



Shenguan Holdings (Group) Limited

(incorporated in the Cayman Islands with limited liability)

Stock Code: 00829



Environmental, Social and Governance Report

2020



CONTENTS

About This Report	2
Reporting Standards	2
Reporting Scope	3
Message from the Chairman	4
Summary of Key Environmental, Social and Governance Performance	5
Professional Certification and Group Honors	6
Environmental, Social and Governance Structure	7
Stakeholder Engagement	8
Materiality Assessment	9
Industry Optimization	12
Care for Employees	20
Environmental Protection	31
Community Investment	41
Summary of Statistics	44
Index of the Guide	48

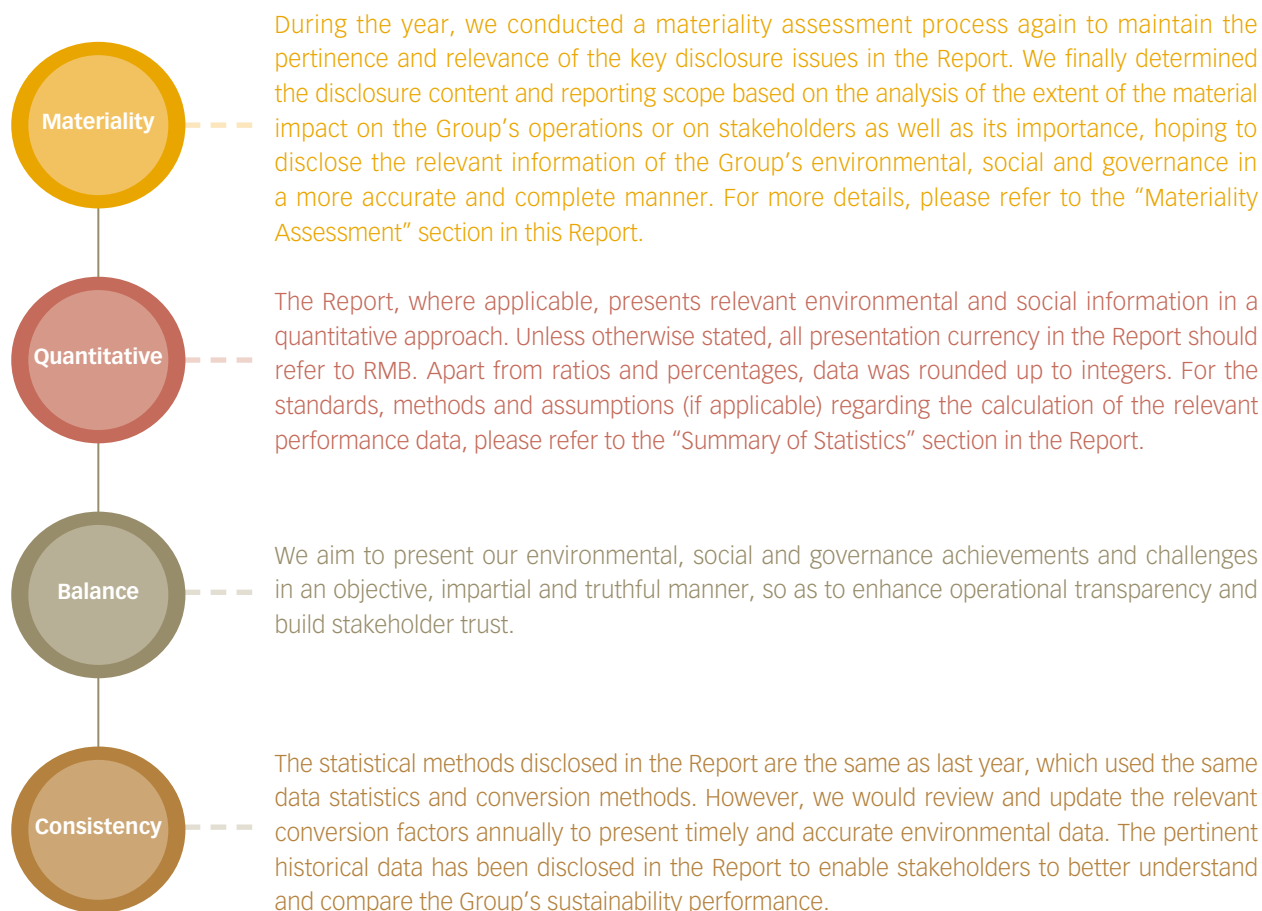
ABOUT THIS REPORT

Shenguan Holdings (Group) Limited (the “Company”, together with its subsidiaries, the “Group”, “we”, “Shenguan Group”) is an enterprise established in the People’s Republic of China (the “PRC”) and specialised in utilising collagen. We are committed to the development and application of collagen technologies. We hope that through the annual release of the Environmental, Social and Governance Report (the “Report”), we can enable each stakeholder to understand the Environmental, Social and Governance policies, measures and performances of the Group, and continue to maintain good communication with stakeholders, promote and implement the sustainable development vision and strategy to achieve our sustainable development growth strategically.

REPORTING STANDARDS

The Report is prepared based on the Environmental, Social and Governance Reporting Guide (the “Guide”) listed in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). We are also prepared for the disclosure in advance of the revised guidelines issued by the Stock Exchange in December 2019.

The Report is prepared in accordance with the four major reporting principles stated in the Guide, including materiality, quantitative, balance and consistency, aiming to present true, meaningful and accurate environmental, social and governance information of the Group.



REPORTING SCOPE

The Report mainly covers our efforts and achievements in terms of environmental, social and governance aspects from 1 January 2020 to 31 December 2020 (the “Year”, the “Reporting Period” or “the Year of 2020”), including Industry Optimization, Care for Employees, Environmental Protection and Community Investment. The reporting scope includes the principal business of the manufacturing and sales of edible collagen sausage casings, which represented the main operating income of the Group. The subsidiaries involved include Guangxi Shenguan Collagen Biological Group Co., Ltd. (廣西神冠膠原生物集團有限公司) (“Shenguan Collagen Biological”) (formerly known as Wuzhou Shenguan Protein Casing Co., Ltd. (梧州神冠蛋白腸衣有限公司)). As the R&D and production based in Singapore have yet to be officially put into production, therefore, the relevant environmental, social and governance data is not disclosed during the Year.

The Report focuses on the Group’s environmental, social and related governance performance. For more details on corporate governance, please refer to the Corporate Governance Report set out in the latest annual report of the Group.



Ms. Zhou Yaxian
Chairman of the Board and President of our Company

MESSAGE FROM THE CHAIRMAN

The Year of 2020 was an important year for the Group to innovate new products and implement market expansion. Our development depends on insight into the development trend of the industry, in which we continue to innovate and change, respond to market changes actively, achieve breakthrough for innovation, explore new markets vigorously, and create unique market value for the Group. We deeply understand that both environmental and social risks will have a significant impact on the operations of the Group. Therefore, we are committed to integrating sustainable development into our daily operations in order to achieve long-term prosperous business development and meet the expectations of our stakeholders.

For stakeholders who care about sustainable development, especially in the uncertain situation caused by the current COVID-19 outbreak, the performance of sustainable development has becoming increasingly important. We wish to let the public understand the efforts and achievements of Shenguan Group in the environmental, social and governance aspects by virtue of this report.

The Board continues to monitor the environmental, social and governance-related matters, and reviews relevant key performance indicators regularly with the assistance of management. We focus our management on operating standards, employment and labour relations, community investment, and mitigating environmental damage, and setting relevant goals and monitoring progress where feasible, so as to consolidate our commitment to sustainable development.

Important topics in relation to industry optimization continue to be items of concern to the Group and stakeholders. We continue to attach importance to product quality and implement standardized management of products. At the same time, we strengthen personnel training at all levels and the construction of enterprise research and development platforms to continue attracting highly educated technical talents to strengthen the research and development of scientific research projects. In the face of the COVID-19 outbreak, we act in response to the national policy to formulate relevant epidemic prevention and control policies and measures promptly, and do our best to “guard against imported cases and prevent a resurgence of the domestic outbreak” to ensure that we have no imported epidemic cases. In addition, we are committed to increasing the Group’s investment in environmental protection, strengthening the management and recycling of sewage and non-hazardous waste, so as to reduce the impact of our operations on the environment.

We would like to express our heartfelt thanks to all colleagues, customers, partners and stakeholders of the Group for their participation and cooperation in overcoming the impact of COVID-19 outbreak together and assisting Shenguan Group to achieve sustainable operations and fulfil our social responsibility. The environmental, social and governance performance in the Year of 2020 was remarkable. Thanks to everyone for your perseverance and contribution, for continuously providing customers with satisfactory and competitive products and plan for future development blueprints. We look forward to continuing working with you to create a delighted and bright future in the coming year.

SUMMARY OF KEY ENVIRONMENTAL, SOCIAL AND GOVERNANCE PERFORMANCE



Employees receiving training reached

96.4%



Amount invested in social welfare reached approximately RMB

8.80 million



The total training hours for employees reached

77,924 hours



Local procurement representing

98%



Diesel consumption

↓ **14.2%**



Natural gas consumption

↓ **22.2%**



Non-hazardous waste recycling rate

↑ **16.7%**



Emissions of hydrogen chloride

↓ **3.8%**

PROFESSIONAL CERTIFICATION AND GROUP HONORS

The Group is the first enterprise in the PRC to obtain the patent on the invention of edible collagen sausage casings technology and we have a number of patents on inventions granted by the country. During the Reporting Period, the Group has obtained 78 valid patents with 17 patent applications accepted and pending for approval. Our professional achievements have been recognized by government-accredited institutions. Some professional certifications and the Group honors are listed below:

Certificate/Professional Qualification		
ISO 9001 Quality Management System Accreditation Quality Assurance Centre of China Association for Quality	ISO 22000 Food Safety Management System Accreditation Quality Assurance Centre of China Association for Quality	ISO 10012 Measuring Management System Standard Accreditation China Certification Centre for Metrology and Measurement
OHSAS 18001 Occupational Health and Safety Management System Certification Quality Assurance Centre of China Association for Quality	ISO 14001 Environmental Management System Certification Quality Assurance Centre of China Association for Quality	Registration Certificate for Manufacturing Enterprises on Export Food Wuzhou Customs of the People's Republic of China
Awards and Recognition		
National High-Tech Enterprise Science and Technology Department of Guangxi	IUR (Industry-university-research) Integrated Enterprise in Autonomous Region Industry and Information Technology Department of Guangxi	2020 Guangxi Most Competitive Private Enterprise Guangxi Zhuang Autonomous Region Federation of Industry and Commerce, Industry and Information Technology Department of Guangxi Zhuang Autonomous Region
2020 Guangxi Top 100 Private Manufacturers Guangxi Zhuang Autonomous Region Federation of Industry and Commerce	2020 Guangxi Top 100 Private Enterprise Guangxi Zhuang Autonomous Region Federation of Industry and Commerce	Top 10 Packaging Enterprises in China's Meat Food Industry China Meat Association
Guangxi Top 100 High-Tech Enterprises Guangxi High-Tech Enterprises Association, Beijing Great Wall Enterprise Strategy Research Institute	Most Influential Enterprise in Guangxi Meat Food Industry Guangxi Meat Association	National Intellectual Property Superior Enterprise State Intellectual Property Office
Guangxi Leading Industrial Enterprise Industry and Information Technology Department of Guangxi	Cluster of Collagen Technology Talents in Guangxi Department of Human Resources and Social Security of Guangxi	Guangxi Key Foreign Trade Brand Department of Commerce of Guangxi



ENVIRONMENTAL, SOCIAL AND GOVERNANCE STRUCTURE

The Group takes innovation, quality, safety, energy conservation and environmental protection as its development goals. We have established the environmental, social and governance systems to propel sustainable development. A sound environmental, social and governance structure has established a top-down approach to promote the green enterprise development.



Comprehensive Management Manual – A guideline established by Enterprise Management Department, covering product quality, food safety, occupational health and safety, environmental safety, surveying management and intellectual property rights.



