



MEGAIN Holding (Cayman) Co., Ltd.
美佳音控股有限公司*

(incorporated in the Cayman Islands with limited liability)

Stock code: 6939

2020
ENVIRONMENTAL,
SOCIAL AND
GOVERNANCE REPORT

** For identification purpose only*

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GLOSSARY

Company/the Company/MEGAIN Holding	MEGAIN Holding (Cayman) Co., Ltd.
Employee Manual	Employee Manual of Zhuhai Megain Technology Co., Ltd.
Environmental Agreement	Environmental Agreement of Zhuhai Megain Technology Co., Ltd.
Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited
PRC	the People's Republic of China
Reporting period/2020/This year	Accounting period from 1 January 2020 to 31 December 2020
Supplier's Environmental Directive Commitment	Supplier's Environmental Directive Commitment of Zhuhai Megain Technology Co., Ltd.
The Group/We	The Company and its subsidiaries
Zhuhai Megain	Zhuhai Megain Technology Co., Ltd.

1 ENVIRONMENTAL, SOCIAL AND GOVERNANCE OVERVIEW

1.1 ABOUT THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

This report is an overview of the performance of MEGAIN Holding (Cayman) Co., Ltd. (the “Company”, together with its subsidiaries, collectively referred to as the “Group”), in environmental, social and governance in 2020. This report is prepared in compliance with the “Environmental, Social and Governance Reporting Guide” (the “Guide”) under Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

Through multiple discussions and direct communication with stakeholders, the Company understands the core issues of concern to stakeholders and identifies important environmental, social and governance factors, which allows it to formulate corresponding strategies, goals, plans and measures to promote sustainable development of the business of the Company. The key performance indicators in this report are prepared with reference to the relevant calculation standards and methodologies provided in the Guide set forth in Appendix 27 to the Listing Rules, and have avoided selections, omissions, or presentation formats that may inappropriately influence a decision or judgment by the readers.

The Board of the Company seeks to incorporate the practice of sustainable development concepts into the Company’s daily operations, with a view to keep the Company’s overall strategic direction in line with sustainable development targets. The Board of the Company has established a monitoring system to ensure that the corresponding business targets can be achieved and continues to improve the performance of the Company in ESG matters.

The report covers the period from 1 January 2020 to 31 December 2020. The reporting principles of materiality, quantitative and consistency underpin the content of this report.

This report covers the environmental, social and governance initiatives, plans and performances of the Group. Unless otherwise stated, the information involved in this report is derived from the Company’s documents and statistical reports, and monetary amounts are in Renminbi (RMB).

In this report, emission/consumption intensity is calculated by dividing volume of polluting chemicals/waste/type of resource/energy in relevant measurement unit by revenue of the Group in RMB100 million.

1 ENVIRONMENTAL, SOCIAL AND GOVERNANCE OVERVIEW

1.2 ABOUT US

1.2.1 Development history

In 2010, Zhuhai Megain Technology Co., Ltd. (“Zhuhai Megain”), the major operating subsidiary of MEGAIN Holding, was incorporated in the PRC. In 2015, Megain Holding (BVI) established a branch office in Taiwan to principally engage in the research, design, development and sale of compatible cartridge chips. In 2016, the Company was incorporated in the Cayman Islands. In 2017, Zhuhai Megain established a branch office in Shanghai, the PRC to focus on the research, design and development of compatible cartridge chips. In 2019, Zhuhai Megain established a branch office in Hangzhou, the PRC to focus on the research, design and development of compatible cartridge chips. On 31 March 2021, the Company was listed on the Main Board of the Hong Kong Stock Exchange (stock code: 06939).

The Group is one of the leading providers of compatible cartridge chips based in the PRC. The principal functions of a compatible cartridge chip include facilitating communication between a compatible cartridge and the original-brand printer and monitoring cartridge usage. Major products of the Group include ink cartridges for use in inkjet printers and toner cartridges for use in laser printers. According to an independent market research report prepared by China Insights Industry Consultancy Limited, in terms of external sales of products, in 2019 we ranked second in China with the products of the Group having a market share of approximately 11.1%. At the same time, the Group continued to push ahead with product innovation based on market demands. In 2020, we developed 172 new models of compatible cartridge chips and obtained 15 software copyrights and 12 patents. The patents of the Group mainly involve the designs and technologies relating to cartridge chips, including circuit designs, algorithm and firmware installation. In 2020, the Group’s revenue amounted to approximately RMB156.8 million, representing a year-on-year decrease of approximately 0.51%, and profit for the year amounted to approximately RMB28.8 million, representing a year-on-year decrease of approximately 30.4%.

1 ENVIRONMENTAL, SOCIAL AND GOVERNANCE OVERVIEW

1.2.2 Corporate culture and social responsibility perspective

Since its establishment, the Group has always maintained the corporate spirit of “Carry through to the end” and serves customers with the principle of “work with integrity and efficiency and place customers first” and the management philosophy of “provide customers with quality products and services at competitive prices”. The Group’s core values are “ambition, innovation, employee development, giving back to society and trust”. “Ambition” represents the pursuit of excellence, actively seeking improvement while maintaining the Group’s leading position in the cartridge industry. “Innovation” is the spirit of growth of the Group over the years. “Employee development” represents the development opportunities provided by the Group to employees to allow the employees to grow together. “Giving back to society” indicates the Group’s strong sense of social responsibility to support the development of China. “Trust” represents our respect towards employees and how we regard each employee as a partner of the Group. The corporate vision of Megain is to put the “China Dream” into practice, make product innovation and improve service level, as well as to continue to expand the scope and scale of business, keep abreast of the times and be creative. The Group’s employment philosophy is to cherish talents, make good allocation of talents, cultivate talents and retain talents. The Group has a deep-rooted corporate culture and a strong sense of social responsibility.

