prevention and Control of Water Pollution” issued by the Ministry of Ecology and Environment, and implement various measures in accordance with the “Measures for Environmental Surveillance”, “Measures for Automatic Surveillance of Pollution Sources” and “Self-monitoring Technology Guidelines for Pollution Sources — Leather and Fur Making Industry”, setting up sewage treatment station and online automatic monitoring system in the plant. The national environmental authorities can monitor the emission of ammoniacal nitrogen and chemical oxygen demand data in our plant at any time through the information publishing platform. The environment and safety centre conducts multi-sample testing of sewage outlets in the plant regularly and keeps record as the basis for management purposes, the testing content includes pH value, color, suspended solids, biochemical oxygen demand, total chromium, hexavalent chromium, total nitrogen, total phosphorus, sulfide and chloride, etc. Relevant data will be uploaded to the information publishing platform for monitoring purposes by the environmental protection department. In the event of considerable changes in the quality of sewage discharged from the production workshop and high readings of individual pollutants in the sewage treatment process, we will promptly adopt the established procedures to sort out the situation and investigate the reasons, communicate with the production centre to adjust the production scale and schedule, stabilize the sewage quality and take the initiative in adjusting the operating parameters to ensure the safe and stable operation of the sewage treatment station and compliance with sewage discharge standards.

All departments have been strictly implementing various management policies and safe operation procedures for each post of the sewage station and continue to optimize the routine of each post. Regular management and inspection of equipment are two of our key tasks. Failures of old and faulty equipment are well prepared and we are able to procure spare parts in advance to tackle equipment problems that occur during operation in a timely manner to ensure the simultaneous and normal operation of production and environmental protection facilities and the effective treatment of various pollutants in sewage. All employees have to attend the “Three-Level safety training” before officially commencing their works to ensure that all newly hired 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. In addition, we have conducted constant job training, pre-shift meetings and post-holiday resume training to guide and evaluate the production line employees on equipment operating skills and instill environmental protection knowledge for employees to strengthen their technical and environmental awareness, and reduce the sewage generation. 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.

IV. ENVIRONMENTAL PROTECTION (Continued)

1. Management of Emissions (Continued)

Management of Sewage Discharge (Continued)

During the reporting period, in addition to the installation of covers and exhaust treatment equipment at the sewage treatment station, the Group completed the maintenance of the closed system of the sulphur-containing sewage sedimentation pool, replaced chromium-containing sewage pipes and engaged experts to evaluate the sewage treatment station in the plant and carry out systematic transformation to improve the biochemical treatment system and the efficiency of processing total nitrogen pollutants in sewage. The total investment of the transformation project amounted to approximately RMB370,000. The project primarily included:

- (1) addition of a new total nitrogen testing instrument to test sewage several times a day to provide reliable data for analysis of total nitrogen treatment works;
- (2) transformation of the contact oxidation pool and addition of 24 sets of stirrers to introduce the total nitrogen removal function;
- (3) transformation of the A/O biochemical pool to improve the total nitrogen removal efficiency;
- (4) addition of activated sludge to the biochemical treatment system to restore the activity of microorganisms in the biochemical pool and improve the total nitrogen removal efficiency.



Rectification project of sewage treatment station and channels,
and the equipments newly acquired

IV. ENVIRONMENTAL PROTECTION (Continued)

1. Management of Emissions (Continued)

Management of Sewage Discharge (Continued)

The Group's non-hazardous sewage discharged during the reporting period are as follows:

	2020 (Tonnes)	2019 (Tonnes)
Non-hazardous sewage		
Total	655,574.00	473,880.00
Intensity ²	424.89	244.60

Notes:

1. The water level of sewage tank in the local sewage treatment plant was abnormal in certain months of 2019 and 2020, leading to the discharge readings of sewage tank in Xuzhou Tannery being higher than the actual situation. Therefore, the data for these months were estimated based on on-site observations. We have communicated with the treatment plant concerned for handling the above situation as soon as possible.
2. Emission intensity is based on every 10,000 square feet of leather produced.

Management of Solid Wastes Disposal

The Group has been complying with the "Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Wastes" and has 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. We wish to promote technological exchanges internationally in the future for product quality enhancement, to raise our competitiveness and to reduce the negative impact on the environment.

Management of Hazardous Solid Wastes Disposal

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 pipes to separate sewage containing chromium from other sewage 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%. As of the end of 2020, the group recycled 425 barrels of liquid containing chromium, and they are being used in the production process or sold to qualified recycler.

IV. ENVIRONMENTAL PROTECTION (Continued)

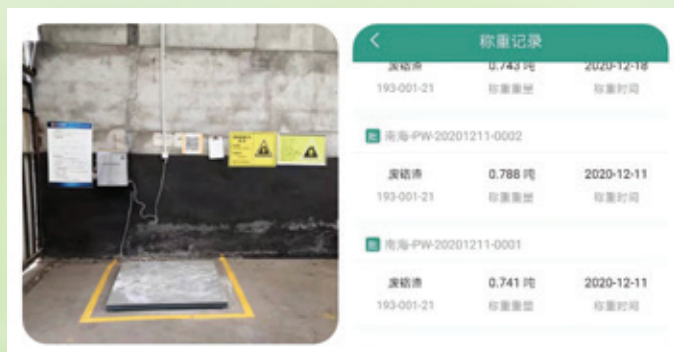
1. Management of Emissions (Continued)

Management of Solid Wastes Disposal (Continued)

Management of Hazardous Solid Wastes Disposal (Continued)

In accordance with the requirements of the local environmental protection department, the Group sets the annual hazardous waste management plan, which includes reducing the harmfulness and production of hazardous waste, as well as the prevention measures applied to storing and transferring hazardous waste. The Group strictly complies with the national "Standard for Pollution Control on Hazardous Waste Storage", "Administrative Measures for the Transfer of Hazardous Wastes" and other relevant laws and regulations, and manages the remaining chromium waste liquid residues that cannot be recycled according to the internal "Measures for Management of Solid Wastes". We have set up a warehouse for storing chromium waste liquid residues in the plant, and the relevant warehouse has taken measures to prevent scattering, loss, and leakage, etc. There is a warning sign outside the warehouse. All kinds of hazardous waste containers must be labeled with hazardous waste and kept sealed for avoiding the opportunity of secondary pollution to the environment. The environment and safety centre regularly inspects the warehouse, and handle the abnormalities found in accordance with the emergency system of the plant to prevent further spread of pollution. The warehouse management staff shall record the chromium waste liquid residues entering and leaving the warehouse in detail, which efficiently built the stocking management account. For the disposal of chromium waste liquid residues, the environment and safety centre must report to the State Environmental Protection Bureau and apply for the transfer of hazardous waste, and entrust recyclers holding "Permit for Operation of Dangerous Wastes" to transfer the hazardous waste. As the Environmental Protection Bureau closely monitors the situation during the transfer of chromium waste liquid residues from the plant to the designated settlement location, thus we need to report the weight of waste, transfer routes, driver information, etc. to the Environmental Protection Bureau to ensure that they will not be dumped illegally and cause environmental pollution.