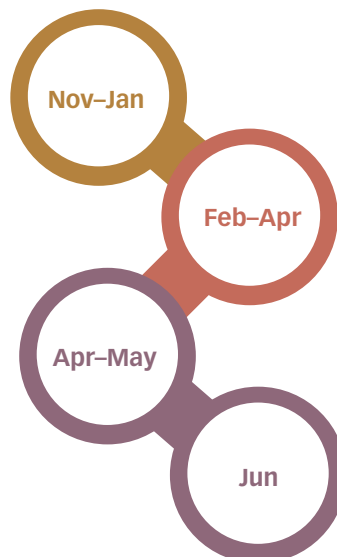
Preparation Process of Environmental, Social and Governance Report

Kick-off Meeting of the Report Compilation

- The Group identified important environmental, social and governance issues, and review the revised guidelines released by the Stock Exchange
- The Group distributed and collected stakeholders' engagement questionnaires and summarized stakeholders' opinions from usual communication channels

Report Finalization

- The information was reviewed and examined by the senior management of the relevant departments
- The Report was finally submitted to the Board for their approval to ensure the validity and accuracy of the content



Information Collection and Selection

- Each department provided relevant information for report, including sustainable development performance and targets. They had the responsibility to determine the accuracy and completeness of the information

Publication

- The Report is published within three months after issuing the annual report. Its preparation schedule will be adjusted starting from the next financial year to meet the requirements of the revised guidelines

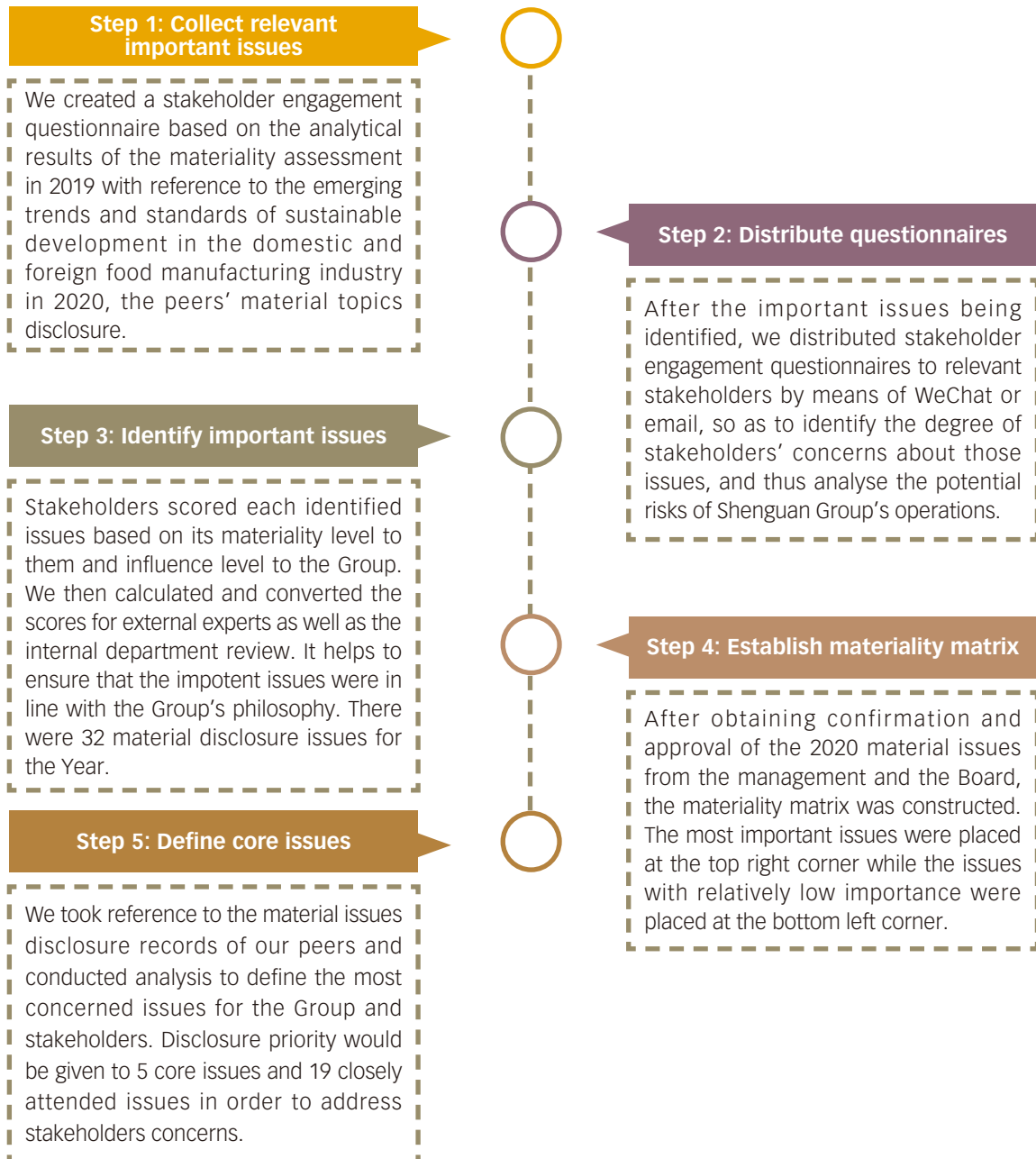
STAKEHOLDER ENGAGEMENT

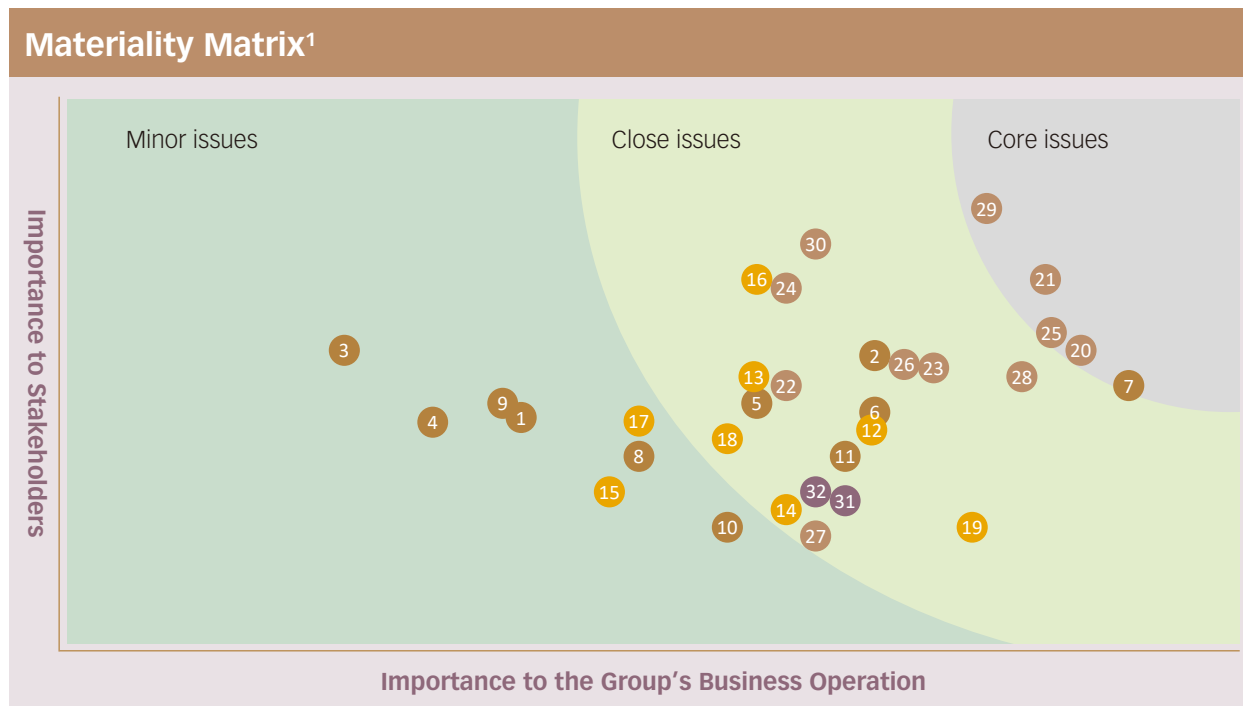
With reference to the five major categories of AA1000 stakeholder engagement standards (responsibility, influence, tension, diverse perspectives and dependency) and the stakeholder classification of our peers, the Group categorizes our stakeholders into five different types, including Employees, Customers, Suppliers and Distributors, Investors and Government and the Public. We attach great importance to the impact of production and operation activities on the environment as well as to the stakeholders from all sectors of the society, and we hope to understand the impact of such stakeholder on the Group's operations. Therefore, through various usual communication channels and annual stakeholder engagement questionnaires, we communicate and interact with stakeholders to have an in-depth understanding of the expectations and needs of our stakeholders, and help the Group adjust its business objectives and strategies in grasping opportunities.

Types of Stakeholders	Significance to Shenguan Group	Communication Channels
Employees	We regard employees as the most important assets of the Group and the cornerstone of corporate growth. Therefore, we value the opinions of each employee. We also hope to create an ideal working environment for them and establish a good labour relation.	Email and communication Intranet Training and activities Assessment and interview
Customers	Customers are the source of Shenguan Group's business foundation. Maintaining customers' trust has become an important issue. We understand the importance of listening to customers' needs and opinions, and timely revise our operation strategies to meet their expectations.	Sales and marketing Customer service hotline Group's official website Customer feedback survey
Suppliers and Distributors	We strictly control product quality. From raw materials provided by suppliers to delivery of finished products to customers, every step is indispensable. We require raw materials handling processes to comply with hygienic and safety standards. We hope to maintain good cooperative relations with suppliers and distributors and select them in an impartial, open, and fair manner to achieve the goals of mutual benefits and sustainable development and growth.	Business conference Investigation and assessment Industry forums Purchase contract
Investors	Shenguan Group is operated under investors' support. We try to understand their standards and suggestions on environmental and social aspects of various operations. For the requirements that they are concerned about, the Group will actively respond, review, and make the improvement, aiming to establish a good investor relation actively.	Financial report General meeting of shareholders Circular and announcement
Government and the Public	The PRC government has been increasingly rigorous in its governance standards for operating institutions, and the Group attaches great importance to the regulations of various government institutions. We strictly abide by various laws and regulations with a positive attitude. The Group also values the opinions of the public. Their concerns or inquiries about the Group's operation can assist us in establishing an appropriate sustainable development policy, which is also a driving force for our continuous growth.	Public consultation Social investment Charity activities

MATERIALITY ASSESSMENT

The Group established the following materiality assessment process to identify relevant environmental, social and governance issues. We rated the importance of these issues to our business and stakeholders.





¹ Some minor issues are included in the core issues and closely attended issues for disclosure, which are: "Customer Safety" and "Product Traceability Management" are included in the "Product Safety Management Processes and Initiatives" section; "Food Nutritional Value" is included in the "Innovation Development and Protection of Intellectual Property Rights" section; "Advertising and Marketing Labels" is included in the "Service Quality Control Mechanism" section; "Working Hours and Holidays" is included in the "Remuneration Package and Benefits" section; "Hazardous Waste Disposal and Management" and "Non-hazardous Waste Disposal and Management" are included in the "Waste Disposal and Management" section; "Adaptation to Climate Change" is included in the "Greenhouse Gas Emissions and Management" section; "Support for Community Development" and "Involvement in Community Activities" are included in the "Social Welfare" section. "Compliance Operation" means that the Group should abide by the laws, regulations, regulatory rules or standards related to the environment, products, employment, occupational health and safety and labour standards. Those laws and regulations and the Group's compliance during the Reporting Period are disclosed in the relevant sections.

Environmental Protection (Chapter 3 of the Report)	Care for Employees (Chapter 2 of the Report)	Industry Optimization (Chapter 1 of the Report)	Community Investment (Chapter 4 of the Report)
1 Air Pollutant Emissions and Management 2 Sewage Discharge and Management 3 Greenhouse Gas Emissions and Management 4 Hazardous Waste Disposal and Management 5 Non-hazardous Waste Disposal and Management 6 Energy Use and Efficiency 7 Water Resource Use and Efficiency 8 Use of Packaging Materials 9 Indoor Air Quality 10 Adaptation to Climate Change 11 Environmental Investment and Resources Reuse	12 Recruitment and Dismissal 13 Remuneration Packages and Benefits 14 Working Hours and Holidays 15 Diversification, Equal Opportunities and Anti-Discrimination 16 Occupational Health and Safety 17 Training and Development 18 Prevention of Child or Forced Labour 19 Labour Relations and Communication	20 Compliance Operation 21 Sustainable Supply Chain 22 Product Traceability Management 23 Customer Safety 24 Service Quality Control Mechanism 25 Data Protection and Privacy 26 Innovation Development and Protection of Intellectual Property Rights 27 Advertising and Marketing Labels 28 Prevention of Corruption and Fraud 29 Product Safety Management Processes and Initiatives 30 Food Nutritional Value	31 Support for Community Development 32 Involvement in Community Activities

01

Industry Optimization

*"Stabilizing quality, stabilizing market,
achieving high-quality development"*

INDUSTRY OPTIMIZATION

Product Safety Management Processes and Initiatives

The Group produces quality collagen products, which are used in food, cosmetics, skincare products, health care products and medical supplies. Therefore, the Group strives to ensure product quality is up to standards, so as to provide secured, high-quality and guaranteed collagen products for consumers. In the sausage casings industry, the Group focuses on improving product quality, perfecting the supporting facilities of various production lines, and comprehensively promoting the technological transformation of production mechanization, automation and intelligence.

The Group and its employees work together to deepen and improve food safety management continuously, monitor every production procedure stringently to ensure that its products reach the best quality and comply with all safety regulations. The Group will update the quality standards regularly in accordance with the regulatory requirements, such as the Food Safety Law of the PRC (《中華人民共和國食品安全法》), the GB14881-2013 the National Standard of Food Safety for the General Hygienic Regulation for Food Production (《GB14881-2013食品安全國家標準食品生產通用衛生規範》), the Food Hygiene Supervision Procedures (《食品衛生監督程序》) and the GB 12695 the National Standard of Food Safety for the Hygienic Regulation for Beverages Production (《GB 12695食品安全國家標準飲料生產衛生規範》), market trends and the finished products that researched and developed. The Group also organizes internal review of the operation of the food safety system and quality control system every year to ensure the effectiveness of the system.