Corporate Spirit	<ul style="list-style-type: none">• Carry through to the end
Corporate Principle	<ul style="list-style-type: none">• Work with integrity and efficiency and place customers first
Management Philosophy	<ul style="list-style-type: none">• Provide customers with quality products and services at competitive prices
Core Values	<ul style="list-style-type: none">• Ambition, innovation, employee development, giving back to society and trust
Corporate Vision	<ul style="list-style-type: none">• Put the “China Dream” into practice, make product innovation and improve service level• Expand the scope and scale of business, keep abreast of the times and be creative
Employment Philosophy	<ul style="list-style-type: none">• Cherish talents, make good allocation of talents, cultivate talents and retain talents

1 ENVIRONMENTAL, SOCIAL AND GOVERNANCE OVERVIEW

1.2.3 Product innovation

The Group is committed to driving the development of the industry with technological innovation and has established a series of key technologies and inventions in respect of the research and development of chips. In 2020, the Group obtained 12 patents and 15 software copyrights. With the well-established research and development capabilities of the Group in the area of compatible cartridge, we have been able to launch new products proactively with reliable quality. In 2020, the Group developed 172 new models of cartridge chips, with 115 models for desktop laser printers, 16 models for desktop inkjet printers and 41 models for commercial printers. Based on the current situation of launch of new products by the original-brand printer companies, the Group has formulated a research and development plan for the new models of compatible cartridge chips. It is expected that 198, 107 and 303 new products will be launched in 2021, 2022, and 2023, respectively.

The selling price of a new model of compatible cartridge chip depends largely on the speed of research and development. The market players who succeeded in being the first to launch a new product can enjoy a higher selling price with higher profit margin. After the launch of original cartridge chips, the first compatible cartridge manufacturers or independent chip manufacturers who are able to decrypt the original encrypted algorithm and develop compatible cartridge chips without infringing patents will be able to sell at a higher price as the first movers and gain a larger market share before other market participants enter the market. Among the new products launched by the Group in 2020, approximately 84.2% of new models of compatible cartridge chips were launched less than a year after the launch of the original.

1.2.4 Overview of corporate honours

The Group has cultivated the field of cartridge chips for more than a decade, and has established a good corporate image by undertaking our environmental and social responsibilities. In 2020, the Group received multiple awards from different associations in Zhuhai. In April 2020, Zhuhai Megain became the Vice President Unit of Zhuhai Cartridge Association (珠海市耗材協會副會長單位). In May 2020, Zhuhai Megain received the Integrated Circuit Design Enterprise Verification Letter (集成電路設計企業鑒定函) from Zhuhai Software Industry Association (珠海市軟件行業協會). In June 2020, Zhuhai Megain was awarded the title of Guangdong Enterprise of Contractual Performance and Creditworthiness (廣東省守合同重信用企業) for three consecutive years (2017-2019). In September 2020, Zhuhai Megain became the Director Unit of Zhuhai Semiconductor Industry Association (珠海市半導體行業協會理事單位). In November 2020, Zhuhai Megain was awarded the "Top 50 High-tech Enterprises in Comprehensive Innovation Strength in Xiangzhou District in 2019" (香洲區2019年度高新技術企業創新綜合實力50強). In November 2020, Zhuhai Megain became a Member Unit of Zhuhai Xiangzhou District Safety Production Association (珠海市香洲區安全生產協會會員單位).

1 ENVIRONMENTAL, SOCIAL AND GOVERNANCE OVERVIEW

The following are the major honours received by Zhuhai Megain, the business entity of the Group, in 2020:



In 2019, Zhuhai Megain was recognised as a High and New Technology Enterprise (高新技术企業) for a term of three years.



In April 2020, Zhuhai Megain was granted the title of “Vice President Unit of Zhuhai Cartridge Association” by Zhuhai Cartridge Industry Association (珠海市耗材行業協會).



In May 2020, Zhuhai Megain received the “Integrated Circuit Design Enterprise Verification Letter” from Zhuhai Software Industry Association.



In June 2020, Zhuhai Megain was awarded the title of “Guangdong Enterprise of Contractual Performance and Creditworthiness” by Zhuhai Administration for Market Regulation for three consecutive years (2017-2019).



In September 2020, Zhuhai Megain was granted the title of “Director Unit of Zhuhai Semiconductor Industry Association” by Zhuhai Semiconductor Industry Association.



In November 2020, Zhuhai Megain was awarded the “Top 50 High-tech Enterprises in Comprehensive Innovation Strength in Xiangzhou District in 2019”.



In November 2020, Zhuhai Megain was granted the title of “Member Unit of Zhuhai Xiangzhou District Safety Production Association” by Zhuhai Xiangzhou District Safety Production Association.

1 ENVIRONMENTAL, SOCIAL AND GOVERNANCE OVERVIEW

1.2.5 Stakeholders

Maintaining communication with stakeholders plays an important role in the Group's sustainable development. The Group's stakeholders include the government, shareholders and investors, customers, suppliers, employees, the environment, communities and the public as well as the charitable organizations etc. The Group actively maintains communication with various stakeholders through various channels to actively know about their opinions and expectations on the Group's sustainable development performance.