During the reporting period, the Group strictly followed the requirements of the local environmental protection department for standardized management of hazardous waste and established an application of hazardous waste smart management platform, through which hazardous waste inbound and outbound data are uploaded to the provincial environmental hazardous waste management platform instantly to allow more effective management and data analysis throughout the hazardous waste generation, inbound, storage, outbound and transport processes. During the reporting period, the Group generated approximately 29.45 tonnes of hazardous solid waste, an increase of approximately 2.76 tonnes or 10.34% from the previous year. The increase was mainly due to the increase in chemical materials used along with production volume during the year, resulting in an increase in chromium-containing waste.



The new weighting equipment for hazardous waste, and the interface of the hazardous waste management platform

IV. ENVIRONMENTAL PROTECTION (Continued)

1. Management of Emissions (Continued)

Management of Solid Wastes Disposal (Continued)

Management of Hazardous Solid Wastes Disposal (Continued)

The amount of hazardous solid wastes produced by the Group during the reporting period are as follows:

	2020 (Tonnes)	2019 (Tonnes)
Hazardous solid wastes		
Total	29.45	26.69
Intensity ^{Note}	0.02	0.01

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

Management of Non-Hazardous Solid Wastes Disposal

The non-hazardous solid waste generated by the Group during the operation period mainly includes industrial sludge after the sewage treatment process, various by-products generated during the production process (such as leather scraps or pieces, etc.), raw material packaging (such as rain-cloth wastes, iron drum wastes, paper tube wastes, packaging bag wastes, etc.), engineering maintenance wastes (such as waste rubber tubes, scrap steel, waste tires, scrap steel tiles, etc.) and canteen waste. The Group advocates materials recycling to reduce waste generation. Wastes including pallets, plastic barrels, etc. can be reused in the production process after disinfection. At the same time, the packaging wastes of the production raw materials are sold to relevant units to increase the number of repeated use of the packaging materials and reduce the waste generation. The Group will also hand over the by-products generated in the production process to the local power supply companies for incineration as fuel for power generation, effectively enhanced the use of these non-hazardous wastes. The remaining non-recyclable nonhazardous wastes will be sorted and stored in designated areas, and handled by qualified recyclers.

During the reporting period, the Group engaged a qualified, licensed company to dispose of approximately 3,142.49 tonnes of waste fur, waste hair residue and industrial sludge that had been accumulated for a long time and subsequently established a non-hazardous solid waste treatment mechanism, pursuant to which waste will be removed once the volume reaches approximately 200 tonnes to ensure that no excessive waste is accumulated, thereby eliminating the risk of environmental incidents. We also repaired and maintained the corroded facilities in the waste temporary storage area to prevent secondary environmental pollution due to waste leakage.

IV. ENVIRONMENTAL PROTECTION (Continued)

1. Management of Emissions (Continued)

Management of Solid Wastes Disposal (Continued)

Management of Non-Hazardous Solid Wastes Disposal (Continued)

During the reporting period, the Group generated approximately 4,546.02 tonnes of non-hazardous solid waste. Xuzhou Tannery commenced the maintenance works of sludge pressure and filter machines and the replacement of filter of the machinery at the beginning of the year, which effectively reduce the water content of the industrial sludge. The weight of sludge is correspondingly reduced. Thus, the volume of non-hazardous solid waste recorded a decrease of approximately 641.04 tonnes or 12.36% as compared to previous year.



Maintenance works for nine sludge pressure and filter machines were completed during the first half of the year in Xuzhou Tannery

The amount of non-hazardous solid wastes produced by the Group during the reporting period are as follows:

	2020 (Tonnes)	2019 (Tonnes)
Non-Hazardous solid wastes		
Total	4,546.02	5,187.06
Intensity ^{Note}	2.95	2.68

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

Management of Noise

The noise generated by the Group mainly comes from the operation of production machinery and equipment. We control the impact of noise on the environment by better planning the location of the production workshop and the layout of production equipment as well as the establishment of vibration and noise reduction measures. For instance, materials or structures with good sound insulation performance are chosen for the doors and windows of the workshop; shock-absorbing cushions are installed on equipment that produces noise with high intensity; machinery and equipment maintenance is strengthened; lubricating oil is used to prevent wear and tear of machines; old equipment is phased out and equipment with low noise levels are given priority during procurement. We arrange an appropriate production schedule and green the environment of the factory site to reduce the continual impact of noise on the surroundings with the help of the attenuation effect of trees. The Group strictly complies with the noise emission limits and guidelines in the "Emission Standard for Industrial Enterprises Noise at Boundary" and regulates noise emission in accordance with the internal environmental management system.

Compliance

During the reporting period, the environmental department of Suining County inspected the environmental protection facilities of Xuzhou Tannery and the discharge of various pollutants and found issues in the management of exhaust and sewage. The rectification work related to the inspection will be described in detail in the "The Environment and Natural Resources" section below.

IV. ENVIRONMENTAL PROTECTION (Continued)

2. Management of Resources Utilization

In order to comply with the “Cleaner Production Promotion Law of the People’s Republic of China”, the “Energy Conservation Law of the People’s Republic of China” and related laws, regulations and policies on resource conservation, the production departments and offices of the Group actively take various resource reduction measures in accordance with the requirements of the “Environmental Protection Management System”, pay attention to the publicity and education of environmental protection, energy conservation and emission reduction knowledge. We carry out timely environmental protection education and training to continuously improve employees’ awareness on environmental protection. Every employee understands the importance of resources conservation, and they are required to make full use of resources, maximize their effectiveness and eliminate the phenomenon of wasting resources.