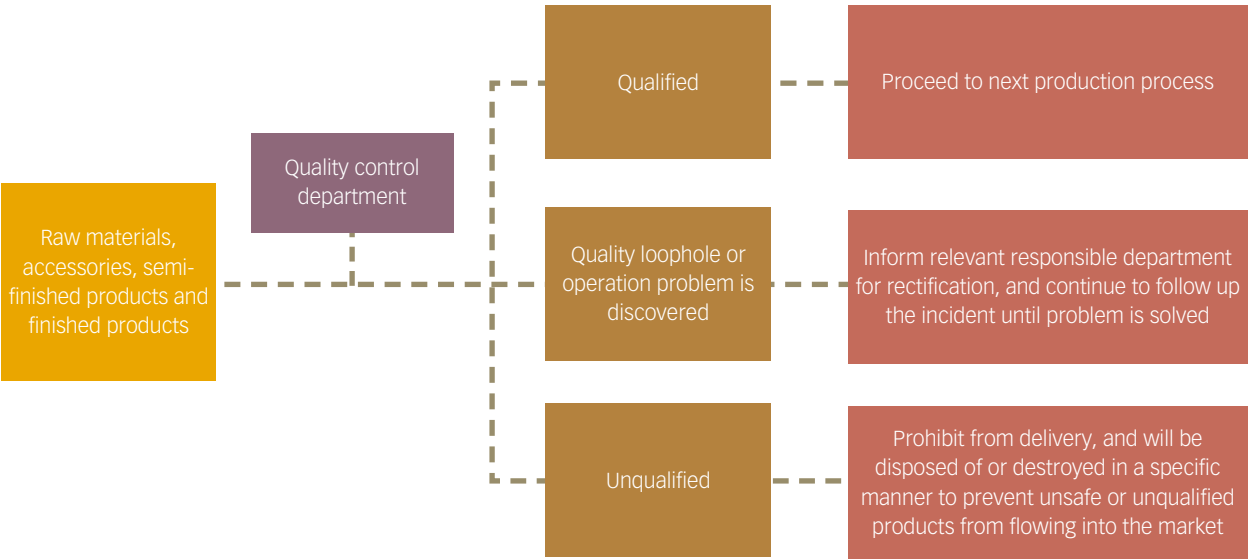
Robotic arm operations in automated workshops

The Group has strengthened its investment in food safety resources (personnel, capital and management), promoted automated workshops actively to ensure and improve product quality, and provided quality production training for employees to ensure that they understand the production operation mechanism and work according to standardized production mode. The Group inspects workplaces, equipment and machinery to avoid potential quality problems caused by improper operation or ageing of spare parts. Inspection staffs are also required to receive regular training to ensure that they are aware of the latest inspection items and requirements and to ensure the effectiveness of quality inspection.

The Group's production and manufacture of collagen sausage casings has passed the certification of ISO9001 Quality Management System, ISO22000 Food Safety Management System, ISO10012 Measurement Management System and ISO14000 Environmental Management System, and has obtained the Food Production Permit and the Filing of Export Food Manufacturers (出口食品生產企業備案證). The Group has also registered with the U.S. Food and Drug Administration for export of sausage casing products to the United States. In addition, the production of all of the Group's sausage casing products have strictly complied with the PRC's national standards (GB14967-94), sausage casing manufacturing industry standards (SB/T10373-2012) and the filed corporate standards (Q/WZSG0001S-2012). All these certifications are the recognition of the Group as a trustworthy product supplier to its customers.

In addition, the Group has established a stringent quality control system and set up a quality control department to maintain product quality. The quality control department will take part in the entire production and sales process, inspect raw materials, accessories and finished products respectively and formulate specific inspection procedures for various raw materials, accessories and finished products to ensure our raw materials, accessories and finished products are meeting the quality standards of national regulations.

Safety inspection procedures for raw materials, accessories, semi-finished products and finished products



In general, the Group will ensure product quality and food safety through procedures such as supplier management, raw materials purchase inspection, production process control, and finished products delivery inspection. The food raw materials traceability system we established can track and trace the three directions from raw materials tracking to finished products delivery flow, finished products traceability to relevant raw materials information, and finished products flow direction tracking. In accordance with the relevant traceability and recall management measures, the Group implements multiple products traceability and recall exercises every year to achieve food safety information that can be traced in forward direction, traceable in reverse direction, process is controllable, and accountability is accountable.

Sustainable Supply Chain

The Group understands very well that customers and suppliers are the keys to the Group's sustainable development. The Group is committed to establishing close and caring relationships with its suppliers and customers and maintaining continuous communication with customers and suppliers through various channels for feedback and advice.

Adhering to the procurement strategy of fairness, impartiality and openness as well as comparison among various suppliers, we will assess the eligibility of suppliers according to factors such as legal qualifications, production scale, supply capacity, price advantage, quality assurance, after-sales service, environmental management system and social responsibility. For example, provided the quality assurance is satisfied, priority will be given to suppliers which implement environmentally-friendly measures and employ disabled workers. We will review major suppliers annually and conduct on-site assessments. If a supplier fails to pass the assessment, we will suspend using such supplier to ensure that the overall products and services meet the quality requirements and the principles of sustainable development, and avoid the negative impact on quality and safety of products.

The Group closely monitors the potential impact of the COVID-19 outbreak on the supply chain, such as the quarantine and lockdown measures in different provinces and cities and potential risks of virus transmission. During the epidemic, the Group's raw material supply was stable. In order to prevent the virus from spreading, we implemented a series of epidemic prevention measures, including but not limited to the management of external personnel. For details, please refer to the "Occupational Health and Safety" section.

Number of suppliers²



Suppliers in PRC
in 2020:

65

In addition, the Group advocates local procurement to reduce our carbon footprint. The Group will hold supplier seminars from time to time to advocate the Company's green procurement policies, assist suppliers to implement energy conservation and environmental protection policies, and integrate into a green supply chain in serving customers.

Data Protection and Privacy

The Group respects personal data and privacy of customers. All personal data are collected for sales services purpose only. The Group has developed clear customer data management guidelines to regulate the collection, storage, access, use as well as deletion and modification of customer data. Customer information will not be collected before receiving customer consent, and all personal data will be stored in an encrypted data system of the Group. Access to and use of personal data will only be confined to personnel of authorised departments. Any change to the personal data will be subject to the consent of customers. The Group also sets out the requirements on data use and confidentiality in its employee handbook. In the event of any non-compliance incident regarding the rules, the employee will be subject to disciplinary action, or in the event of serious cases, will be transferred to the law enforcement agency for legal actions. In addition, we have installed a network security system as the first line security to protect customer data, as well as the proactive defence against ransomware attacks and detect malicious intrusion.

² During the Reporting Period, the Group had 66 suppliers in total (including 1 overseas supplier) and relevant supplier engaging practices were implemented.

Prevention of Corruption and Fraud

The management of the Group promotes a corporate culture of honesty and integrity and creates a corporate culture environment of anti-corruption and anti-fraud. The management assesses the fraud risks and establishes specific control procedures and mechanisms. For any behaviour that violates business ethics, we follow the spirit of no indifference and no indulgence and take severe disciplinary measures against violators so as to reduce the chances of frauds and corruptions. In order to enhance the sense of integrity of our staff, we have included staff ethical behaviors into our employee code of conduct. We also require all the new staff to be trained in accordance with the code of ethical behaviors. We train our existing staff through posting promotional materials and providing regular case studies.

We have internal channels in place for reporting wrongdoing, such as suggestion boxes, and our Party and Administration Office is responsible for receiving, investigating, reporting, and making comments upon the reporting of frauds in the spirit of fairness and justice. In the event of fraud or corruption, the Group will take remedial measures timely to assess the internal control of the relevant affected departments and instruct the relevant departments to make improvements.

Accountability and remedial measures for fraud or corruption



The anti-corruption of the Group is mainly regulated by the Criminal Law of the PRC (《中華人民共和國刑法》), the Anti-Unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》) and other applicable laws and regulations. The laws and regulations strictly prohibit enterprise from accepting illegal property to seek benefits for others, and they also prohibit operators from engaging in unfair competitive behaviors, including obtaining benefits through theft, bribery, fraud, coercion or other means in violating provisions and rights. The Group adheres to the principles of voluntariness, equality, fairness and integrity, and complies with business ethics. Based on the above measures, during the Reporting Period, the Group did not identify any cases of material violations of laws and regulations relating to anti-corruption and anti-fraud.

Innovation Development and Protection of Intellectual Property Rights

Facing the complicated and volatile environment both domestically and abroad, the Group centers on the theme of “stabilizing quality, stabilizing market, achieving high-quality development”. While maintaining product quality and stabilizing the market of collagen sausage casings, the Group accelerates the automation and intelligent transformation of machinery and equipment to improve production efficiency, as well as speeding up both the development of new products and the pace of product upgrading.

With the goal of building a safe, reliable and standardized grand health industry, the Group is committed to the development of collagen technology to realise the transformation and upgrading of the collagen industry and actively promotes the application of collagen in the grand health industry. We continue to invest tremendous resources in research and development, and establishes research and development centres according to market, with scientific and research facilities and infrastructure construction in place. The research and development projects include the improvement of extraction technology to ensure the nutritional perfection of collagen so as to meet the requirements of customers in terms of food nutritional value.

While advancing the development of new industries and new products, the Group has strengthened the construction of its corporate research and development platform and has gathered a group of highly educated technical personnel (such as professionals and technical personnel with backgrounds in biological engineering, food engineering, chemical testing, mechanical manufacturing and pharmacy). We also introduce advanced laboratory equipment and instruments for the product development, testing and analysis to conduct high-end processing researches and experiments, with an aim to creating more possibilities for the enterprises and enabling them to achieve significant results in new product development. For example, for collagen foods, the collagen rice noodles, collagen drinks and bovine collagen developed by the Group have achieved initial market launch and promotion. The newly added product, beef tendon, had entered its trial marketing stage and gained recognition from consumers. In addition to collagen foods, the Group has established subsidiaries in other collagen-related industries or developed by ways of equity investment, including the cosmetics and medical industry that collagen is also applicable to use.

Ferguson (Wuhan) Biotech Co., Ltd.³

Production and sales of health care products and nutrition products for pregnant women, toddlers and persons with special needs

- DHA soft capsules, methyl tetrahydrofolic acid tablets (amino sugar salt), glucosamine tablets, vitamin AD soft capsules, vitamin AE soft capsules are going through registration material declaration and technical review

Guangdong Victory Biotech Co., Ltd.⁴

Research and develop medical collagen, wound dressings and other medical products with broader applications

- Six products including Fibrous Type I Collagen (Q/SCSW2-2017), Medical Soluble Type I Collagen (Q/SCSW3-2017), Collagen Wound Dressing (Q/SCSW4-2017) have been filed to the Guangdong provincial authorities, and these products have obtained the dual certification of ISO13485 and ISO22442 from the European Union

³ The Group owns 25% equity interests of Ferguson (Wuhan) Biotech Co., Ltd..

⁴ A subsidiary of the Group accounts for 80% equity interests.

To protect and safeguard intellectual property rights, the Group strictly abides by relevant laws and regulations on intellectual property rights, including but not limited to the Copyright Law of the PRC (《中華人民共和國著作權法》), the Trademark Law of the PRC (《中華人民共和國商標法》) and the Patent Law of the PRC (《中華人民共和國專利法》). The regulations require that business operators shall not, without the permission of the trademark registrant, use a trademark that is identical with or similar to the registered trademark on the same commodity, or sell, knowingly or unintentionally, a commodity that infringes upon the right of the exclusive use of a registered trademark.

The Group has taken effective measures to protect its intellectual property rights, including filing or registration of patents as required, in order to prevent abuse of the patent rights. The Group signs confidentiality agreements with its employees. It is clearly stated in the employment contract that all employees shall take prompt actions to protect the legitimate rights and interests of the Company when they are aware of any possible infringement of intellectual property rights.

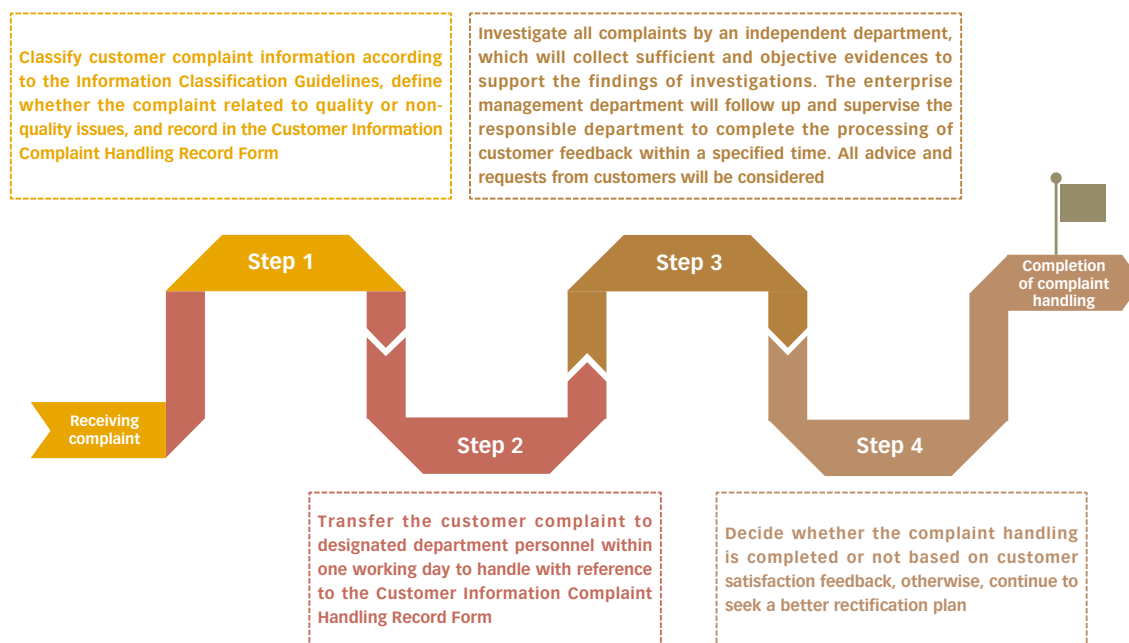
Based on the above measures, the Group has not identified any case of material violations of laws and regulations relating to intellectual property rights during the Reporting Period.