1 ENVIRONMENTAL, SOCIAL AND GOVERNANCE OVERVIEW

Stakeholders	Expectations and Requirements	Ways of Communication
Government	Obey the law and pay taxes according to law Drive the local employment Promote local economic and social development	Receive supervision and review Report the work regularly Attend related meetings Engage in information declaration
Shareholders and Investors	Return on investment Ensure open and transparent information disclosure Secure the rights and interests of shareholders	Report the business situation regularly Organize investor communication activities actively Disclose announcements and periodic reports
Customers	Provide high-quality products Provide premium services Protect rights and interests	Set up multiple communication channels to understand customer needs and opinions Disclose relevant information
Suppliers	Maintain good business relation Manage justly, fairly and openly Operate with integrity and perform in a timely manner Involved in mutual help and benefit	Conduct strategic cooperation Establish and improve bidding and procurement management Engage in communication activities regularly Disclose relevant information
Employees	Receive competitive salary and benefits Get fair promotion and development Boost competence Ensure health and safety Good work environment	Establish comprehensive employee management system Launch training activities actively Strengthen employee communication through multiple channels Care for employees with hardship Carry out employee activities Disclose relevant information

1 ENVIRONMENTAL, SOCIAL AND GOVERNANCE OVERVIEW

Stakeholders	Expectations and Requirements	Ways of Communication
Environment	Engage in energy conservation and emission reduction Conserve resources Involved in ecological protection and restoration	Develop green products Promote clean production technology Utilize waste water and waste comprehensively Enhance energy-efficient awareness education Strengthen information disclosure
Community and Public	Ensure safe operation of business Serve community development Safeguard social stability	Regulate business management Reinforce the community interaction Disclose relevant information
Charitable organizations	Care for the vulnerable group Espouse public causes	Organize public activities actively Disclose relevant information

2 ENTERPRISE ENVIRONMENTAL PERFORMANCE ANALYSIS

2.1 ANALYSIS OF ENTERPRISE EMISSIONS

The Group adheres to the path of green development, conscientiously implements various national environmental protection policies, and focuses on long-term development to achieve sustainable business growth. The Group strictly manages its emissions to the environment and adopts new technologies and equipment to achieve the goal of energy conservation and emission reduction. The Group strictly abides by the relevant laws, regulations, standards and provincial, municipal, and local environmental protection management measures regarding exhaust and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous wastes, which may have a significant impact on the Group, including but not limited to the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), Air Pollution Prevention and Control Law of the PRC (《中華人民共和國大氣污染防治法》), Water Pollution Prevention and Control Law of the PRC (《中華人民共和國水污染防治法》), Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Wastes (《中華人民共和國固體廢物污染環境防治法》), Law of the PRC on the Prevention and Control of Environmental Noise Pollution (《中華人民共和國環境噪聲污染防治法》), Integrated Wastewater Discharge Standard (《污水綜合排放標準》) (GB8978-1996).

2.1.1 Related indicator analysis of enterprise emissions

Total waste gas emissions and intensity of enterprise

The Group's emission of exhaust gas is mainly from the combustion of gasoline in motor vehicles. The exhaust gas emitted from combustion of relevant fossil fuels mainly includes pollutants such as nitrogen oxides (NOx), sulfur oxides (SOx) and suspended particulate matter (PM). In 2020, the Group emitted a total of about 0.02 tons of exhaust gas, with an emission intensity of about 0.01 ton/RMB100 million.

The following table shows the Group's emissions by type of exhaust gas in 2020:

Type of Exhaust Gas	Emission (kilogram)
Nitrogen oxides (NOx)	22.21
Sulfur oxides (SOx)	0.03
Suspended particulate matter (PM)	2.10
Total	24.34

2 ENTERPRISE ENVIRONMENTAL PERFORMANCE ANALYSIS

Total greenhouse gas emissions and intensity of enterprise

The Group generates greenhouse gas mainly from the combustion of gasoline in motor vehicles and electricity consumption in operation. The emission of greenhouse gas includes direct emission of greenhouse gas and indirect emission of greenhouse gas. In 2020, the Group's total greenhouse gas emissions were approximately 240.01 tons of carbon dioxide equivalent, and its emission intensity was approximately 153.08 tons of carbon dioxide equivalent/RMB100 million.

The following table shows the Group's emissions by greenhouse gas type and source in 2020:

Direct Greenhouse Gas Emissions

Type of Greenhouse Gas	Emissions (Tons of Carbon Dioxide Equivalent)	Emission Intensity (Tons of Carbon Dioxide Equivalent/ RMB100 million)
Carbon dioxide (CO ₂)	5.21	3.32
Methane (CH ₄)	0.01	0.01
Nitrous Oxide (N ₂ O)	0.76	0.48
Total	5.98	3.81

Indirect Greenhouse Gas Emissions

Indirect Emissions Sources	Emissions (Tons of Carbon Dioxide Equivalent)	Emission Intensity (Tons of Carbon Dioxide Equivalent/ RMB100 million)
Use of power resources	221.85	141.50
Other indirect emissions	12.18	7.77
Total	234.03	149.27

Note: Direct greenhouse gas emissions mainly include greenhouse gas generated by the Group's self-owned vehicles and equipment. Other indirect emissions include greenhouse gas emissions indirectly generated by the use of water resources, paper consumption, and travel by employees.

2 ENTERPRISE ENVIRONMENTAL PERFORMANCE ANALYSIS

Total discharge and intensity of enterprise wastewater and solid waste

In 2020, the Group did not generate any toxic and hazardous waste, whereas it discharged a total of approximately 260.00 tons of wastewater with emission intensity of approximately 165.83 tons/RMB100 million. It also discharged a total of 1.31 tons of solid waste, with a discharge intensity of 0.83 tons/RMB100 million. Among them, solid waste is mainly office paper.