Energy Conservation

Steam and Natural Gas Conservation

Steam is mainly used in production lines for running production equipment, product development and the energy for heating of the sewage treatment station. Natural gas is used as the fuel for producing steam. Steam used by the Group 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, we have adopted various measures to save the use of steam and natural gas. We installed thermostatic steam trap in steam pipe networks and equipment. Condensed water, air and non-condensing gas are emitted automatically and the trap can prevent leakage of steam. We continued to strengthen the maintenance of steam pipes and wrapped the pipes with aluminum sheet and thermal insulation cotton to reduce heat loss. The pipeline valve is shut off when natural gas is not in use. The power 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 power equipment department regularly inspects and repairs natural gas and steam pipes to avoid unnecessary waste caused by leakage. Leakage of natural gas also poses safety problems.

During the reporting period, the Group consumed approximately 23,896.00 tonnes of steam and 1,252.00 cubic meters of natural gas, representing an increase of approximately 4,062.00 tonnes or 20.48% and a substantial decrease of approximately 38,265.00 cubic meters or 96.83% from the previous year, respectively. Due to the higher cost of natural gas, we decided whether to use additional natural gas depending on our production and the supply of external steam. We used more external steam and thus less natural gas during the year. In addition, since the calorific value of natural gas is different from that of external steam, the decrease in natural gas consumption was much higher than the increase in steam consumption.

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 for office use and warehouse forklifts. Drivers must plan their routes in advance when using vehicles for office use. If passengers travel to the same or close destinations, they will be arranged to use the same vehicle to reduce petrol and diesel consumption. Regular repair and maintenance of vehicles made by the engineering department was conducted to improve energy efficiency, and to reduce extra fuel use and exhaust air emission resulting from the failures of vehicle's part.

To prevent the contraction of COVID-19, employees were required to avoid business visits as much as possible and encouraged to use electronic communication such as email, telephone and video conference to reduce the use of vehicles. As a result, gasoline consumption of the Group decreased by approximately 6.08 tonnes or 34.78% from the previous year to approximately 11.40 tonnes during the reporting period. Although forklift trucks were used in the plant to move goods around and more construction work was carried out during the year, the use of diesel vehicles for transporting goods decreased. During the reporting period, diesel consumption of the Group slightly decreased by approximately 1.61 tonnes or 4.75% from the previous year to approximately 32.28 tonnes.

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

	2020		2019	
	Fuel consumption	Carbon dioxide equivalent emissions (Tonnes)	Fuel consumption	Carbon dioxide equivalent emissions (Tonnes)
Natural gas	1,252.00 m ³	2.29	39,517.00 m ³	72.37
Gasoline	11.40 Tonnes	41.50	17.48 Tonnes	64.23
Diesel	32.28 Tonnes	101.89	33.89 Tonnes	107.55
<i>Total emission of the Group</i>		<i>145.68</i>		<i>244.15</i>
<i>Emission intensity of the Group^{Note}</i>		<i>0.09</i>		<i>0.11</i>

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

IV. ENVIRONMENTAL PROTECTION (Continued)

2. Management of Resources Utilization (Continued)

Energy Conservation (Continued)

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 comprehensively, 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. 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. Xuzhou Tannery makes use of regular meetings, weekly meetings and constant training as well as assessment procedures and drills to enrich the dull training sessions and make the employees feel enthusiastic and become more active to make sure that every employee could remember the operating procedures of the equipment used on the post and understand the importance of saving energy, so that the waste of resources due to non-compliance operation could be effectively eliminated while maintaining product quality.

During the reporting period, in addition to the continual sharing of energy-saving knowledge with employees and their active cooperation with our energy-saving measures, the production department formulated more efficient production plans to increase the utilization of production equipment and reduce the time required to warm up the machines upon restart, thereby reducing power consumption. Therefore, despite the increase in production during the year, power consumption of the Group slightly decreased by approximately 135.39 MWh or 1.91% to approximately 6,967.83 MWh thanks to the measures above.

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

	2020		2019	
	Energy consumption	Carbon dioxide equivalent emissions (Tonnes)	Energy consumption	Carbon dioxide equivalent emissions (Tonnes)
Electricity	6,967.83 MWh	5,606.30	7,103.22 MWh	5,715.22
Steam ¹	23,896.00 Tonnes	N/A	19,834.00 Tonnes	N/A ¹
<i>Total emission of the Group</i>		<i>5,606.30</i>		<i>5,715.22</i>
<i>Emission intensity of the Group²</i>		<i>3.86</i>		<i>3.42</i>

IV. ENVIRONMENTAL PROTECTION (Continued)

2. Management of Resources Utilization (Continued)

Energy Conservation (Continued)

Electricity Conservation (Continued)

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 from 2018. As the suppliers were unable to provide the types and composition of the fuel used for producing the steam and such information will affect the calculation of emission factors for exhaust air and greenhouse gases. The Group does not have the necessary information to calculate the greenhouse gases and exhaust air emissions, and therefore, we do not disclose relevant data in this report.
2. Emission intensity is based on every 10,000 square feet of leather produced.

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. The Group clearly understands the importance of water resources for production, construction and living needs. In order to establish proper attitude towards the use of water in the factory and enhance environmental awareness of employees, the Group has 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 afterwards. The power equipment 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 power equipment department also needs to keep detailed records of all inspection and repair. We also monitor the consumption of each water outlets in the entire plant area, conduct statistics and analyzes the water consumption data to identify departments or production units with higher water consumption, so that targeted remediation plans can be formulated and implemented to eliminate unnecessary water consumption. As the production for the year increased, the amount of input and dyeing of meat scrap increased. The Group's water consumption thus increased approximately 14,685.71 tonnes or 5.17% comparing to that of last year that the water consumption is 298,915.18 tonnes in aggregate.

IV. ENVIRONMENTAL PROTECTION (Continued)

2. MANAGEMENT OF RESOURCES UTILIZATION (Continued)

Water Conservation (Continued)

The Group's water consumption during the reporting period are as follows:

	2020 (Tonnes)	2019 (Tonnes)
Water resources		
Total	298,915.18	284,229.47
Intensity ^{Note}	193.73	146.71

Note: Consumption intensity is based on every 10,000 square feet of leather produced.