Service Quality Control Mechanism

The Group is committed to developing long-term cooperation relationships based on mutual trust with its business partners and has built a sophisticated customer network. The Group has established its closely-knit yet extensive network of leading manufacturers of processed meat products and sausages, not only for cooperation with enterprises in the PRC but also with those in various overseas markets, such as South America, Southeast Asia and the United States. During the Reporting Period, the Group continued to supply high-quality sausage casing products to a number of renowned food suppliers in the PRC.

The Group strives to provide customers with quality and appropriate services. Therefore, we have developed a comprehensive customer complaint handling procedure and goods return procedures to standardize the handling of customer complaint information and improve the timeliness and effectiveness of handling complaint.

Complaint Handling Procedure



During the Reporting Period, customers' satisfaction to the Group was approximately 90.3%. We received a total of 364 complaints relating to quality stability of products and taste of casings. All complaints were handled in accordance with established procedures. For complaints related to quality stability of products, we refine customer requirements through corresponding customer management, and then cooperate with targeted preparation and delivery to increase customers' applicability and quality stability of our products. For complaints related to taste of casings, we will help customers to choose more high-quality and high-grade casings according to their taste requirements.

In terms of advertising and marketing labels, we have established a comprehensive information review system to conduct detailed verification of product labels, promotional documents, website information, and advertisements before the products are launched or advertisement is released, so as to ensure the legal compliance of product labels and marketing behaviors.

The Group's product liability is mainly regulated by the Product Quality Law of the PRC (《中華人民共和國產品質量法》), the Law on Protection of Consumer Rights and Interests of the PRC (《中華人民共和國消費者權益保護法》), the General Principles of the Civil Law of the PRC (《中華人民共和國民法通則》), the Advertising Law of the PRC (《中華人民共和國廣告法》) and other applicable laws and regulations. The laws and regulations require that producers must ensure that products quality meets the standards, that there is no unreasonable hazard to personal and property safety, and that it has proper performance and is consistent with its description. In addition, goods must not be adulterated or counterfeited. When products are sold, customers must be provided with true product description information to prevent customers from being misled, so as to ensure the legitimate rights and interests of consumers, including personal privacy, must also be protected. Based on the above measures, the Group has not identified any case of material violations of laws and regulations relating to product and service quality during the Reporting Period.

02

Care for Employees

"Jointly fighting the epidemic and attracting talents"

CARE FOR EMPLOYEES

Occupational Health and Safety

Response to the COVID-19 epidemic

In facing the COVID-19 epidemic, our state has adopted stringent epidemic prevention and control measures. The Group also implements the 2020 superior-level prevention work of COVID-19 epidemic, which requires preparing various regulations and implement various requirements stringently. We have established a leading group of the Shenguan Group for the prevention and control of pneumonia caused by the new coronavirus infection, with an epidemic prevention and control office under it. The epidemic prevention and control office consists of 7 working groups, including a comprehensive coordination team, a technical inspection team, a collagen production team, a casing packaging production team, a material support team, a logistics team and a subsidiary team, which are responsible for the overall planning and decision-making of the epidemic prevention and control work, as well as the guidance and management of the epidemic prevention and control of subsidiaries.

In order to effectively prevent and control COVID-19 epidemic, the Group provides masks, thermometers, disinfectants, hand sanitizers, atomizers and disinfectants for all workshops and departments. We have also formulated relevant policies to regulate the management of staff dining and commuting to and from work during the epidemic period, so as to reduce and isolate sources of infection and avoid the infection caused by crowd gathering. The logistics team is responsible for organizing the epidemic prevention and management of commuting cars and dining halls, as well as the publicity of relevant epidemic prevention knowledge. All departments and workshops arrange the person-in-charge of the shift to use the pre-shift meeting to emphasise the relevant requirements of Dining Management Regulations (《就餐管理規定》); remind staff of personal protection and effective social distance from time to time; the workshop will reasonably distribute the number of diners according to the actual situation to avoid crowding and reduce the epidemic prevention risk caused by crowd gathering.



All employees wear masks during work

In addition, we publicize the prevention and control policies and requirements of the headquarters of epidemic prevention and control at all levels, popularise the responsibilities and obligations of workshops, departments and individuals in epidemic prevention and control, remind them of the legal responsibilities they will bear if failing to fulfill their obligations, and guide employees to do a better job in epidemic prevention and control. Through strengthening the publicity of epidemic prevention and control knowledge, we have strengthened the concept that employees are responsible for their own health first. We have done a good job of self-protection, and adhere to effective prevention and control practices such as wearing masks, washing hands frequently and preventing gathering.

Owing to business needs, we may have contact with outsiders from time to time. Therefore, the Group has formulated the Regulations on the Management of Outsiders During the Epidemic Prevention Period(《防疫期間外來人員管理規定》) to minimize the contact between outsiders and employees. The contact department is mainly responsible for the closed management of its personnel, try to arrange outsiders to have activities in designated areas and avoid dining in the canteen of the Group. If meals are needed, they will be packaged and delivered by the contact department. Outsiders will not take the Group's commuter buses.

For different outsiders, we also set different requirements for factory entry:

Outsiders in the city	Fill in the Registration Form for Entry and Exit of Outsiders During Epidemic Prevention Period (《防疫期間外來訪客進出登記表》) and provide the health code for the day.
Outsiders outside the city (external business and construction personnel)	Fill in the Registration Form for Entry and Exit of Outsiders During Epidemic Prevention Period, provide personal itinerary card within 14 days and the health code for the day, and obtain the signature and approval of the contact department and the security and environmental protection department.
Outsiders from medium-high risk areas (no reception in principle)	Fill in the Registration Form for Entry and Exit of Outsiders During Epidemic Prevention Period, provide personal itinerary card within 14 days and 2 certificates of nucleic acid test, the health code for the day, and obtain the signature and approval of the contact department and the security and environmental protection department.
Outsiders from abroad (no reception in principle)	Fill in the Registration Form for Entry and Exit of Outsiders During Epidemic Prevention Period and the Form for Persons Coming from or to Key Areas Outside the Country (Border) (《來自或到過國(境)外重點地區人員表》), implement the health management service measures of “14 days (centralized quarantine for medical observation) + 7 days (home quarantine for observation) + 7 days (daily self-health monitoring) + 4 nucleic acid tests”. If the place of entry is from another province, for those who immediately return to Wuzhou after 14 days of centralized quarantine for medical observation, they should immediately report to their communities (village) or unit after arriving in Wuzhou, and implement health management measures of “7 days (home quarantine for observation) + 7 days (daily self-health monitoring)”.

Production Safety

The Group is committed to continuously optimizing the technological process, improving the working environment for the employees and taking all appropriate measures to safeguard their health and safety. Shenguan Collagen Biological passed the internal review of Grade II Work Safety Standardization in December 2020. We are committed to a sound safety system and passed the external review of the OHSAS 18001 occupational health and safety management system of the Quality Assurance Centre of China Association for Quality (中質協質量保證中心) in May 2020.

The Group has formulated a corresponding safety code of practice for all production staff, which details the safety precautions for different production processes, including establishing the Compilation of Safety Management System (《安全管理制度匯編》) to provide employees with safe working practices, developing the Compilation of Safety Management Responsibility (《安全管理職責匯編》) to clearly define the safety responsibility of each post, and formulating the Compilation of Regulations for Safety Operation (《安全操作規程匯編》) to outline the safety operation regulations for each process. During the Reporting Period, the Group revised the above documents on safety management systems and improved the structure and management modes of the management departments of each production workshop to clarify management responsibility, optimise the safety guideline and improve the employees' safety awareness, with an aim to jointly create a safe working environment.

We continuously update compliance-related policy of the List of Laws, Regulations, Standards and Other Requirements (《法律法規·標準及其他要求清單》), so as to assist staff to identify various compliance requirements and protect the interests and rights of various stakeholders. The Group also applied Administrative Measures on “Three-Simultaneous” Occupational Disease Control Facilities in Construction Projects (《建設項目職業病防護設施「三同時」監督管理辦法》) and other rules and regulations to enhance the compliant operation of employees. Based on the above safety management and compliance measures, the Group has not identified any case of material violations of laws and regulations relating to the health and safety at the workplace during the Reporting Period.

Employment System

Human resources are of utmost importance to the success and the long-term business development of the Group. The Group ensures that the remuneration of our staff is commensurate with prevailing market rates and they are provided with relevant on-the-job training and development.

Labour Relations and Communication

The Group pays attention to the harmony of labour relations and comprehensively strengthens the communication and coordination with employees, hoping to achieve mutual trust and respect between employees and us, prevent disputes from occurring and conflicts from intensifying. The Company establishes a trade union in accordance with the relevant laws and regulations, allowing employees to become union members after being employed by the Company. The trade union is established to solve problems of labour conditions, labour safety and health issues encountered at work and to meet their needs, and strive to improve employee welfare measures.

In addition to the establishment of trade unions, we have also established a diversified and interactive mechanism to ensure smooth communication between employees and us, including employee suggestion boxes, internal publications, employee code of conduct, public information columns and internal meetings of various departments. They adhere to the principle of integrity and create a phenomenon that the employees and us unite with one heart, allowing employees to participate in the construction and development of the Company in a more active manner. If an employee has any suggestions to the Group or believes that his or her rights and interests have been jeopardised, he or she may report the situation and file a complaint through the above channels. We will hold regular labour meetings, organize trade union federation congresses and employee welfare unions to provide a platform for the two parties to exchange their views or consult on issues of common concerns in due course. The Group can respond more timely to improve employee satisfaction.

In order to effectively prevent and control the pneumonia epidemic caused by the novel coronavirus, the Group maintains close communication with its employees to guide them to rationally understand the epidemic and take good precautions. We have taken various forms to strengthen the publicity of epidemic prevention and control knowledge and improve their awareness of epidemic prevention. We use platforms such as canteen TVs, electronic screens and WeChat groups to carry out publicity of prevention and control knowledge. The security and environment protection department continuously releases prevention and control knowledge, with daily updates of the information release by the National Health Commission. The leaders of the workshops and the departments forwarded the content issued by the security and environment protection department to their subordinates, and organized a special session to watch the epidemic prevention videos. We also use class meetings to publicise and educate knowledge about the epidemic, clarify the responsibilities of employees and impose penalties on violations of the system in accordance with relevant policies.

Recruitment and Dismissal

We take the fundamental values such as integrity, innovation, enthusiasm and team spirit as the basic criteria for recruiting talents, and have established a stringent vetting process to ensure the fairness of the entire recruitment, dismissal and promotion process. In view of the retirement wave last year, the Group was committed to recruiting highly educated technical talents during the Reporting Period to support the technical transformation of mechanization, automation and intellectualization of production which it has actively promoted in recent years.

The normative policies formulated by the Group are as follows:

Personnel Recruitment
Management System
(《人員招聘管理制度》)

Regulate the process of personnel recruitment and formulate human resources planning and recruitment objectives according to the Company's development direction, business requirements and cost-effectiveness. All candidates are subject to an objective entry assessment, professional background, skills and experience so as to assess whether their ability and performance meet the Group's development requirements and decide whether to recruit the job applicant or not

Employee Turnover
Management System
(《員工離職管理制度》)

Protect the rights and interests of resigned employees, clarify the responsibilities and handling procedures of relevant departments to make the process highly transparent, and it is required that when an employee tenders a resignation application, the department head and human resources department shall arrange an exit interview with the employee to understand the reason thereof

Remuneration Packages and Benefits

In order to attract and retain high-quality talents to ensure smooth operations and to cope with the Group's continuing expansion, the standard remuneration packages of new employees are determined with reference to market conditions and based on staff's responsibilities, job performance and job scopes, etc., and their salaries are adjusted year by year and promotion decisions are made with reference to the work performance of such employee. The Group continues to deepen and optimise its performance management and add performance appraisal indicators for each department. The Group will also revise the performance appraisal method according to actual needs and work performance to ensure its objectivity, fairness and representativeness, so as to further improve the performance management system. The Performance Management System (《績效管理制度》) of the Group clearly sets out the setting, implementation and application of key indicators as well as its assessment and evaluation. The Group has also formulated a work award scheme, under which well-performed employees will be given honorary titles and awards to encourage them to make continuous improvement.

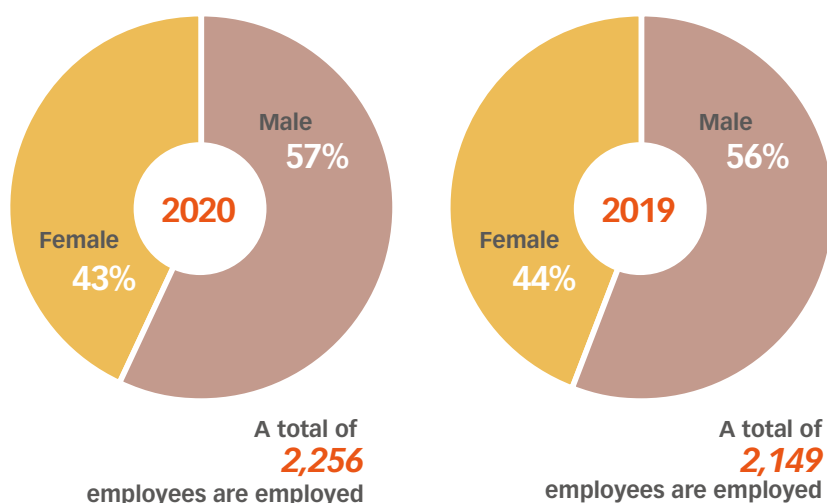
In addition, employees of the Group are entitled to social insurance and welfare according to law. The Group strictly complies with national and local laws and regulations in terms of working hours and holiday arrangements to ensure that our employees can balance between work and life and enjoy their holiday for keeping them physically and mentally healthy.