The following table shows the Group's discharge by type of waste in 2020:

Type of Waste	Discharge (ton)	Emission Intensity (ton/RMB100 million)
Liquid waste		
Wastewater	260.00	165.83
Non-hazardous solid waste		
Office paper	1.31	0.83
Total	261.31	166.66

All wastes discharged by the Group are properly treated in accordance with relevant national environmental protection policies and regulations. The wastewater generated by the Group is discharged to the water purification plants after pre-treatment measures to realize the recycling and reuse of wastewater. The non-hazardous waste is handled by the relevant environmental protection department.

Enterprise's method of processing hazardous and non-hazardous waste, measures to reduce its production and the results

The Group attaches great importance to environmental protection, energy conservation and emission-reduction, and timely disposal of hazardous and non-hazardous waste. In terms of specific measures, the sewage would be disposed by the Group to the water purification plants to prevent wastewater from polluting the environment; the abandoned chips are handed over to the renewable resource recycling and registration unit for recycling, which reduces the impact of waste on the environment; the non-recyclable packaging materials are reused by the suppliers, saving packaging costs and reducing packaging waste at the same time.

Meanwhile, the Group promotes a paperless office. The Human Resources and Administration Department uniformly plans and controls the office paper usage of each department. It reduces waste through centralized purchase and concentrated control. When employees are dealing with non-important tasks and need to use paper, they should try to ensure that the paper is used on both sides. All office documents of the Group are mainly recorded in electronic form. For the Group's internal and external communication, paperless office is preferred, and the information platform is fully utilized for communication.

2 ENTERPRISE ENVIRONMENTAL PERFORMANCE ANALYSIS

2.2 ANALYSIS OF ENTERPRISE'S USE OF RESOURCES

2.2.1 Enterprise's main resources consumption structure

The Group advocates saving resources and energy, reducing the consumption of energy and raw materials, and strengthening energy management to improve the level of reasonable energy use, thereby reducing energy consumption and raw materials consumption of engineering projects, and enhancing the recycling of energy and resources in the production process. In 2020, the Group consumed a total of approximately 2,209 liters of gasoline, approximately 316,923 kWh of electricity, and approximately 2,563 tons of water.

The following table shows the Group's various types of resources consumption in 2020:

Type of Resources	Unit	Consumption
Gasoline	Liter	2,209
Electrical energy	kWh	316,923
Water	Ton	2,563

The following table shows the Group's various types of resources consumption intensity in 2020:

Type of Resources	Unit	Consumption Intensity
Gasoline	Liter/RMB100 million	1,409
Electrical energy	kWh/RMB100 million	202,141
Water	Ton/RMB100 million	1,635

Note: The consumption of gasoline mainly includes the consumption by the Group's self-owned vehicles and equipment.

2 ENTERPRISE ENVIRONMENTAL PERFORMANCE ANALYSIS

2.2.2 Effective measures for energy use implemented by the enterprise and achievement

– Comprehensive implementation of the Management Measures for Water, Electricity and Paper Conservation (《節約用水用電用紙管理辦法》)

In 2020, the Group fully implemented the Management Measures for Water, Electricity and Paper Conservation to strengthen energy management, improve the level of reasonable energy use, and reduce energy consumption in order to reach the goal of energy saving and emission reduction. The Group regularly collected statistics on water consumption, formulated and strictly implemented the reasonable and effective water-saving measures for workplaces with large amounts of water consumption. The Group also regularly reviews the configuration of lighting facilities, and adjusts the number of fluorescent lamps and the installation distance of fluorescent lamps in accordance with the actual lighting needs of the office, so as to ensure that while meeting office requirements, electricity consumption can be reduced as much as possible. At the same time, the Group strengthened publicity and education by posting slogans about water and electricity conservation at various premises where water and electricity are consumed, and posting reminders such as saving water and turning off the lights when leaving the premises to enhance employees' awareness of water and electricity conservation.

2.2.3 Enterprise's methods of seeking water sources that is fit for purpose, water efficiency improvement plans and achievement

The Group sought water source that is fit for purpose in accordance with the relevant national environmental protection policies, laws and regulations, without generating any issues in seeking water source that is fit for purpose.

In 2020, the Group's total water consumption was approximately 2,563 tons, and the energy consumption intensity was approximately 1,635 tons/RMB100 million. While the Group's business scale has grown steadily, the water intensity and water efficiency have remained at a relatively stable level to achieve water conservation and efficient water use.

2.2.4 The total amount of packaging materials used for the enterprise's finished products

The packaging material of the Group's products is mainly plastic. In 2020, the packaging material of finished goods used by the Group totalled approximately 2.69 tons of plastic.

2 ENTERPRISE ENVIRONMENTAL PERFORMANCE ANALYSIS

2.3 ANALYSIS OF ENTERPRISE ENVIRONMENT AND NATURAL RESOURCES

2.3.1 Analysis of the significant impact of enterprise business activities on the environment and natural resources and related measures

The Group conducts business operations in accordance with relevant national environmental protection policies and emission requirements, and strictly treats the emissions and pollutants generated. All produced emissions and pollutants are recorded with detailed testing and records, which meet the requirements of relevant national environmental protection regulations and emission regulations, and have no significant impact on the environment and natural resources.