Paper Conservation

The Group advocates green office policy and paper conservation to reduce waste production. Employees shall follow the principle of "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, to use lighter weight paper and to recycle the single-sided used papers, old envelopes and packaging materials. Waste papers are collected in recycling bin and handled by qualified recyclers. We also regulate and improve the habits of consuming paper in each department by setting paper procurement and paper-taking procedures. During the reporting period, the Group consumed approximately 0.98 tonnes of paper as the production for the year increased, thus the paper consumption increased approximately 0.19 tonnes or 24.05% from the previous year.

Compliance

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

3. The Environment and Natural Resources

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 tanning technology development, and kept on improving the environment within the plant. The Group will continue to pay close attention to environmental protection related laws, regulations and measures, and strictly abide by the internal environmental protection management system to ensure compliance with laws and regulations. We take the national environmental protection development plan as our blueprint, raise the environmental awareness at all levels within the Group and let everyone to realize the deteriorating global environmental situation, and hope to have more industrial and commercial enterprises, social organizations and general public participating in environmental protection projects and working together to improve environment and build a better world, and to promote its sustainable development.

IV. ENVIRONMENTAL PROTECTION (Continued)

3. The Environment and Natural Resources (Continued)

During the reporting period, the environmental protection department of Suining County engaged a third-party testing agency to test the exhaust gas and sewage of Xuzhou Tannery, and violations including the concentration of hydrogen sulfide and odor in the unorganized exhaust gas not meeting the emission limit of the “Odorous Pollutant Emission Standard”. The reading of the online total nitrogen monitor of the plant’s sewage treatment not meeting the total nitrogen discharge limit of the “Discharge Standard of Water Pollutants for Tanning and Fur Processing Industries” were found. As such, the environmental protection department issued an administrative penalty decision on Xuzhou Tannery and imposed a fine of RMB300,000 and demanded it to undergo rectification. The management of the Group attached great importance to the incident and immediately adopted appropriate contingency measures as required in the administrative penalty decision of the environmental protection department. It also engaged environmental experts to analyze and investigate the situation. For the excessive total nitrogen in the sewage treatment station, experts found that the sealing of the sewage treatment station to prevent the hydrogen sulfide and odor concentration of the unorganized exhaust gas from exceeding the standard resulted in the death of microorganisms in the biochemical treatment pool due to the increase in water temperature, thus weakening the ability to remove total nitrogen in the pool. Experts also found that the readings of the online total nitrogen monitor sometimes deviated considerably from the actual concentration, which caused total nitrogen exceeding the standard. We then formulated rectification proposals in response to each issue, including addition of corresponding environmental protection equipment and testing equipment, systemic transformation of the sewage treatment station and removal of waste that had been accumulated for a long time. The addition of each environmental protection equipment and the transformation of the sewage treatment station were accepted by experts. The above issues have been rectified during the year. There is no safety incident in relation to the above issues occurred during the period.

The Group will continue to increase its investment in various environmental protection projects in the future and will closely monitor and supervise the subsequent implementation of the rectification work above to ensure that the plant handles emissions and waste in compliance with regulations and the risk of causing major pollution is eliminated. We will revisit and identify the sources of wastes produced in operation, to evaluate the impact on the environment for use of resources and to enhance the environmental-friendly facilities and ancillary equipment, and continue to strengthen the control measures in the “Internal Control Manual” to deal with social responsibility risks, including the promotion of cleaner production, energy conservation and emission reduction, extensive use of energy-saving products, and the economical use of office resources. Through effective ways such as publicity and education, we constantly improve employees’ awareness of environmental protection and resource conservation, fulfill social responsibilities and obligations in the process of business development, and achieve coordinated development of the enterprise, society and environment.

V. EMPLOYMENT AND LABOR PRACTICES

The Group regards employees as its most core and most valuable asset, adheres to the “people-oriented” governance philosophy, and is deeply aware that talents play a key role in the sustainable and long-term development of the business. To this end, we have developed a set of comprehensive human resource management systems. The human resource policy covers aspects such as remuneration, rewards, professional ethics, training and welfare. We are committed to creating an equal, non-discriminatory, harmonious and safe working environment. With the goal of mutual respect and building good relationships with employees, we encourage employees to innovate, be flexible and value commitments, and fulfill our mission of providing customers with quality products and services. Xuzhou Tannery has set up the chairman’s mailbox, which is managed by the chairman himself. The purpose is to strengthen the communication between the Company and employees, encourage employees to actively make suggestions for the Company’s construction and development, and help employees solve problems in order to improve the Company’s management standard and promote the harmonious and healthy development of the Company. In addition, we provide commensurate salary, various benefits and training courses that are helpful for personal career development, creating favorable conditions for us to attract, retain and reward talents. We also pay attention to the work, life, physical and mental health of our employees. By organizing various afterwork activities, we can enrich the lives of our employees and enhance the cohesion of the team in the Company.

1. Talent Selection

The Group has always advocated equal job opportunities and respect for personal privacy, adhered to the concept of “full utilization of talents, full usage of talents, and the matching of talents and vocations” during the recruitment process, embraced the principle of selecting talents through multiple channels and has thus formulated relevant policies. The responsibilities and requirements of a post are determined by the department head, and suitable candidates are selected by the human resources department accordingly. The candidates are selected based on factors such as work experience, professional knowledge, academic qualifications, communication skills, expression skills, morals and work attitudes. Equal opportunities are given regardless of their age, gender, ethnic group, religious affiliation, nationality or marital status. Xuzhou Tannery has been supporting the rehabilitation plan for people with disabilities, and has recruited a number of employees with physical disabilities for many years and assigned them with appropriate job duties based on their ability and skills so as to assist them to earn their living.

2. Labor Standards

The Group complies with the requirements of the Labor Law of the People’s Republic of China, the Employment Ordinance of Hong Kong and other applicable laws and regulations. The Group values human rights and protects labor rights. Child and forced labor are strictly prohibited under applicable labor laws and regulations. The human resources department verifies applicants’ identification documents during the recruitment process to prevent child labor. In addition, the Group has various measures in place to prevent any form of forced labor, including prison labor, indentured labor and bonded labor. For instance, labor contracts are entered into with employees on an equal and voluntary basis; employees are not required to bear any employment costs when joining the company; wages, benefits or property of employees are never withheld; identity cards or other identification documents are never retained; any form of corporal punishment, assault, body search or insult, or forced labor by means of violence, threats or illegal restriction on personal freedom is strictly prohibited. To avoid working overtime involuntarily, any overtime arrangement must be agreed upon by the employees, and compensation shall be given in accordance with applicable laws and regulations. During the reporting period, the Group did not find any violation of laws and regulations related to child and forced labor.