Diversification, Equal Opportunities and Anti-discrimination

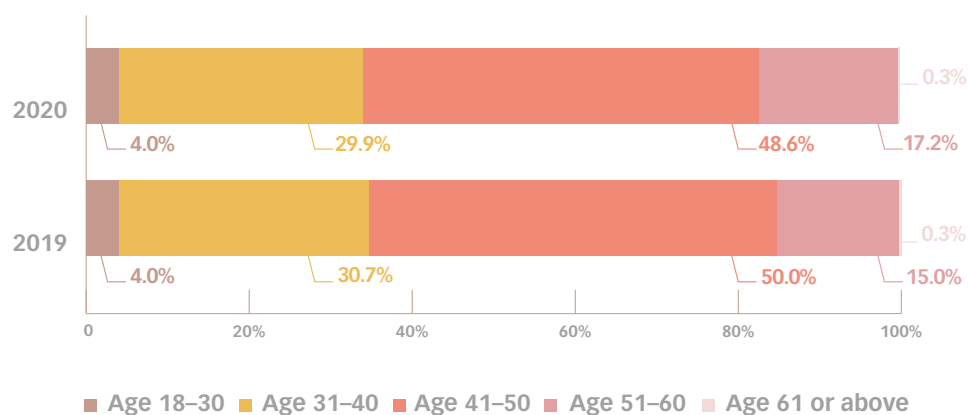
The Group strives to provide a working environment without discrimination. We endeavor to maintain a diversified working environment that provides opportunities for employees of different genders and ages to develop their talents. Any discrimination against our staff in respect of recruitment, dismissal, remuneration and promotion is strictly prohibited. We have also set up a whistleblowing mechanism. In case of any unfair and unequal cases, a task force will be responsible for the investigation and taking corresponding disciplinary actions.

Shenguan Collagen Biological employed a total of 2,256 full-time and contract employees as at 31 December 2020, and 100% of the employees are from Chinese Mainland, the statistics of which are as follows by gender and age group:

Number of employees by gender

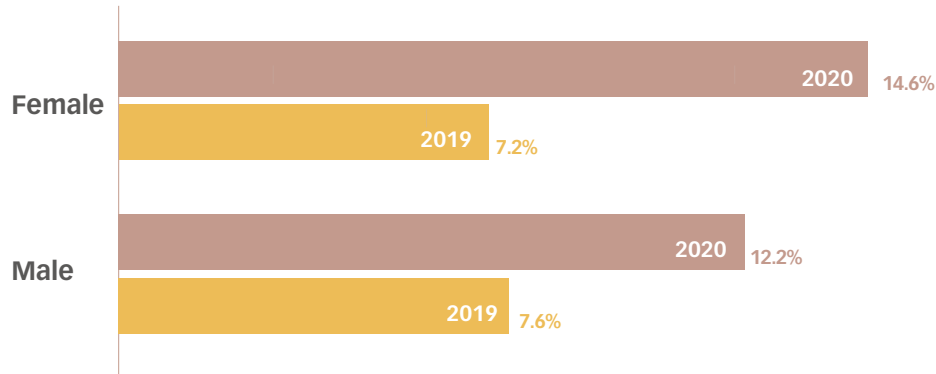


Number of employees by age group



The Group had a total of 299 full-time and contract employees from the Mainland China resigned voluntarily as at 31 December 2020, the statistics of which are as follows by gender and age group:

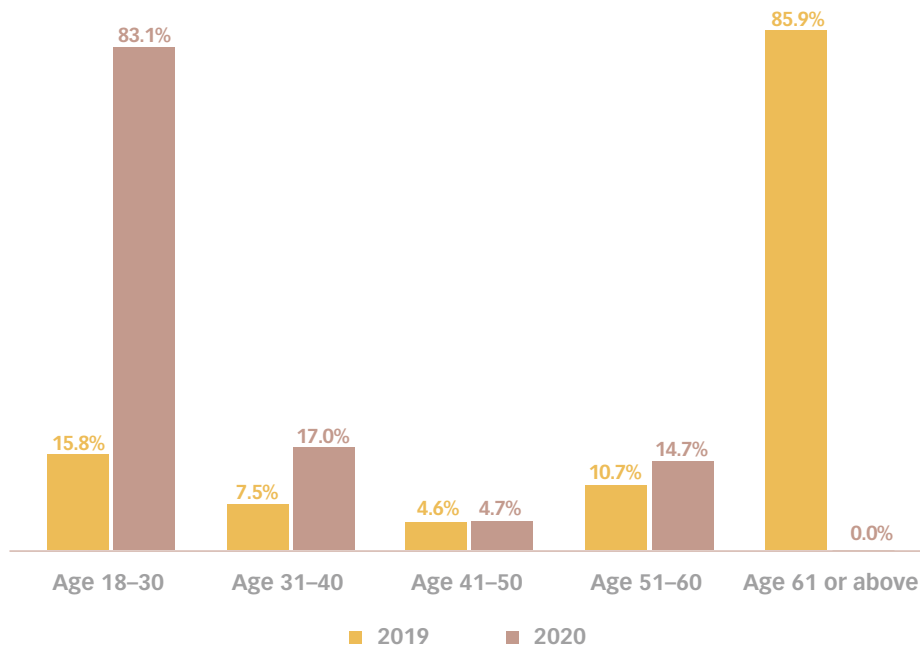
Number of resigned employees by gender



A total of **299** employees resigned voluntarily in 2020

A total of **159** employees resigned voluntarily in 2019

Number of resigned employees by age group



The human resource management of the Group is mainly regulated by the Labour Law of the PRC (《中華人民共和國勞動法》), the Labour Contract Law of the PRC (《中華人民共和國勞動合同法》) and other applicable laws and regulations. The laws and regulations require enterprises to establish sound rules and regulations to protect the rights and interests of employees, including reasonable working hours and holidays, payment of wages according to law, provision of social insurance and welfare, etc., and to clarify the rights and obligations of both parties in labour contracts. Enterprises must also bear the legal responsibility for jeopardising the rights and interests of workers. Based on the above measures, the Group did not identify any cases of material violations of laws and regulations regarding employment and human resources during the Reporting Period.

Prevention of Child or Forced Labour

We are always committed to building a mutual respect relationship with our employees. The subsidiaries of the Group recruit people in a fair, open and voluntary manner. Our human resources department strictly complies with the requirements of the Labour Law of the PRC and recruits people who are at the age of 18 or above holding a valid ID card issued by the Public Security Department of the PRC. The Group also strictly abides by the labour quota standard, in which we do not force or disguise to force employees to work overtime.

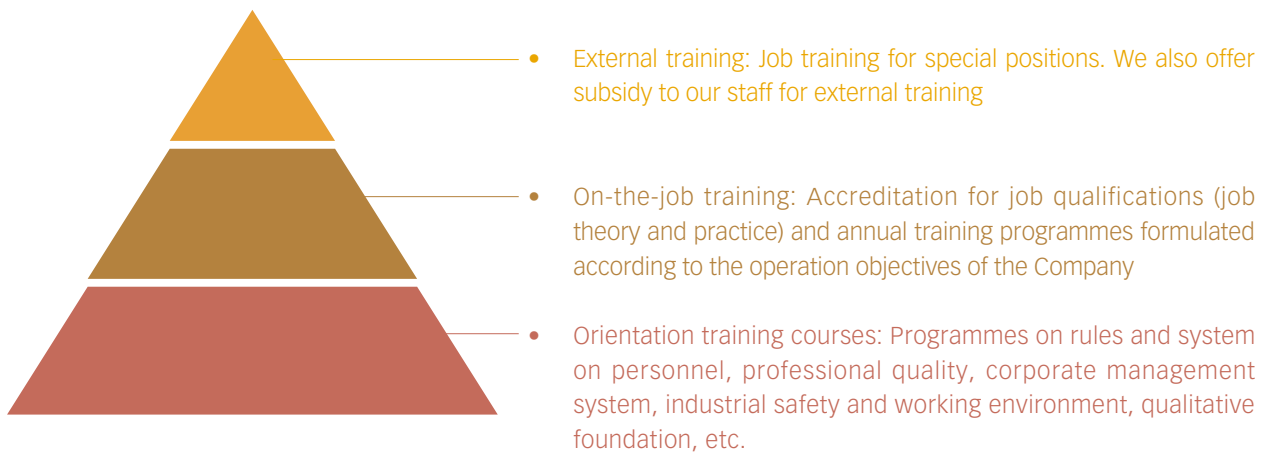
The Group has formulated relevant policies to prevent child labour or forced labour during the operations. The candidates are required to provide a proof of age at the time of the interview, and the Group will verify the actual age of the candidates on the spot. Our human resources department will also conduct background investigations on the candidates to ensure that the personal information provided by the candidates is true and accurate. In addition, we will regularly review the existence of the employment of child or forced labour in our business operations. We will sign a legal labour contract with employees and do not allow any forced labour practices, including bonded labour, indentured labour, slave labour or human trafficking. If it is required for production and operation, our staff may need to extend the working hours for not more than one hour per day in general as agreed between the trade union and our staff (except for special circumstances under the law). The extension of working hours should also be in line with related national laws.

The labour standards of the Group are mainly regulated by the Labour Law of the PRC, Prohibition of Child Labour Provisions (《禁止使用童工規定》) and other applicable laws and regulations. The laws and regulations explicitly prohibit the recruitment of minors below the legal age and state that enterprises must take action to ensure that there is no violation of rights and interests such as the employment of child or forced labour. Based on the above prudent and comprehensive recruitment review process and related measures, during the Reporting Period, the Group did not identify any cases of material violations of laws and regulations relating to the preventing child and forced labour.

Training and Development

The Group values the career development and prospect of its staffs and continues to identify potential talents by the tailored-made internal training plan. Through the training programmes, the Group expects to improve the staff's knowledge at work and foster them to develop diversified skills. Therefore, the staff can utilise their potential and grow together in line with the Group's strategies.

The Group has established a comprehensive training regime and training policy to support on-the-job education and training of the staff in order to upgrade our staff's knowledge and skills. We promise to continue to invest resources in providing the best training opportunities to help staff achieving personal and career advancement.



Training for senior and middle management



Training on how to improve execution capabilities

During the Reporting Period, the Group strengthened the training work for improving the on-the-job skills of the employees to improve the production and operation skills of the employees, which increased the overall training hours. The relevant training data are as follows:



Total training hours in 2020:

77,924 hours

(2019 : 28,993 hours)



Number of trained employees in 2020:

96.4%

(2019 : 91.9%)



Average training hours per employee in 2020:

34.5 hours

(2019 : 13.5 hours)

Average training hours by gender



Average training hours of male employees in 2020:

31.0 hours

(2019 : 13.1 hours)



Average training hours of female employees in 2020:

39.2 hours

(2019 : 14.0 hours)

Average training hours by position grade level



Average training hours of management-level employees in 2020:

26.0 hours

(2019 : 23.6 hours)



Average training hours of general staff-level employees in 2020:

34.6 hours

(2019 : 13.4 hours)

03

Environmental Protection

"Prevention first, construction and protection going hand in hand"

Environmental Protection

Use of Resources

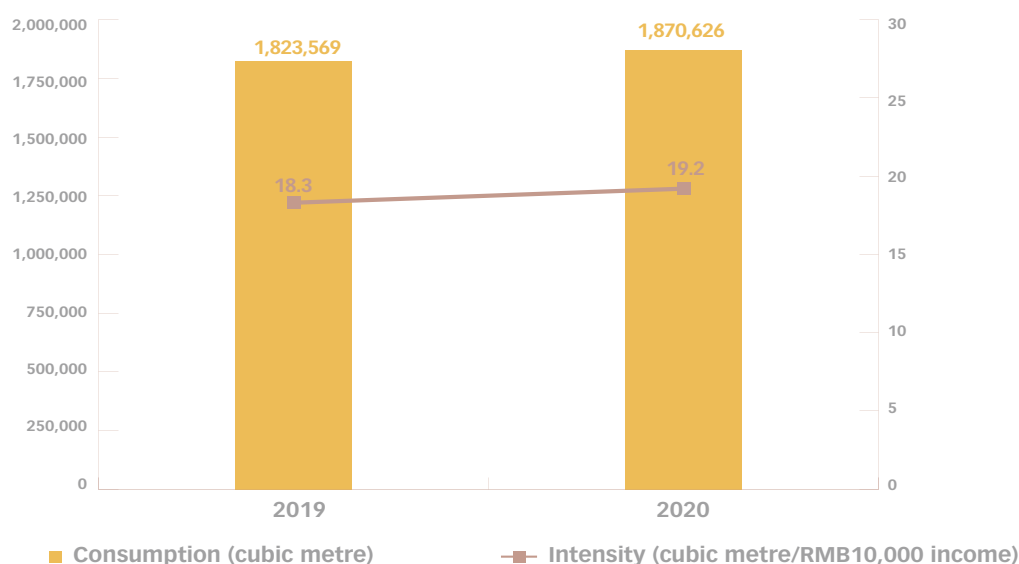
The Group is actively committed to promoting environmental protection and effective use of resources in order to promote a green environment for office and production with four basic principles – reduce, re-use, recycle, and replace. The Group strives to create outstanding and effective energy-saving and consumption reducing management measures to strengthen the energy consumption management within the plants. Shenguan Collagen Biological has obtained the ISO 14001 environmental management system certification to ensure that the Group has established a system to support sustainable operation, and effectively manage its impact on the environment, thus enhancing overall efficiency and maintaining competitiveness.