The Group has no significant impact on the environment and natural resources in the course of its business activities. Minimal noise is produced during the business activities of the Group, which has no impact on the environment when insulated by doors and windows. The Group does not create any dusts during its business activities and the small amount of solid waste generated is transferred to professional companies for treatment. There is no wastewater produced during production process and other wastewater is primarily domestic sewage which is handled by sewage treatment plants.

Significant climate-related issues have no significant impact on the Group's production and living. The risk management system of the Group is conducive to the Group's tackling the natural disasters. The business activities of the Group are mainly vulnerable to extreme weather such as typhoons and rainstorms. In response to relevant risks, the Group has formulated a risk management system whereby we will pay attention to weather forecasts at all time and have a timely grasp of the climatic change. Focusing on all kinds of extreme climatic conditions, we will issue relevant announcements in advance within the Group to notify our staff of climatic changes and all kinds of preventive measures.

3 CORPORATE SOCIAL RESPONSIBILITY ANALYSIS

3.1 ANALYSIS OF CURRENT EMPLOYMENT SITUATION IN ENTERPRISE

3.1.1 Overview of employees and employment criteria

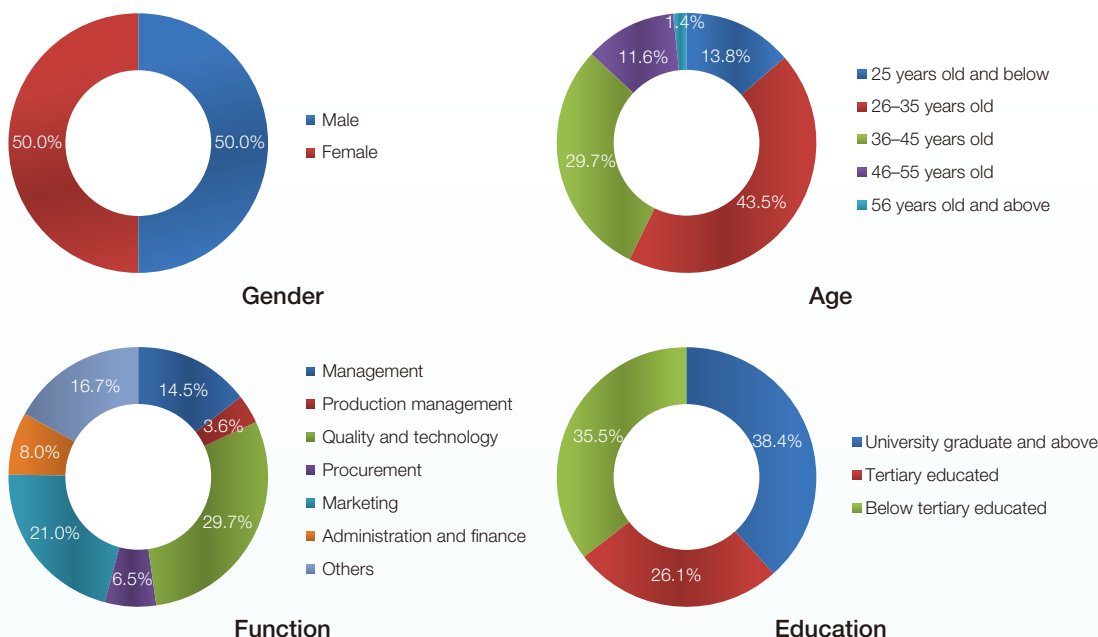
The Group strictly abides by various laws and regulations such as the Labor Law (《勞動法》) and Labor Contract Law of the PRC (《勞動合同法》). The Group has developed an optimized human resources management system, and clearly stipulates the rights and obligations of employees in the Employee Manual. The Group has formulated a scientific and reasonable compensation system and administrative measures for job titles and awards so as to effectively motivate employees to work. The Group contributes to pension insurance, medical insurance, unemployment insurance, work injury insurance, maternity insurance and housing provident fund for employees in accordance with the law. Meanwhile, the Group maintains labor insurance and national health insurance for our employees in Taiwan in accordance with the law. The working hours of employees meet the requirements of relevant national laws, and at the same time they also enjoy the required rest and vacation in accordance with the law. The Group organizes various cultural and recreational activities for our employees on an irregular basis every year, actively providing care and assistance to employees and safeguarding the legitimate rights and interests of employees.

The Group adheres to the recruitment principle of “meticulous planning and organization, all-round scientific assessment, discovery of talents, stringent selection of best candidates for employment and quality before quantity”, while the human resources and administration department will carry out recruitment in batches and recruitment for individuals on an irregular basis according to the corporate business development needs and department needs. During the actual recruitment process, methods such as online public recruitment and employees’ referral are usually adopted. The probation period for new employees is generally 2 months depending on the signed labor contract. All new employees will be assessed and evaluated by the human resources and administration department during their probation period to decide whether they can become permanent staff. In order to better familiarize new employees with our corporate environment and business, the Group requires all new employees to participate in induction sessions organized for new hires. At the same time, the Group’s employee dismissal process strictly follows various staffing related national laws and regulations such as the Labor Law and the Labor Contract Law.

3 CORPORATE SOCIAL RESPONSIBILITY ANALYSIS

Working staff by key indicators

Proportion of employees in the Group by main indicators in 2020



As of 31 December 2020, the total number of in-service employees of the Group was 138.