V. EMPLOYMENT AND LABOR PRACTICES (Continued)

3. Compensation and Welfare

The Group attracts and retains quality staff with competitive remuneration packages. The Group benchmarks the up-to-date remuneration data in the industry and strives to establish a fair, reasonable and competitive remuneration system. Employee's salary are determined based on knowledge, skills, experience and education level as required by each position. The Group implements a distribution system combining position salary and performance bonus. In order to enhance quality of work and competency of employees, we conduct periodic performance appraisal and fairly assess the bonuses, salaries increment and/or promotion recommendations based on a number of criteria (including working experience, seniority, knowledge and skills, performance, contribution, etc.). The basic employee benefits include salary, bonuses, etc. Other benefits include job subsidies, overtime subsidies, overtime meal allowance, festival welfare gifts, staff quarters, hospital and medical care and general health checkups, etc. We also organized activities to show condolences to employees and retired employees who are in difficulty before the Chinese New Year.

According to the local labor law and laws and regulations of social insurance, the Group provides social security benefits for all employees. We pay various social insurance fees (endowment insurance, medical insurance, unemployment insurance, work injury insurance and maternity insurance) and housing provident fund for employees in the mainland business, as well as contributions to mandatory provident fund schemes for employees in Hong Kong. If there is the need for compensation owing to dismissal, we handle it in accordance with the applicable local laws and regulations.

The Group attaches great importance to the health of employees, advocates work-life balance, and stipulates the working hours of employees and safeguards employees' right to take a rest and leave in accordance with local labor laws. All employees are entitled to rest days and statutory holidays, such as annual leave, sick leave, marriage leave, maternity leave, bereavement leave, work injury leave, etc. In addition, we held a Guandan (a game of poker) competition before the Chinese New Year of 2020 in a bid to enhance the cohesion among employees, enhance their sense of belonging and alleviate their work pressure. In view of the outbreak of COVID-19 during the Chinese New Year in 2020, the Group did not organize other off-work activities for employees to maintain appropriate social distancing and prevent the spread of COVID-19 in the workplace.

In addition, the Group did not reduce employee benefits or lay off employees during the outbreak of COVID-19 in 2020. When employees were required to work overtime after the production plant had resumed operation, their prior consent was obtained and compensation was given in accordance with laws and regulations of labor law. For employees' health and safety, the Group devised a contingency plan for epidemic prevention and adopted various epidemic prevention measures. For details, please refer to the "Health and Safety" section below.



Heads of different departments visited current and retired staff in difficulty and provided them with assistance



V. EMPLOYMENT AND LABOR PRACTICES (Continued)

4. Development and Training

The Group is fully aware that a high-quality team is the core competitiveness of an enterprise and plays an important role in the sustainable and long-term development of the Group. Therefore, we always regard talent training as one of the core tasks of the Group, and introduce a competition mechanism through strict recruitment systems, standards and procedures. We hope to discover and cultivate professional talents, as well as encourage employees to continue their education and lifelong learning. In addition to meeting the business development needs of the Group, we also hope to improve the quality, vocational skills and knowledge of employees through continuous training and establish a positive working attitude for employees.

New employees of Xuzhou Tannery must participate in induction training, which aims to introduce corporate culture, industry knowledge, organizational structure, rules and regulations, operational safety, and pre-job training (for details, please refer to the "Health and Safety" section below). Before employees are transferred, they must receive pre-transfer professional training, until they can meet the requirements of the post. For those with outstanding performance in the training, in addition to the recognition announcement, appropriate rewards can be given according to the situation. Those who fail to meet the standard, their training period can be extended appropriately. All employees are encouraged to receive external education and training in their spare time, without affecting their duties as a major premise. Appropriate schedules for internal training activities and external ones organized by professional organizations are prepared for Xuzhou Tannery in view of its manpower requirements. During the reporting period, in addition to pre-employment training for new employees, Xuzhou Tannery organized a number of safety training, online training in corporate management knowledge and online sessions on the basic knowledge of leather craftsmanship.

The Group provides on-the-job training for its employees in Hong Kong and introduce the corporate culture, industry knowledge and job responsibilities to new staff. Professional staff, such as employees from Finance Department 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 Hong Kong compliance system, challenges and case sharing against listed companies and its directors.

V. EMPLOYMENT AND LABOR PRACTICES (Continued)

5. Health and Safety

The Group always pays attention to the health of its employees and workplace safety and recognizes that the corporate itself is the body responsible for production safety. It should adhere to the philosophy of “people-oriented, safe development” and assume the responsibility to prevent and avoid occupational hazards. To comply with the Production Safety Law of the People’s Republic of China and relevant local laws and regulations and to manage production safety more effectively, Xuzhou Tannery updated the “Rules on Responsibility for Production Safety” during the reporting period and built a safety management structure by establishing the production safety committee, the production safety committee office and the environment and safety centre. A new, registered safety engineer and several safety officers are included under the organizational structure which improve the level of production safety management of the Company. The production safety committee formulates production safety plans and annual production safety targets. Department heads are required to sign a production safety responsibility statement every year. It is hoped that management and employees of all levels would clearly understand their own responsibility for safety and assume safety responsibility strictly in accordance with the production safety responsibility certificate. In addition, we have also formulated “Administrative Measures against “Three Violations”” to strengthen the Company’s work on safety management. Employees who violate the laws and regulations in respect of production, command and labor disciplines are warned and, where required, to undergo safety retraining to avoid safety accidents and injury to employees.