Water Resource Use and Efficiency

As a food manufacturer whose production activities require water resources, our water consumption was mainly for production and staff's domestic usage. The Group is fully aware of the significance of water resource protection for environmental ecology. Our policy is to implement the recycle and reuse of water as much as possible and reduce the consumption of natural or clean water. A portion of the limewater and condensate water generated from the production process is treated for reuse through our own sewage treatment equipment, effectively reducing both water consumption and sewage discharge, and saving cost. We use water provided by the government and have no difficulty in obtaining suitable water sources.

Owing to the corresponding increase in cleaning and disinfection activities during the COVID-19 outbreak, and the increase in collagen and casing production volume, the total water consumption of the Group increased slightly during the Reporting Period. During the Reporting Period, the total water consumption of the Group was as follows:

Water consumption (cubic metre) and intensity (cubic metre/RMB10,000 income)

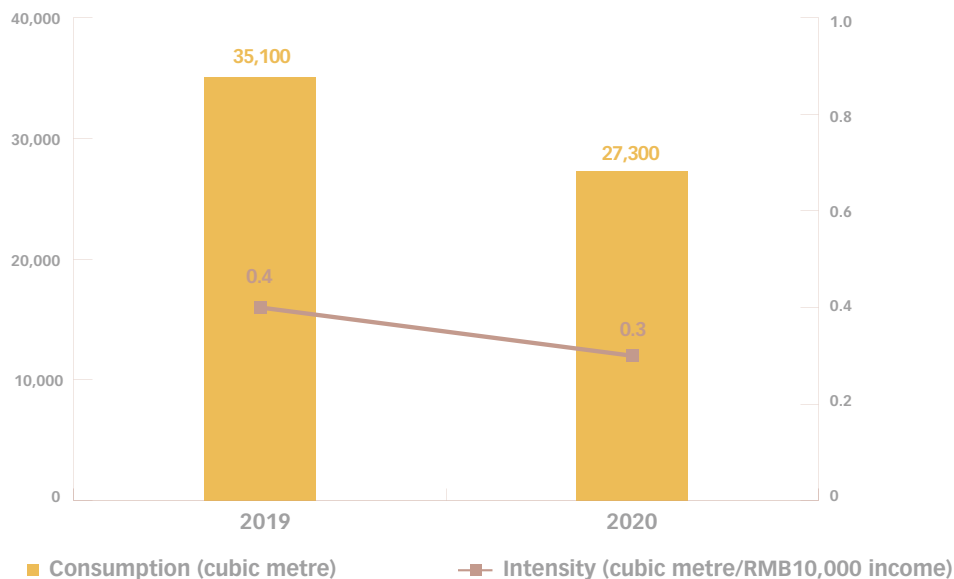


Energy Use and Efficiency

The Group has increased investments for energy conservation and emission reduction equipment, including phase-out of energy-consuming motors and replacement with highly-efficient motors. Besides, it has completed the upgrading of the heat pump system of sausage casing workshop, with a view to reducing electricity consumption per unit⁵ so as to improve efficiency and conserve electricity. In addition, the Group has formulated its production plans after taking into account the effect of climate and sales seasonality to make full use of production capacity. For example, the production efficiency is usually low with high energy consumption in summer. We will avoid large-scale production in summer when formulating a production plan, so as to reduce energy consumption and improve production efficiency.

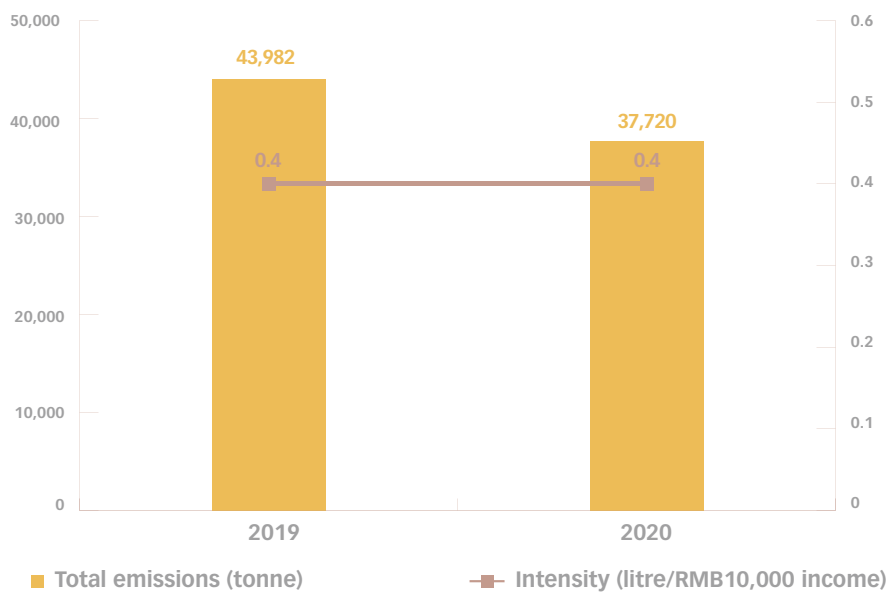
During the Reporting Period, the Group actively improved the supporting facilities of various production lines and comprehensively promoted the technical transformation of mechanized, automated and intelligent production. In addition, the decrease in using vehicles due to reduced travel as a result of the epidemic led to a decrease in the consumption of natural gas and diesel, while consumption of electricity slightly increased due to the increase in the production volume of collagen and casings. Major energy consumption of the Group during the Reporting Period was as follows:

Natural gas consumption (cubic metre) and intensity (cubic metre/RMB10,000 income)

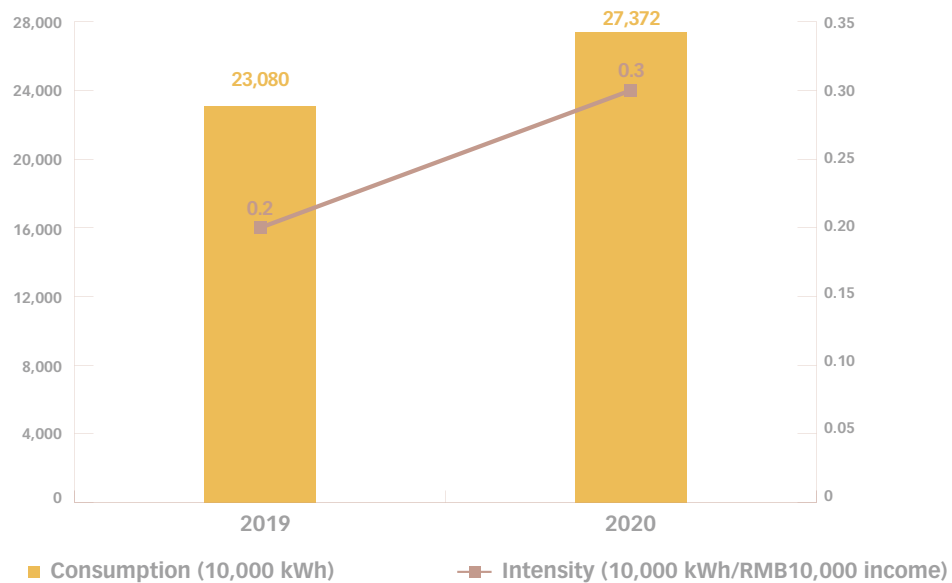


⁵ Electricity consumption per unit refers to the amount of electricity needed in producing a product.

Diesel consumption (litre) and intensity (litre/RMB10,000 income)

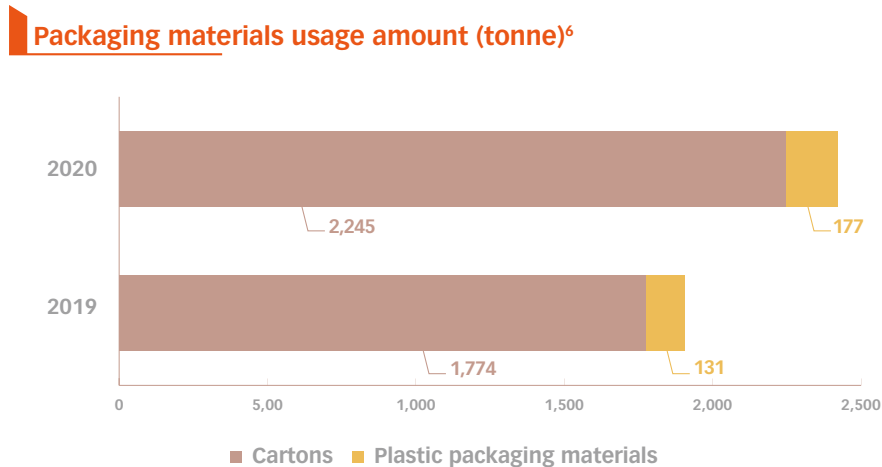


Electricity consumption (10,000 kWh) and intensity (10,000 kWh/RMB10,000 income)



Use of Packaging Materials

During the Reporting Period, by adjusting our packaging methods and volumes, the Group had made better use of packaging materials to eliminate waste. In addition, the used packaging cartons were recycled after treatment with an aim to further reduce wastes for disposal. Owing to the increase in the production volume of collagen and casings of the Group during the Reporting Period, the use of packaging materials also increased slightly. The packaging materials used by the Group during the Reporting Period were as follows:



Emissions

The Group is committed to building an environmentally-friendly corporation and strives to minimize the sewage and production of non-hazardous waste during the manufacturing process and reduce the effect of exhaust emission on the surrounding environment. We take precautions against any unnecessary pollution, assess the source of emissions regularly and work on plans that can reduce emission from the source. We also make every effort to explore more opportunities to re-use and make the most of waste and sewage in order to continuously improve the equipment and process for disposal of emissions and ensure their effectiveness. When purchasing machinery and equipment, the Group will give priority to advanced environmentally-friendly products to ensure that their emissions meet national emission standards and further strengthen the environmental performance of the Group.

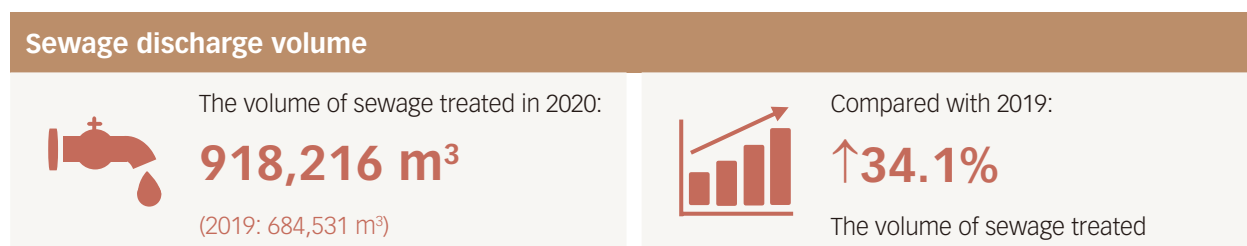
In addition, we devote sufficient resources to advocate the Group's environmental policy to our staff so as to strengthen their awareness of waste reduction. We established the security and environment protection department with dedicated undersecretary and supervisor of security and environmental protection as well as environmental protection staff to conduct the environmental protection management of the Group. We also established environmental protection workshops within the production plants to deal with the sewage.

⁶ The 2019 data is restated.

As a manufacturing enterprise, the Group is mainly regulated by the Law of Prevention and Treatment of Water Pollution of the PRC (《中華人民共和國水污染防治法》), the Solid Waste Environment Protection and Control Law of the PRC (《中華人民共和國固體廢物污染環境防治法》), the Atmospheric Pollution Prevention and Control Law of the PRC (《中華人民共和國大氣污染防治法》) and other relevant laws and regulations. The laws and regulations require that enterprises must take effective measures and methods to prevent and control water pollution, solid waste pollution and air pollution, and strictly abide by regulatory guidelines on supervision and management, including environmental impact assessment, accurate monitoring of emissions, installation of purification devices, etc., and ensure compliance with the emission standards. Production units shall be liable for the environmental damage caused. The Group shall comply with laws and regulations by implementing the following measures to deal with emissions. During the Reporting Period, the Group did not identify any cases of material violations of environmental-related laws and regulations.