By gender, the male and female distribution of in-service employees of the Group is equal, with the number of male and female both being 69. The legitimate rights and interests of female employees are protected, as the Group strictly implements the State's Provisions on Labor Protection for Female Employees (《女職工勞動保護規定》) and Special Provisions on Labor Protection for Female Employees (《女職工勞動保護特別規定》) to ensure that female employees enjoy due vacations and insurance in accordance with the law. By age group, the Group has a reasonable distribution of in-service employees at all ages. While focusing on injecting fresh energy into its workforce, the Group cherishes employees with work experience. By function, the Group's employees of quality technology and production management account for 33.3% of the total, providing talent guarantee for the Group to export high-quality products. In the event that our employees suffer from personal injuries, occupational diseases and other accidents due to work reasons, they are entitled to work-related injury compensations after they are diagnosed at a designated hospital for medical insurance and obtain an approval and go through the procedures at the human resources and administration department. By education structure, the Group's employees who are university graduates and above account for 38.4% of the total, showing a high scientific literacy and cultural level holistically.

3 CORPORATE SOCIAL RESPONSIBILITY ANALYSIS

Employment turnover by key indicators

As of 31 December 2020, the Group's total employee turnover during the Reporting Period was 26, accounting for approximately 18.8% of the total number of employees in service. Among them, the number of employees lost in the marketing function was 11, the number of employees lost in the others function was 11, and the number of employees lost in the administration and finance function was 2, totaling about 92.3% of the employee turnover.



Employee caring activities

3.1.2 Overview of employee health and safety

The Group pays great attention to the health and safety of employees, and strictly abides by the relevant laws and regulations such as the Labor Law (《中華人民共和國勞動法》), the Fire Protection Law (《中華人民共和國消防法》), the Occupational Disease Prevention and Control Law (《中華人民共和國職業病防治法》) of the PRC, the Regulations on Occupational Health Supervision and Management in the Workplace (《工作場所職業衛生監督管理規定》), and the Work Injury Insurance Regulations (《工傷保險條例》), and strives to create workplace environment with safety, health, and affinity. The Group actively promotes various occupational health and safety management work in place to provide employees with a safe working environment and avoid occupational hazards. On the basis of observing and implementing relevant work safety regulations, systems, and standards, we inspect and urge managers and employees at all levels of the Group to consciously perform safety duties in their work, thereby strengthening the occupational health and safety awareness for all employees. The following are the major measures taken by the Group in 2020 to ensure the health and safety of employees:

– Safety and health training

Based on the laws and regulations such as the Fire Protection Law and the Occupational Disease Prevention and Control Law of the PRC, the Group provides safety and health knowledge and drill training for all employees to raise the occupational health and safety awareness of all staff. In 2020, the Group organized 5 sessions of health and safety related training in aggregate covering 4 issues including fire safety knowledge, safety production knowledge, fire safety drill and safety training. There were 314 participants attending the trainings which spanned approximately 1,085.5 hours. The safety and health trainings not only promoted the safety awareness of all staff but also strengthened the actual safety operational capabilities of our employees.

3 CORPORATE SOCIAL RESPONSIBILITY ANALYSIS

– **Medical checkup for employees**

The Group arranges occupational disease checkups each year for employees who are exposed to occupational hazards. Medical staff conducted detailed screening of medical examination items based on the Occupational Disease Prevention and Control Law of the PRC (《中華人民共和國職業病防治法》) and Technical Specifications for Occupational Health Surveillance (《職業健康監護技術規範》) (GBZ 188-2014), and selected examination categories based on industry characteristics and job differences where the Group is located. The implementation of occupational health examinations has been well received by employees, allowing employees to improve their awareness of prevention of occupational diseases while understanding their health status. In addition, as part of the employees' welfare, the Group organizes regular medical checkups for all staff each year.

– **Environmental monitoring**

In order to regulate the affairs related to environmental and occupational health and safety management and strengthen process control to achieve environmental and occupational health and safety management objectives to ensure the environment and occupational health and safety of employees in production activities, the Group detailed deployment of work procedures such as the signing of safety responsibility certificates, labor protection control, operator certification and safety training management, work and production site design and layout, canteen service staff management, on-site safety management, driver safety management control. The Safety, Health and Environmental Supervision Department is responsible for regularly inspecting the work safety, environmental protection, and prevention and control of occupational diseases in the office, production and living areas of workers, and rectifying any identified safety hazards in a timely manner.

At the beginning of 2020, the unexpected novel coronavirus epidemic posed a serious threat to the health of all people, resulting in a huge loss to the economy and society. To safeguard the health and safety of our employees and ensure the smooth commencement of our work, the Group adopted a series of measures to prevent and control the novel coronavirus.

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– **Establishing a disease prevention working group**

The Group established a disease prevention working group (referred to as the “Working Group”) composed of Mr. Cheng and all department heads. The functions of the Working Group are to (1) formulate a novel coronavirus prevention management policy, which stipulates preventive measures related to employees’ hygiene control and work arrangements; (2) supervise and review the implementation of preventive measures; and (3) strengthen the communication about the novel coronavirus on daily business operations among the employees and the board of directors. The Working Group meets up from time to time to discuss the implementation of preventive measures related to the novel coronavirus, work arrangements and other matters.

– **Other hygiene measures taken**

In accordance with the novel coronavirus prevention management policy, the Group’s offices, industrial workshops and warehouses in mainland China and Taiwan have adopted the following preventive and control measures: (1) the Group distributes epidemic protection products to all employees; (2) offices and vehicles are disinfected daily, while visitors need to register and undergo track query; (3) employees perform body temperature monitoring and registration before work in the morning and after work in the afternoon; (4) employees’ holiday itineraries need to be reported with their activity tracks recorded; (5) there are epidemic prevention control notices (reminders for high-risk areas, and defense measures during the epidemic); (6) employees who need to take public transportation would have special bus transfers to and from work as arranged by the Group; and (7) isolation areas and isolation rooms at dormitories are set up.