The Group attaches great importance to the safety training of employees. New employees must receive three-level safety education (company, department and team levels) before they can start working. During the reporting period, Xuzhou Tannery organized “Safe Production Month” and “Fire Safety Month” and used signboards, banners, WeChat platform, pre- and post-session meetings and other channels to promote related activities to strengthen employees’ safety awareness. The activities included safety training in key machines and key positions, “Seminar on Grassroots Safety”, fire safety training, learning from firefighting models and fire drills. Xuzhou Tannery also arranged employees to take part in the knowledge promotion contest of the “Safe Production Month” in Suining Economic Development Zone in 2020 and the activities in the Fire Safety Month. In addition, based on the Company’s actual situation, we organized various educational activities for rectification projects in relation to production safety, including special training in fire safety, special training in epidemic prevention and resumption of work, special training in precursor chemicals, special training in special equipment and key machines, special training in electricity safety, special training in confined space, special training in occupational health and emergency handling and safety training in dangerous operations. Xuzhou Tannery also organized video sessions on production safety incidents and fire accidents to increase employees’ awareness and vigilance of safety incidents. Employees in special lines of work (such as electricians, electric welders, boiler operators, forklift operators, etc.) must receive relevant training in safety knowledge of the profession and obtain the certificates issued by government departments before taking up the posts.

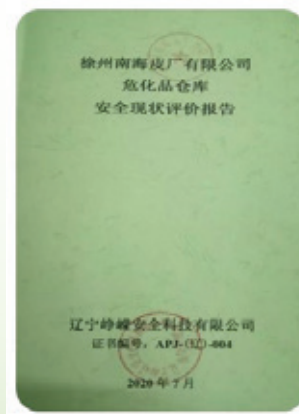


Every staff are equipped with suitable safety and protective equipment provided by the plant, thus preventing them from any exposure of occupational hazard

V. EMPLOYMENT AND LABOR PRACTICES (Continued)

5. Health and Safety (Continued)

In order to implement the safety production policy of "Safety First, Precaution Crucial, Comprehensive Governance", the Group identifies major hazard sources, conducts risk assessments for potential major accidents and proposes corrective measures to eliminate the risks of the occurrence of safety accidents. Safety personnel regularly inspect each production unit in accordance with company requirements and safety operating procedures, and urge employees of each production unit to conduct safety inspections of production posts, conduct regular fire inspections every day to check whether the fire protection equipment and fire safety signs are intact and eliminate remaining fires. The power equipment group is responsible for the maintenance and daily inspection of various facilities and equipment. For the hidden dangers discovered during the inspection, we will put forward rectification advices, report to the management in a timely manner, supervise the implementation of the rectification plan, and record the details of the inspection and rectification. When hidden dangers are found to be dangerous to employees and affect personal safety, we immediately take emergency measures to suspend relevant operations and evacuate employees from the operations.



The evaluation report on the current safety status of warehouse of dangerous chemicals issued by the expert

Our plant has added safety equipment inside and outside the warehouse of dangerous chemicals in accordance to the recommendations of the expert

V. EMPLOYMENT AND LABOR PRACTICES (Continued)

5. Health and Safety (Continued)

The contingency management department of Suining County inspected the warehouse of dangerous chemicals of Xuzhou Tannery in June 2020, and found that no safety equipment in compliance with the “Regulations on the Safety Administration of Dangerous Chemicals” had been installed and the safety conditions of the warehouse were not regularly assessed. The contingency management department issued administrative penalty decisions on Xuzhou Tannery, imposed a fine of RMB165,000 and required Xuzhou Tannery to rectify. The management of the Group attached great importance to the incident and immediately took appropriate contingency measures, and engaged safety experts to analyze and investigate such situation to formulate appropriate rectification plans. In response to the above non-compliances, we have installed equipment complying with the standard based on the expert’s recommendations, for example, electrostatic earthmoving devices, combustible gas alarm devices, lightning protection devices, monitoring systems, exhaust systems and eye washers as well as carrying out anti-static epoxy flooring work in the dangerous waste warehouse to eliminate such safety hazards. The safety expert has completed the assessment report on current safety status in July 2020 and confirmed that the issue had been resolved completely. In response to the incident, the management of the Group has required Xuzhou Tannery to strengthen its safety production management structure, increase safety management personnel and improve the level of safety production management of the plant; restructuring the volunteer fire brigade for strengthening the fire emergency response capability of the plant; it also revised and improved various safety production management systems. In addition, Xuzhou Tannery carried out comprehensive internal hidden hazard investigation and elimination work on an issue-oriented manner, thus achieving closed-loop management. During the year, fifty-six hidden problems were identified from various safety inspections, and then rectification measures were formulated for the problems, which specified the responsibilities of rectification and supervision, completed the relevant rectification work, updated the list of hazard sources identification, and announced such list and preventive measures to all employees. At the same time, Xuzhou Tannery increased its efforts in safety training and publicity, normalized the related work and promoted the participation of all employees. During the year, a total of 966 employees participated in trainings on fire prevention, epidemic prevention and control, chemical products liable to producing narcotic drugs, special equipment, electricity safety, restricted space work, occupational health and first aid. The plant also carried out different types of emergency drills, including fire evacuation and fire extinguishing, hydrogen sulfide poisoning, sulfuric acid and formic acid leakage, etc., with an aim to prevent accidents from causing injuries to personnel, property damage and environmental pollution, and to enhance employees’ understanding and protection of various safety hidden hazards, so that they can pay attention to safety in daily work and timely identify safety hidden hazards.



Our plant has organized various safety trainings and fire drills for the staff

V. EMPLOYMENT AND LABOR PRACTICES (Continued)

5. Health and Safety (Continued)

The Group sets up and comprehend the occupational health management system pursuant to the requirements of the “Law of the People’s Republic of China on Safety Production”, the “Law of the People’s Republic of China on Prevention and Control of Occupational Diseases” and relevant local laws and regulations to protect its employees’ health, rights and interests. Protective equipment (such as gas masks, earplugs, protective clothing, protective shoes, sawdust, etc.) that meets the national standards, together with the guideline for use, are provided to its employees. In order to improve the monitoring and management of hazardous factors, take appropriate measures to eliminate or control risks, and ensure that employees work in a safe environment, we entrusted professional testing companies to comply with the standards of chemical hazards and physical factors in the “Occupational Exposure Limits for Hazardous Agents in the Workplace”, and conducted inspection and evaluation of occupational disease hazards at each production position in the plant. Most of the positions are in line with the standard, and a small number of positions fail to meet the formaldehyde and noise standards, we have strengthened the education of employees’ occupational safety knowledge, required all employees to wear earplugs in the workplace, and improved the ventilation and exhaustion facilities to improve the emission condition of formaldehyde.