Sewage Discharge and Management

The Group collects sewage generated during the manufacturing process into a collection pool for sewage treatment. Subsequently, after an initial filter that removes the pollutants in the sewage, the sewage then enters the neutralization and regulation reservoir to adjust the sewage pH value in order to meet the required range. Then the sewage is pumped into a floatation tank from the regulating reservoir for solid-liquid separation treatment. The processed sewage passed through the floatation tank will undergo the hydrolytic acidification treatment and aerobic biochemical aeration treatment, and finally be processed by sedimentation tank system. The sewage, which has met the standard after the above treatment, will flow into the sewage treatment plant in Wuzhou City for in-depth disposal to further purify the sewage. During the Reporting Period, the sewage pollutants of the Group fully met the discharge standards. The Group reduced sewage by conserving water and recycling purified sewage. The Group has repaired the sewage facilities that failed at the end of 2019⁷, so it can treat the wastewater by itself and record relevant data. In addition, owing to the increase in the production volume of collagen and casings during the Reporting Period, the volume of sewage treated increased accordingly, and the sewage processed by the Group was as follows:



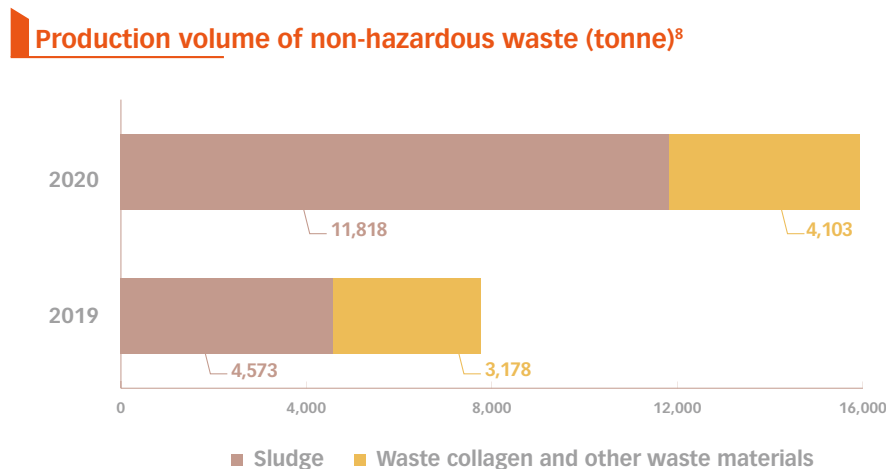
⁷ At the end of 2019, we handed over the sewage to other companies for treatment when the sewage facilities were repairing due to failure, so we were unable to record relevant discharge data.

Waste Disposal and Management

The Group strives to minimize the manufacturing of waste during the production process and complies with the relevant laws and regulations through strictly complying with its waste management policies. The main wastes produced by the Group were waste collagen and other waste materials generated during the production process and sludge converted therefrom, which does not involve the generation of significant hazardous wastes. Therefore, the disclosure of hazardous waste information is not applicable.

During the Reporting Period, the Group's collagen workshop introduced the lime-ash recovery projects and ash filter presses to recover a large amount of lime-ash, thereby reducing the impact on the sewage treatment system. In addition, the Group will recycle waste collagen and other waste materials. During the Reporting Period, the Group increased the recycling of waste materials and lime-ash from the collagen workshops and casing workshops to produce organic fertilizer. Waste materials that are not recycled will be converted into sludge for further treatment. For sludge, active bacteria were added to the sewage, which could be used to pull out and concentrate the stagnant mud produced by biochemical treatment through the sludge pump. This could reduce the water content in the sludge by filtration and dehydration through a chamber pressure filter, so as to reduce the volume of the waste. All the processed sludge would be handled by a qualified company.

During the Reporting Period, the non-hazardous solid wastes produced by the Group and their respective recovery volume were as follows:



⁸ The sludge data in 2020 included sludge and lime-ash. Since the sludge in the sewage system contains lime and is difficult to calculate sludge and lime-ash separately, so the total weight is disclosed. In 2019, the Group has not established a relevant data collection mechanism for the lime-ash, so the relevant data has not been reported. In 2020, the Group added the lime-ash collection process in the collagen workshop, so that relevant data could be effectively collected. Therefore, the disclosure added in 2020.

Recovery volume of non-hazardous waste



The volume of sludge⁹ recovered in 2020:

38.6%

(2019: 21.9%)



The volume of waste collagen and other waste materials recovered in 2020:

100%

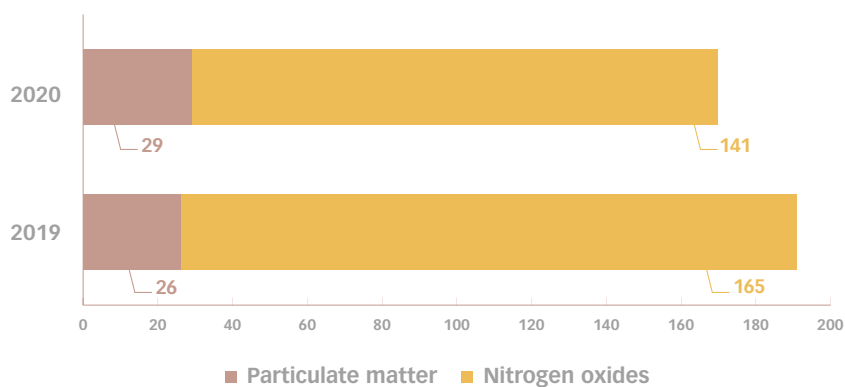
(2019: 100%)

Air Pollutant Emissions and Management

Gas emissions are induced from certain process production and auxiliary procedure of the Group. During the Reporting Period, the exhausted gas emitted by the Group were generated from the operation of natural gas boilers (including particulate matter and nitrogen oxides) and hydrogen chloride exhaust generated from production. The Group has installed advanced monitoring systems to more effectively and accurately monitor emissions data and review the environmental impact caused. In the future, the Group will continue to seek feasible emission reduction measures to further reduce the environmental impact of production activities.

The gas emissions of the Group during the Reporting Period were as follows:

Gas emissions (kilogram) – particulate matter and nitrogen oxides¹⁰



Air pollutant emissions – hydrogen chloride



Emissions of hydrogen chloride in 2020:

571,590 m³

(2019: 594,000 m³)



Compared with 2019:

↓ 3.8%

Emissions of hydrogen chloride

⁹ The data of sludge recovery volume included sludge and lime-ash.

¹⁰ There is no specific requirement from government departments requiring the Group to monitor carbon dioxide emissions from natural gas boilers. Therefore, no corresponding monitoring has been done during the Reporting Period.

Indoor Air Quality

It is the mission of the Group to provide employees with a comfortable, clean and safe working environment. We are aware that exhaust gas is released during some production and auxiliary production processes. Healthy indoor air flow is very important to enhance indoor air quality and prevent the accumulation of particulate matter, carbon dioxide and nitrogen oxides in the production areas. We use air purification equipment in the workplace for mechanical ventilation to filter out pollutants and impurities, regularly clean the ventilation system, as well as monitor and measure indoor air quality in the workplace to ensure good indoor air quality and protect the health of employees.

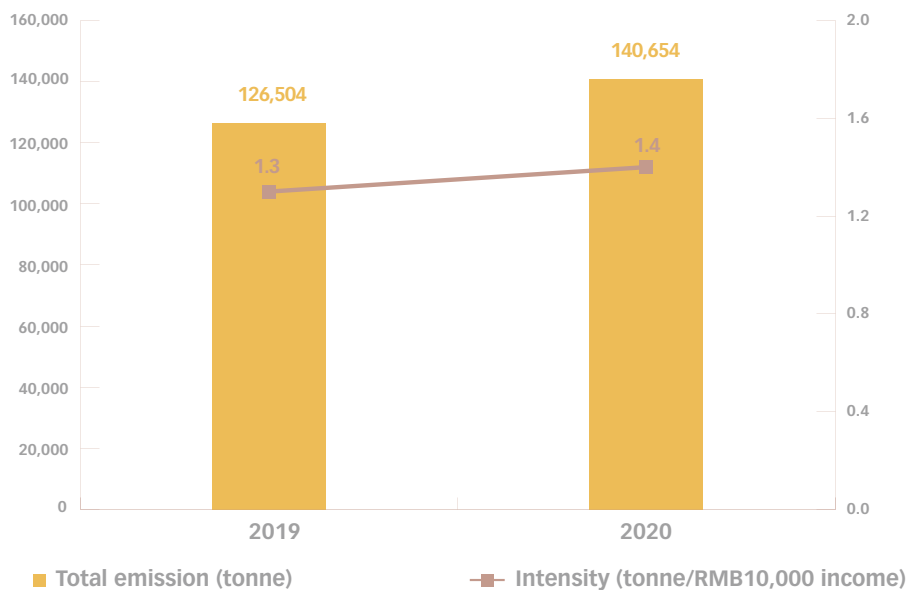
Greenhouse Gas Emissions and Management

In facing climate change, the Group is aware of the potential risks thereof (including extreme weather). We are fully aware of our responsibility to reduce greenhouse gas emissions in the course of the operation and is committed to controlling the risks and impact of related emissions on its business. Our carbon emissions are mainly derived from energy consumption of electricity, fuel oil and natural gas. We will continue to transform environmental protection equipment and facilities to improve processing capacity to meet production needs and actively formulate policies to cope with the impact of emissions, such as continuously evaluating, reporting and reviewing greenhouse gas emissions from energy consumption in the course of the operation and their impact on the environment, which form the basis for setting annual emission reduction targets in the future.

We notice a slight increase in the actual total emissions and emission intensity of greenhouse gas as compared with last year, which is due to indirect greenhouse gas emissions caused by increased electricity consumption and water consumption resulted from increased production volume of collagen and casings. While keeping close attention to the impact of our business operation on the environment, we will further identify new opportunities in the process of greenhouse gas emissions management, with a goal to continue controlling greenhouse gas emissions¹¹. Please refer to the below section headed "Use of Resources" for details.

The relevant greenhouse gas emissions generated by the Group during the Reporting Period were as follows:

Greenhouse gas emissions (tonne) and intensity (tonne/RMB10,000 income)



¹¹ The calculation of carbon emission is performed in accordance with the Reporting Guidance on Environmental KPIs (《環境關鍵績效指標匯報指引》) of Hong Kong Stock Exchange, the Baseline Emission Factors for Regional Power Grids in China and the Calculation Method and Reporting Guidance on Greenhouse Gas Emission by Industry and Other Industrial Enterprises (Trial) promulgated by the Department of Climate Change of Ministry of Ecology and Environment of the PRC.

Environmental Investment and Resources Reuse

Environment Impact Management

The Group is fully aware of the fact that environmental protection can decrease operational risk and increase business opportunities. We will make continuous efforts in bringing the concept of environmental protection and social responsibility into the Group's operations and policies. For example, as to new construction project, we will prepare environmental protection assessment report before the commencement of the construction project and implement the "Three-Simultaneous" project in accordance with the result and recommendations of the environmental protection assessment report. "Three-Simultaneous" is the policy which requires that pollution prevention and environmental protection facilities in new construction, reconstruction and expansion projects shall be designed, built and put into operation simultaneously together with the main part of the projects. In daily productions, we also engage a third party to conduct monthly environmental supervision and monitoring, with an aim to ensure all three production zones maintain up-to-standard discharge with a focus on energy conservation and pollution reduction. The Group will continue to improve the production process and update the production equipment to avoid the abuse and wastage of natural resources. In addition, we have also set up an emergency response system to deal with environmental incidents. We have also formed a task force to promptly address and reduce the damage of the incidents to the environment. The risk management and internal audit systems of the Group have conducted regular assessment and follow-up on the risks related to the environment and society, and all business departments have also formulated appropriate internal control and risk response plans in respect of major risks.

Apart from complying with the existing national and related provincial environmental protection rules and standards, we also take the initiative to issue an environmental protection proposal to the staff of the subsidiaries of the Group, suppliers and partners so as to improve the environment as a team. The Group will continue to encourage its employees to protect the environment and conserve natural resources, with an aim to enable everyone to proactively participate in environmental protection and voluntarily comply with environmental protection laws and regulations.

Noise Pollution

Due to the heavy use of machinery and instruments in the Group's production activities, the Group attaches great importance to eliminating vibration and noise sources during the production process to avoid noise transmission. The Group reasonably distributes the workplace of power machinery and tries to avoid running multiple large mechanical devices at the same location. However, it is forbidden to work at night in areas near residences, so as it will not affect the surrounding communities. In addition, if the use of air compressors, generators and other types of machinery generate strong noise, the Group will add silencers to reduce noise.

04

Community Investment

"Active participation in public welfare undertakings"

COMMUNITY INVESTMENT

Social Welfare

The Group never forgets to give back to society and is passionate for social welfare activities while pursuing its own corporate development. We have formulated the Measures for the Administration of Public Welfare Activities and Charities (《公益活動和慈善事業管理辦法》), which defines the charity principles of social welfare activities and charities, specifies the scopes, types and beneficiaries of public welfare activities and charities, and stipulates the relevant procedures of donation cause, subject, channels, methods, and responsible party of the donation, composition and amount of the donation, as well as the procedures for handover of the donation.

The Group has established Shenguan Sunshine Charity Fund (神冠驕陽公益基金) to provide support for basic education, which offers financial assistance for the children in the impoverished areas to continue their education and help them to enjoy a happy and healthy childhood. These capitals are intended to fund charitable projects such as “Spring Blossom Program” (春蕾計劃) and “Shenguan Class of No.1 Middle School of Wuzhou” (梧州一中神冠班), which provide various kinds of financial assistance. The Group has also designated its products including the “COLL-FULL” Collagen Piece Facial Mask, “Meday” Collagen Chips and Ferguson Mother-and-baby Health Care Product as public welfare products, a portion of the sales revenue of which will be donated to Shenguan Sunshine Charity Fund.