In each of the three years ended 31 December 2020, no work-related fatality was occurred in the Group. The Group also did not have any lost day recorded due to work injury for the year ended 31 December 2020.

3.1.3 Overview of staff development and training

The Group has formulated a complete staff training system, processes and measures. Every employee of the Group is included in the training system, which can not only provide pre-job trainings for new employees, but also provide on-the-job training for regular employees. The personnel administration Department arranges pre-employment training for new employees. The main training content includes introduction of the Group, corporate culture, codes of conduct, rules and regulations, business knowledge, career planning, etc. In order to ensure that new employees are familiar with the environment and start business as soon as possible, all new employees need to participate in pre-job training during the probation period. At the same time, in order to improve the work efficiency of each employee and enhance the work effectiveness, the Group encourages each regular employee to participate in training courses related to the Group’s business, establish training records, and use these records as part of the employee’s work ability assessment.

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In 2020, the Group carried out training on 22 different topics, including induction training, chip knowledge training, fire safety exercises, remanufactured cartridge code modification chips, and patent infringement matters. Multi-dimensional training content are made available, including the Group's corporate culture, professional skills, general skills, safety skills, patent rights protection, etc. Diversified forms of training were adopted, including face-to-face training, video training, group interaction, and hands-on drills. A total of 611 participants joined the training throughout the year, and the total training time was about 1,982 hours. Through training, the Group provides employees with a full range of resources to support their continuous growth and promote the continuous development of the Group.



Employee trainings

3.1.4 Standards and measures for preventing child or forced labour

The Group strictly abides by the relevant legal requirements such as the National Law on the Protection of Minors (《未成年人保護法》) and Regulations on Prohibition of the Use of Child Labor (《禁止使用童工規定》) to avoid any use of child labor or forced labor in business operations, and maintains its attitude and stances of zero tolerance for any form of child labor and forced labor. We also require this phenomenon to be eliminated in reviewing the qualifications of suppliers.

3 CORPORATE SOCIAL RESPONSIBILITY ANALYSIS

3.2 ANALYSIS OF OPERATION AND MANAGEMENT

3.2.1 Overview of supply chain management

The Group is mainly engaged in the research and development of cartridges and chips. It is located in the middle of the industrial chain and has close ties with upstream and downstream entities. The Group purchases a wide range of raw materials, including upstream chemical raw materials, powder ink, electronic components, machinery and equipment, etc. In 2020, the Group cooperated with 42 raw material suppliers, including 37 domestic suppliers, and 5 overseas suppliers. Based on the concept of win-win cooperation with suppliers, the Group strives to help improve the corporate social responsibility management capabilities of the supply chain, reduce the risks that the supply chain brings to us, ensure the stability of production and operation, and ensure the quality of service to customers.

The Group has made clear regulations on the selection and management of suppliers to ensure proper supplier management and selection. In the selection of suppliers, the Group would fully consider the following factors: whether the supplier is a legal production and operation enterprise approved by the relevant state departments, and abides by national and local laws and regulations; whether the supplier's products meet the quality requirements and pass the relevant tests; whether the supplier has the appropriate technical ability, economic ability, delivery ability, long-term supply ability and good social reputation; whether the supplier has the relevant environmental protection certificate to reduce the potential environmental and social risks in the supply chain.

The Group signs a Supplier's Environmental Directive Commitment (《供應商環保指令承諾書》) and an Environmental Agreement (《環境協議》) with each supplier to ensure that the products and raw materials provided by suppliers meet the requirements of national, local, and industrial environmental protection laws and regulations, that minimized environmental pollution is caused during production, storage and transportation of the products supplied, and that the excessive pollutants (waste water, exhaust gas, solid waste, noise, etc.) discharged during the production process meet the national emission standards. For companies that do not comply with the rectification or refuse to rectify, which may cause serious pollution or enterprises that have caused major environmental pollution incidents, the Group has the right to terminate the contract and cease cooperation.

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3.2.2 Overview of product liability

The Group adheres to the path of safety research and development, intelligent manufacturing, and green development, while paying attention to the green and environmental protection of products. We are committed to providing customers with high-quality products, and continuously optimize the service system, and is dedicated to providing customers with services of the best quality. The Group strictly abides by the relevant laws and regulations that have a significant impact on the Group in terms of the health and safety of the products and services provided, advertising, labeling and remedial methods, including but not limited to the Product Quality Law of the PRC (《中華人民共和國產品質量法》), Production Safety Law of the PRC (《中華人民共和國安全生產法》), Advertising Law of the PRC (《中華人民共和國廣告法》) and Trademark Law of the PRC (《中華人民共和國商標法》). During the reporting period, the Group did not have any lawsuits in relation to the violation of the above-mentioned laws and regulations related to product and service health and safety, advertising, labeling and remedies. Among the products sold by the Group in 2020, there were no products that needed to be recalled due to safety and health issues. In 2020, the Group experienced 5 customer complaints due to the upgrade of the original manufacturer. The Group identified the problem in time, solved it properly, and helped the customers to upgrade the product.

– Product quality management and appraisal

The Group takes the ISO9000 quality management system established by the International Organization for Standardization as a guide, and follows the requirements of “inspection control procedures” and “non-conforming control procedures” to conduct quality management and appraisal of products, and clearly control all processes that may produce substandard products. We isolate and dispose of the unqualified products produced, and through institutionalized data analysis, find the root causes of the unqualified products, and prevent the occurrence or recurrence of the unqualified products through corrective or preventive measures, so as to continuously reduce the Group’s poor quality costs. Through other ongoing improvement activities to continuously boost the effectiveness and efficiency of the quality management system, we achieve continuous reduction of the Group’s costs and continuous growth of profits.