In view of the outbreak of COVID-19 in early 2020, the Group has taken the following precautionary measures for the health and safety of its employees:

- Initiated the work plan for the emergency prevention and control of the COVID-19 pandemic and set up a leading group for the emergency prevention and control of the pandemic in response to the situation that may cause the spread of the pandemic in offices, production plants and dormitories;
- Used the WeChat platform “Ping An Nanhai” to promote knowledge of virus prevention, promoted prevention and control measures to employees through WeChat tools, and kept a close eye on the health conditions of employees who went to the epidemic areas at the beginning of the year, and reported the results to the Safety Committee Office;
- Established quarantine measures for employees returning to office, production plant and dormitory from the affected area;
- Ensured sufficient reserves of epidemic prevention materials such as thermometers, disinfectant spray, disinfectant hand sanitizer, masks, goggles, protective clothing;
- Set up temperature screening room and isolation room;
- Strick control on the personnel getting in and out of the plant. All employees and visitors must wear masks, measure body temperature, declare personal health status, and confirm that there is no suspected infection symptoms before entering the production plant; The person in charge must wear gloves, masks and goggles;

V. EMPLOYMENT AND LABOR PRACTICES (Continued)

5. Health and Safety (Continued)

- Comprehensive disinfection is carried out every day throughout the production plant, including offices, production workshops, warehouses, dormitories, reception rooms, washrooms, etc.;
- To suspend unnecessary business trips, remote video conferences and emails are used for communication; employees are required to communicate electronically to reduce crowd gathering and to remind employees to maintain safe social distance;
- Employees are required to wear masks at work and pay attention to hands hygiene; and
- Windows are regularly opened for ventilation and to reduce the use of air conditioners, thus maintaining air circulation in the workplace and living areas.

Compliance

Except for the issues stated in the “Health and Safety” section, the Group did not involve in other confirmed non-compliance incidents relating to employment, health and safety, and labor standards that have significant impact on the Group.



(Upper photo) Staff must take their body temperature measurements and declare their health status before entering our plant

(Lower photo) The entire production plant is fully disinfected everyday



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 support and reach the standards that meet with our expectations. We also strive to maintain long-term, stable strategic cooperative relationships with leading suppliers, and co-develop with its suppliers on the basis of equality and win-win situation. We adhere 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 with them. We established stringent internal rules and policies in supplier evaluation and management, covering sourcing and selection of new vendors, renewal of existing suppliers, and preparing an “approved supplier list”. When selecting new suppliers, the Group assesses the supplier’s corporate background, qualifications, production scale, management system, production equipment, etc. based on the information obtained during the qualification review, and then evaluates them as a qualified or unqualified supplier. The person in charge of each material usage department conducts an annual review for suppliers based on material quality, delivery status, service quality and price level, and classifies suppliers according to the scoring criteria to determine whether we can continue to cooperate with suppliers or need to reduce or suspend purchasing from suppliers. There is proper segregation of duties from signing of contracts with suppliers to goods or service acceptance so as to ensure that the goods and service providers possess the required qualifications and professional skills, adopt good internal management system, stable quality, on-time delivery, comply with laws and regulations, etc. This is to ensure that the Group’s suppliers are competitive and are able to provide good quality products and services. We have 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 providing quality and safe products, not only to satisfy the customers’ basic requirement, but also to meet our targets on highly efficient and effective production and quality control. Therefore, we formulate the “Internal Control System of Quality Center”. The quality center is responsible for monitoring and testing the quality of raw materials, crust, blue skins and finished products. Raw material suppliers need to provide testing data to ensure that their quality meets national standards. In accordance with the “Guidelines for Quality Inspection of Finished Products”, we strengthen the technical training of testing personnel and improve their technical level and sense of responsibility to ensure that they can effectively monitor the quality of products. If unqualified products are found during the testing process, the marketing center and the production center must notify the warehouse in writing that the unqualified products cannot be placed in the warehouse to avoid accidentally selling the unqualified products to the customers. The testing laboratory under the China Leather Research Institute randomly tests part of the Group’s products annually, and all the products are produced and delivered with a qualified test report. During the reporting period, Xuzhou Tannery has obtained ISO 9001:2015 quality management system certification for the production of natural genuine leather.

VI. OPERATING PRACTICES (Continued)

2. Product Responsibility (Continued)

If customers have product quality issue or the products fail to satisfy their requirements such as peeling off, crack of leather surface, etc., they can approach the Group's after-sales services. In order to better understand customer requirements and continuously improve our products, we regularly consult customers' opinions and suggestions through visits, questionnaires and telephone calls in accordance with the "Customer Satisfaction Survey Management System", to identify the cause of customer dissatisfaction and provide solution in time, hoping to improve the quality of products and services.

Confidentiality is one of the Group's core values. We have established "Customer Information Management System" to ensure our employees handle customers' information diligently and confidentially, and formulated clear guidelines to monitor the use and management of customer files to prevent leakage of customer information. For any confidential information obtained through business relationships, all employees are strictly prohibited to disclose any information to assisting vendors or third parties without proper authority unless there is a legal or professional right or duty to do so. If such information has to be accessed due to business relationships, employees must provide the purpose and reason for the inspection and inspect only after obtaining approval.

The Group respects intellectual property rights. Without the permission of the copyright owner, employees are not allowed to have or use copyrighted materials.

During the reporting period, the Group did not involve in any confirmed incidents on non-compliance of laws and regulations relating to product and service responsibilities that have significant impact on the Group, and received no complaints about breaches of customer privacy, loss of information and infringement of intellectual property rights.