In addition, we increased public welfare activities related to anti-epidemic donations and poverty alleviation assistance. During the Reporting Period, the amount we invested in social welfare reached RMB8.80 million, and cash donations alone reached RMB0.75 million. The public welfare activities organized by the Group and in progress including but not limited to:

- Invested RMB0.35 million for poverty alleviation campaign
- Invested RMB0.2 million for the Spring Blossom Program
- Donated RMB0.2 million to Shenguan Class of No.1 Middle School of Wuzhou

Since the outbreak of COVID-19, Shenguan Holdings Group has been paying close attention to the anti-epidemic situation. Aware of the shortage of various living materials in the affected regions during the epidemic, the Group immediately organized its subsidiaries to work overtime for producing materials to aid Wuhan. We are fully aware of the hard work of frontline medical staff, and the donated materials are mainly daily necessities and nursing supplies produced by the Group and externally purchased protective equipment to protect the health of medical staff.

Case

Supporting
the fight
against
COVID-19

The Group produced 1,000 cartons of Shenxianbo rice noodles within a short period of time and donated supplies to Wuhan as soon as possible on 31 January 2020. Then, on 17 February 2020, we donated the second batch of supplies to the epidemic area, including the “Shengmai Liquor” produced by Wuzhou Sanjian Pharmaceutical Company Limited (梧州三箭製藥有限公司), a subsidiary of the Group, and the “collagen extracts” and “collagen superior” produced by Guangxi Luxianna Biotechnology Development Company Limited (廣西露仙娜生物科技發展有限公司), the “collagen brown sugar and ginger drinks” (膠原蛋白紅糖薑飲) produced by Guangxi Jiao-ao Shangpin Food Co., Ltd. (廣西膠傲尚品食品有限公司), and “Shenxianbo rice noodles” produced by Nanning Shangguan Food Co., Ltd. (南寧尚冠食品有限公司).

On 20 February 2020, when the protective equipment we purchased from overseas had arrived, we contacted the Red Cross Society of Wuzhou and the Wuzhou Municipal Health Commission. Through the Red Cross Society, 300 sets of protective clothing, 950 sets of isolation clothing, and 1,120 masks were delivered to the anti-epidemic frontline.



The Group donated anti-epidemic supplies to frontline medical staff



The donation ceremony of Party Secretary Zhou Yaxian led all party members to actively support the prevention and control of COVID-19

SUMMARY OF STATISTICS

Emissions	Unit	2020	2019
Air pollutant emissions (Released from production and auxiliary production processes)			
Nitrogen oxides (NO _x)	kilogram	141	165
Particulate matter (PM)	kilogram	29	26
Hydrogen chloride (HCl) ¹²	cubic metre	571,590	594,000
Sewage	cubic metre	918,216	684,531
Greenhouse gas emissions			
Total greenhouse gas emissions	tonne	140,654	126,504
Intensity (per RMB10,000 income)		1.4	1.3
Direct greenhouse gas emissions (Scope 1)	tonne	202	243
Energy indirect greenhouse gas emissions (Scope 2)	tonne	139,285	125,128
Other indirect greenhouse gas emissions (Scope 3)	tonne	1,167	1,132
Non-hazardous waste category			
Production volume			
Sludge ¹³	tonne	11,818	4,573
Waste collagen and other waste materials	tonne	4,103	3,178
Recovery volume			
Sludge ¹⁴		38.6%	21.9%
Waste collagen and other waste materials		100%	100.0%

¹² Hydrogen chloride emissions = Regulated standard dry air volume x emission duration. The regulated standard dry air volume in 2018 was estimated, but from 2019 onwards, all the regulated standard dry air volume is monitored.

¹³ The sludge data in 2020 included sludge and lime-ash. Since the sludge in the sewage system contains lime and is difficult to calculate sludge and lime-ash separately. Therefore, only the weight of sludge and lime-ash is disclosed.

¹⁴ The data of sludge recovery volume included sludge and lime-ash.

Energy Consumption	Unit	2020	2019
Direct energy consumption			
Diesel	litre	37,720¹⁵	43,982
Intensity (per RMB10,000 income)		0.4	0.4
Natural gas	cubic metre	27,300¹⁶	35,100
Intensity (per RMB10,000 income)		0.3	0.4
Indirect energy consumption			
Electricity	10,000 kWh	27,372	23,080
Intensity (per RMB10,000 income)		0.3	0.2
Water consumption			
Water consumption	cubic metre	1,870,626	1,823,569
Intensity (per RMB10,000 in-come)		19.2	18.3
Packaging materials category			
Cartons	tonne	2,245	1,774 ¹⁷
Plastic packaging materials	tonne	177	131 ¹⁷

¹⁵ Energy consumption of diesel is equivalent to approximately 403,722kWh.

¹⁶ Energy consumption of natural gas is equivalent to approximately 285,528kWh.

¹⁷ Relevant data has been restated.

Total employees	Unit	2020	2019
Total number of employees at the end of the Reporting Period	headcount	2,256	2,149
Gender			
Male	–	57.0%	56.0%
Female	–	43.0%	44.0%
Age group			
Age 18–30	–	4.0%	4.0%
Age 31–40	–	29.9%	30.7%
Age 41–50	–	48.6%	50.0%
Age 51–60	–	17.2%	15.0%
Age 61 or above	–	0.3%	0.3%
Region			
Mainland China	–	100.0%	99.9%
Other regions outside Mainland China		0.0%	0.1%
Employment type			
Full-time and contracted	–	100.0%	100.0%
Others (part-time, fixed-term or casual)	–	0.0%	0.0%

Employee turnover rate	Unit	2020	2019
Resignation during the year	headcount	299	159
Turnover rate ¹⁸	–	13.3%	7.4%
Gender¹⁹			
Male	–	12.2%	7.6%
Female	–	14.6%	7.2%
Age group¹⁹			
Age 18–30	–	83.1%	15.8%
Age 31–40	–	17.0%	7.5%
Age 41–50	–	4.7%	4.6%
Age 51–60	–	14.7%	10.7%
Age 61 or above	–	0.0%	85.9%
Region¹⁹			
Mainland China	–	13.3%	7.4%

¹⁸ Employee turnover rate = number of employee resigned/total number of employees at the end of the Reporting Period.

¹⁹ Employee turnover rate = number of employee resigned of this category/total number of employees at the end of the Reporting Period of this category.

Employee training ^{20,21}		Unit	2020	2019
Total number of employees trained		Headcount (–)	2,174 (96.4%)	1,976 (91.9%)
Total training hours		hour	77,924	28,993
Average training hours ²²		hour	34.5	13.5
Gender				
Male	Number of employees trained (trained employee ratio)	headcount (–)	1,178 (91.6%)	1,045 (86.8%)
	Average training hours ²³	hour	31.0	13.1
Female	Number of employees trained (trained employee ratio)	headcount (–)	996 (102.7%)²⁴	931 (98.5%)
	Average training hours ²³	hour	39.2	14.0
Position type				
Management level (Deputy manager or above)	Number of employees trained (trained employee ratio)	headcount (–)	13 (96.0%)	13 (93.1%)
	Average training hours ²³	hour	26.0	23.6
General employee	Number of employees trained (trained employee ratio)	headcount (–)	2,161 (96.5%)	1,964 (91.9%)
	Average training hours ²³	hour	34.6	13.4

²⁰ The training data only includes internal training, including online courses.

²¹ Only include full-time employees.

²² Average training hours = total training hours/total number of employees at the end of the Reporting Period.

²³ Average training hours = total training hours of this category/total number of employees of this category at the end of the Reporting Period.

²⁴ The numerator for calculating the number of trainees includes resigned employees and therefore exceeds the total number of employees at the end of the Reporting Period.

INDEX OF THE GUIDE

The following is an index of the disclosure content of “Environmental, Social and Governance Reporting Guide” as set out in Appendix 27 of the Listing Rules of the Stock Exchange in this Report.

Part B: Mandatory Disclosure Requirements

Disclosure content	Reporting guidelines	Reporting sections	Notes
Governance Structure	<p>A statement from the board containing the following elements:</p> <ul style="list-style-type: none"> (i) a disclosure of the board’s oversight of ESG issues; (ii) the board’s ESG management approach and strategy, including the process used to evaluate, prioritise and manage material ESG-related issues (including risks to the issuer’s businesses); and (iii) how the board reviews progress made against ESG-related goals and targets with an explanation of how they relate to the issuer’s businesses. 	<p>Message from the Chairman</p> <p>Environmental, Social and Governance Structure</p>	
Reporting Principles	<p>A description of, or an explanation on, the application of the following Reporting Principles in the preparation of the ESG report:</p> <p>Materiality: The ESG report should disclose: (i) the process to identify and the criteria for the selection of material ESG factors; (ii) if a stakeholder engagement is conducted, a description of significant stakeholders identified, and the process and results of the issuer’s stakeholder engagement.</p> <p>Quantitative: Information on the standards, methodologies, assumptions and/or calculation tools used, and source of conversion factors used, for the reporting of emissions/energy consumption (where applicable) should be disclosed.</p> <p>Consistency: The issuer should disclose in the ESG report any changes to the methods or KPIs used, or any other relevant factors affecting a meaningful comparison.</p>	<p>About This Report</p> <p>Reporting Standards</p> <p>Stakeholder Engagement</p> <p>Materiality Assessment</p>	
Reporting Boundary	<p>A narrative explaining the reporting boundaries of the ESG report and describing the process used to identify which entities or operations are included in the ESG report. If there is a change in the scope, the issuer should explain the difference and reason for the change.</p>	Reporting Scope	

Part C: “Comply or explain” Provisions

Aspects	No.	Reporting guidelines	Reporting sections	Notes
Environmental				
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 air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Environmental Protection	
	A1.1	The types of emissions and respective emissions data.	Environmental Protection, Summary of Statistics	
	A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Environmental Protection, Summary of Statistics	
	A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	–	The operation process does not produce a significant amount of hazardous waste.
	A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Environmental Protection, Summary of Statistics	
	A1.5	Description of emissions target(s) set and steps taken to achieve them.	Environmental Protection	We are studying the applicable emission targets and will make relevant disclosures after the targets are established.
	A1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them.	Environmental Protection	We are studying the applicable waste reduction targets and will make relevant disclosures after the targets are established.

Aspects	No.	Reporting guidelines	Reporting sections	Notes
A2 : Use of Resources	General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Environmental Protection	
	A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	Environmental Protection, Summary of Statistics	
	A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	Environmental Protection, Summary of Statistics	
	A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	Environmental Protection	We are studying the applicable energy efficiency targets and will make relevant disclosures after the targets are established.
	A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them.	Environmental Protection	We have no problems in obtaining suitable water sources in our operation. We are studying the applicable water efficiency targets and will make relevant disclosures after the targets are established.
	A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Environmental Protection, Summary of Statistics	
A3 : The Environment and Natural Resources	General Disclosure	Policies on minimising the issuer's significant impacts on the environment and natural resources.	Environmental Protection	
	A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Environmental Protection	
A4 : Climate Change	General Disclosure	Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.	Environmental Protection	
	A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	Environmental Protection	

Aspects	No.	Reporting guidelines	Reporting sections	Notes
Social				
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.	Care for Employees	
	B1.1	Total workforce by gender, employment type (for example, full- or part-time), age group and geographical region.	Care for Employees, Summary of Statistics	
	B1.2	Employee turnover rate by gender, age group and geographical region.	Care for Employees, Summary of Statistics	
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.	Care for Employees	
	B2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.	–	The Group is improving the disclosure of relevant occupational health data, and will make relevant disclosures in future financial years.
	B2.2	Lost days due to work injury.	–	The Group is improving the disclosure of relevant occupational health data, and will make relevant disclosures in future financial years.
	B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.	Care for Employees	

Aspects	No.	Reporting guidelines	Reporting sections	Notes
B3 : Development and Training	General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Care for Employees	
	B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	Summary of Statistics	
	B3.2	The average training hours completed per employee by gender and employee category.	Care for Employees, Summary of Statistics	
B4 : Labour 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 labour.	Care for Employees	
	B4.1	Description of measures to review employment practices to avoid child and forced labour.	Care for Employees	
	B4.2	Description of steps taken to eliminate such practices when discovered.	–	No violation was found during the Reporting Period.
B5 : Supply Chain Management	General Disclosure	Policies on managing environmental and social risks of the supply chain.	Industry Optimization	
	B5.1	Number of suppliers by geographical region.	Industry Optimization	
	B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored.	Industry Optimization	
	B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	Industry Optimization	
	B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	Industry Optimization	

Aspects	No.	Reporting guidelines	Reporting sections	Notes
B6 : Product Responsibility	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.	Industry Optimization	
	B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	–	During the Reporting Period, there were no incidents requiring voluntary recall of products.
	B6.2	Number of products and service related complaints received and how they are dealt with.	Industry Optimization	
	B6.3	Description of practices relating to observing and protecting intellectual property rights.	Industry Optimization	
	B6.4	Description of quality assurance process and recall procedures.	Industry Optimization	
	B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	Industry Optimization	
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 bribery, extortion, fraud and money laundering.	Industry Optimization	
	B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	–	No corruption lawsuits occurred during the Reporting Period.
	B7.2	Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored.	Industry Optimization	
	B7.3	Description of anti-corruption training provided to directors and staff.	Industry Optimization	

Aspects	No.	Reporting guidelines	Reporting sections	Notes
B8 : Community Investment	General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Community Investment	
	B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	Community Investment	
	B8.2	Resources contributed (e.g. money or time) to the focus area.	Community Investment	