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– Relevant measures to ensure product quality

The Group has passed the ISO9001 quality management system and ISO14001 quality environmental management system certification, and strictly implements the standard requirements to ensure product safety and quality. The Group's product quality policy is "Quality, Service, Technology and Innovation". Following the quality policy, the Group has established a product quality control system from business philosophy (corporate purpose) to work policy, work objectives, procedures and programs, measures, monitoring and self-improvement to ensure product quality. We fully implement the quality management responsibility system, strengthen quality management of the processes, ensure that the Group's product quality meets the standard specifications and customer and design requirements, and prevent the occurrence of quality incidents.

– Management of intellectual property

The Group has implemented intellectual property strategies, and put focus on research and development of new products and cultivation of major technological achievements. In 2020, the Group has obtained 12 patents and 15 software copyrights. Leveraging the well-established research and development capabilities in the area of compatible cartridge, the Group has been launching new products with reliable quality proactively. The Group developed 172 new models of compatible cartridge chips in 2020, including 115 for the desktop laser printers, 16 for the desktop inkjet printers and 41 for the commercial printers.

To regulate the patent-related works of the Group, facilitate enterprise technological innovation and establish enterprise's own intellectual property, promote advancement in production techniques and enhance the market competitiveness and economic return of the Group, we have formulated our own management system on intellectual property in accordance with regulations including the Patent Law of the PRC (《中華人民共和國專利法》), the Implementation Rules of Patent Law of the PRC (《中華人民共和國專利法實施細則》), the Collective Management of Copyright Regulations (《著作權集體管理條例》), the Trademark Law of the PRC (《中華人民共和國商標法》), the Regulation for the Implementation of the Trademark Law of the PRC (《中華人民共和國商標法實施條例》), the Copyright Law of the PRC (《中華人民共和國著作權法》), the Regulations for the Implementation of the Copyright Law of the PRC (《中華人民共和國著作權法實施條例》) and the Regulation on Computers Software Protection (《計算機軟件保護條例》), and in view of the actual situation of the Group. The Group aims at strengthening management of technological innovation efforts, including technical development and technical improvement, new techniques promotion and application and achievement management, regulating management of intellectual property, enhancing management level of technological innovation, motivating enthusiasm and creativity of technical staff and raising the Group's self innovation capacity and technology advancement level. With an acceleration in translating technological advancement to productivity, we put great effort to build up the enterprise's core competitiveness.

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3.2.3 Brief analysis of anti-corruption measures of the Group

The Group has formulated anti-corruption and anti-fraud code of conduct and management system through its staff manual. All staff members of the Group are strictly prohibited from secretly receiving or presenting valuables, shopping cards, cash gift, etc. from or to lessees, equipment suppliers and other related persons. It is strictly forbidden to conduct fund payment procedures without complying rules of the Group. Behaviors including fraud, bribery, forgery, extortion, corruption, theft, collusion, embezzlement, misappropriation, misstatement and concealment of material facts and collusion are strictly prohibited.

Anyone who is found to have privately accepted and presented valuables, shopping cards and cash gifts in business activities, depending on the circumstances and value, will be subject to corresponding administrative penalties by the Group such as fines, salary reduction and dismissal. For violations of the criminal law, such cases would be referred to prosecution authority of the government by the Group. When approving various documents, the head of each business departments should check all the key documents provided by stakeholders such as information, certificates, warrants, statements, contracts, etc., to prevent possible fraud. When it is found that the information, certificates, warrants, statements and contracts provided by customers and other related parties are obviously inconsistent with the actual situation and pose a risk of loss to the Group's funds and property, the relevant business should be suspended until the facts are clarified and the risks are eliminated. When customers and other related parties are found to be suspected of fraud and criminal acts, they should report to the police immediately.

In 2020, cases such as corruption, bribery, extortion, fraud and money laundering did not occur in the Group.

3 CORPORATE SOCIAL RESPONSIBILITY ANALYSIS

3.3 OVERVIEW OF INVESTMENT IN COMMUNITY

The Group has actively promoted the construction of a harmonious society and continuously strengthened the connection with the community where it is located. On 10 October 2020, the Group participated in the first 2020 “Chancheng Cup” (禪城杯) Men’s Basketball Tournament held at Sanxi Science and Innovation Town (三溪科創小鎮). On 21 November 2020, the Group participated in the first 2020 Zhuhai “Juxing Cup” (聚星杯) Men’s Basketball League held at the Teng He Qi Sports Centre (滕賀麒運動中心) (12 Factory Cultural District, 18 Guang Yuan Road, Tanzhou Town (坦洲鎮廣源路18號十二廠文化區)). In December 2020, the Group participated in the 2020 “Star Mamba Cup” (星曼巴杯) Men’s Basketball Tournament held at the AllStar Basketball Park.



Basketball Tournament

The Group always takes it as an important mission to pay back the society and fulfill social responsibilities. While improving its business operation, the Group has avoided causing disturbance to the nearby community during the operation activities. We also tried our best to pay back to the society, extend our care to the community and practice social responsibilities. In December 2020, our marketing staff, Gu Weixin (古衛新), Luo Yuanyuan (羅媛媛) and Guo Jiaqiang (郭家強), visited the Children’s Home on behalf of the Group and donated drinking water, toys, stationeries and other materials to the children.



Visiting the Children’s Home