3. Anti-corruption

As the Group's corporate cultural philosophy are "Honesty, Probity, Effectiveness", maintaining a working environment with high ethical standard is one of the Group's core works. We have adopted a zero-tolerance approach for all kinds of corruption, bribery and extortion situation. For complying with the "Criminal Law of the People's Republic of China", "Prevention of Bribery Ordinance" and relevant laws and regulations implemented by the Hong Kong Independent Commission Against Corruption, the Group established "Human Resources Management Policy" and "Staff Manual". We restrict the behavior of all employees and set strict penalty towards the collection of and accepting bribes or other illegal interests, and all employees are required to build up a habit of complying with policies and procedures in order to preclude any bribery or bribery accepting behaviour. Employees who are in breach of the company's code of conduct are disciplined or dismissed. We set up a comprehensive disciplinary monitoring system to cover the operation and production processes. Therefore, the "Rules for Discipline Inspection and Supervision Reporting" was formulated and we have established channels, including mailbox and hotline, for whistleblowers to submit reports of suspected personal interests in carrying out one's job duties, bribes, extortion, frauds, money laundering and other illegal acts in an absolute confidential manner. The Group handles such reports in absolute confidence 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, protecting the environment and building a good development order. Besides we have been regarded as a role model for the industry, contributing to social stability.



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. We will continue to focus on and allocate resources to environmental protection, employee care, product quality and community investment so as to create new advantages on sustainable development.

The Group will endeavor to comply with the increasingly stringent laws and regulations of environmental protection, strengthen energy conservation and emission reduction, reduce energy consumption, make good use of renewable resources, and establish an environmental protection and resource conservation monitoring and evaluation system in accordance with the requirements of the government's clean production system, with the hope of achieving the long-term goal of low-carbon economy and circular economy. Therefore, the Group allocates resources to optimize exhaust air, sewage and solid wastes treatment facilities. We will also put employee satisfaction and production safety as our top priority, and attract more talents on technical and management fronts through ensuring occupational safety and a competitive remuneration scheme. As for product quality and customer service, we will continue to invest resources for product quality improvement so as to conform with the environmental protection requirements. At the same time, we are committed to fulfilling our 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 the creation an image of an environmental-friendly and economical company, to generate more meaningful long-term value for the enterprise and its stakeholders.

IX. ENVIRONMENTAL DATA AND PERFORMANCE SUMMARY

	Unit	2020	2019
Greenhouse gases emission ("GHG")			
Scope 1¹			
Total	Tonnes	145.68	244.15
Intensity ⁴	Tonnes	0.09	0.11
Scope 2²			
Total	Tonnes	5,606.30	5,715.22
Intensity ⁴	Tonnes	3.86	3.42
Total exhaust air emissions			
Nitrogen oxides	Kilograms	904.25	894.60
Sulfur oxides	Kilograms	0.84	1.00
Particulate matters	Kilograms	59.38	59.36
Hazardous wastes³			
Solid wastes generated:			
Total	Tonnes	29.45	26.69
Intensity ⁴	Tonnes	0.02	0.01
Non-hazardous wastes			
Sewage discharged³:			
Total	Tonnes	655,574.00	473,880.00
Intensity ⁴	Tonnes	424.89	244.60
Solid wastes generated:			
Total	Tonnes	4,546.02	5,187.06
Intensity ⁴	Tonnes	2.95	2.68
Packaging materials used for finished products:			
Total	Tonnes	23.06	32.01
Intensity ⁴	Tonnes	0.01	0.01

IX. ENVIRONMENTAL DATA AND PERFORMANCE SUMMARY (Continued)

	Unit	2020	2019
Energy and water consumption			
Electricity:			
Total	MWh	6,967.83	7,103.22
Intensity ⁴	MWh	4.80	4.25
Natural gas:			
Total	Cubic meters	1,252.00	39,517.00
Intensity ⁴	Cubic meters	0.87	24.73
Gasoline:			
Total	Tonnes	11.40	17.48
Intensity ⁴	Tonnes	0.01	0.01
Diesel:			
Total	Tonnes	32.28	33.89
Intensity ⁴	Tonnes	0.02	0.01
Steam:			
Total	Tonnes	23,896.00	19,834.00
Intensity ⁴	Tonnes	16.67	12.41
Water:			
Total	Tonnes	298,915.18	284,229.47
Intensity ⁴	Tonnes	193.73	146.71

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 energy" GHG emissions as arisen from the internal consumption of purchased electricity.
3. The sewage containing chromium and sulfur generated from production is converted from hazardous sewage to nonhazardous sewage after treatment and meeting the national emission standards. Hence, there is no hazardous sewage discharged.
4. During the reporting period, the Group's principal activities were processing of leather and providing subcontracting business for its customers. Since part of the products of subcontracting business 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 of the intensity of each key performance indicator's emission and consumption 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” OF THE STOCK EXCHANGE OF HONG KONG LIMITED

General Disclosure/ Key Performance Indicators (“KPIs”)	Reporting Guide	Pages
A. Environmental		
Aspect A1	Emissions	
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 exhaust air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	8–16
KPI A1.1	The types of emissions and respective emissions data.	9–16, 35
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	18–19, 35
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	15, 35
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	13, 16, 35
KPI A1.5	Description of measures to mitigate emissions and results achieved.	9–16
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	11–16
Aspect A2	Use of Resources	
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	17, 21
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).	18–19, 36
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	21, 36
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	17–21
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	20
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	35

X. “ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE” OF THE STOCK EXCHANGE OF HONG KONG LIMITED (Continued)

General Disclosure/ Key Performance Indicators (“KPIs”) Aspect A3	Reporting Guide Environment and Natural Resources	Pages
General Disclosure	Policies on minimizing the issuer’s significant impact on the environment and natural resources.	21–22
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	21–22
B. Social¹		
Aspect B1	Employment	
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.	23–24
Aspect B2	Health and Safety	
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.	26–30
Aspect B3	Development and Training	
General Disclosure	Policies on improving employees’ knowledge and skills for discharging duties at work. Description of training activities.	25
Aspect B4	Labor Standards	
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.	23
Aspect B5	Supply Chain Management	
General Disclosure	Policies on managing environmental and social risks of the supply chain.	31

X. “ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE” OF THE STOCK EXCHANGE OF HONG KONG LIMITED (Continued)

General Disclosure/ Key Performance Indicators (“KPIs”) Aspect B6	Reporting Guide Product Responsibility	Pages
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	31–32
Aspect B7	Anti-corruption	
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 prevention of bribery, extortion, fraud and money laundering.	32
Aspect B8	Community Investment	
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure that its activities take the communities’ interests into consideration.	33

Note: The Group chooses not to disclose the KPIs under “Area B Social” set out in Appendix 27 of the Listing Rules in this report as those KPIs are recommended disclosures only.



GUANGDONG TANNERY LIMITED

粤海制革有限公司