



中裕燃氣控股有限公司

ZHONGYU GAS HOLDINGS LIMITED

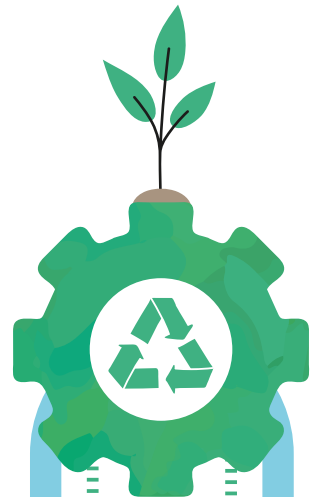
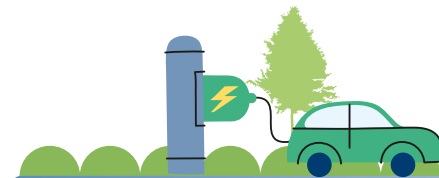
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ABOUT US

Zhongyu Gas Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group” or “Zhongyu Gas”) provide professional gas services in various cities in China. The three major business segments, namely the sales of gas, gas pipeline construction and connection, and the sales of stoves and provision of other related services, contributed 72.4%, 17.4% and 7.4% of the Group’s turnover in 2020, respectively. Other businesses also include the operation of compressed natural gas (CNG)/liquefied natural gas (LNG) vehicle filling stations, and the sales of liquefied petroleum gas. As of 31st December, 2020, the Group’s city gas pipeline business covered 9 provinces, namely Henan, Shandong, Hebei, Jiangsu, Anhui, Heilongjiang, Jilin, Fujian and Zhejiang, with 72 exclusive gas projects and has an accumulated gas pipeline construction of 25,456 km, providing safe and stable clean energy products and services to approximately 3.97 million residential, industrial and commercial users, which assisted the development of gas business in the cities served, improved the energy structure, enhanced the quality of life of the citizens, and made due contribution to the quality of environment.

Zhongyu Gas has always complied with market reform and industry development, focused on the operating principle of “market-driven, customer-oriented, and efficiency-centered”, and strived to construct new modes of business and create new values. During the Year, Zhongyu Gas proposed a new business layout strategy of “one body, three wings” for the four business groups of “city gas”, “value-added business and new retail”, “smart energy” and “energy trading”. The diversified development and innovation and upgrading pace of the Group’s business changed from “rapid start” to “steady speed-up”.

Currently, Zhongyu Gas involves in a variety of businesses in the city gas sector, such as residential cooking, wall-hung boiler for household heating, gas boiler heating, hotel hot water system, gas air-conditioning and commercial catering. At the same time, it actively explores one-stop service and has provided one-stop service of gas boilers for numerous schools. It also provides one-stop service of central heating for various residential communities. In industrial fuel sector, it involves dozens of industries such as glass, forging, textile, nonferrous metals, metallurgy, construction materials, carbon, asphalt mixing and food.

The “Environmental, Social and Governance Report” (the “Report”) published by the Company provides stakeholders with a better understanding of the Group’s progress and direction on sustainable development by reporting on the Group’s environmental, social and governance policies, measures and performances. The Report is available in both Chinese and English and has been uploaded to the websites of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and the Group (www.zhongyugas.com).



SCOPE OF THE REPORT

The Group is continuously improving the internal data collection system and gradually expanding the scope of disclosure. During the Year, the coverage of the Report relating to key environmental performance indicators has been expanded to include all operations and businesses of the Group in Hong Kong and Mainland China.

The Report discloses the sustainability performance of the Group's operations and businesses from 1st January, 2020 to 31st December, 2020 (the "Year"). Businesses of the Group mainly include the sales of gas, gas pipeline construction, the sales of stoves and provision of other related services, and the operation of CNG/LNG vehicle filling stations. The Group will continue to improve the internal data collection system to provide stakeholders with more comprehensive and accurate information in the future.

STANDARDS OF THE REPORT

The Report is prepared in accordance with the "Environmental, Social and Governance Reporting Guide" (the "Guide") set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and on the basis of its four reporting principles – Materiality, Quantitative, Balance and Consistency. In order to enhance stakeholders' understanding of the Group's environmental, social and governance performance, apart from the key environmental performance indicators disclosed under the "Comply or Explain" provisions, the Group has also reported on key social performance indicators set out in the "Recommended Disclosures" under the Guide.

CONFIRMATION AND APPROVAL

The Group has established an internal supervision, examination and risk management system to ensure that all information presented in the Report is accurate and reliable. The Report was confirmed and approved by the Board of Directors of the Company on 19th July, 2021.

FEEDBACK

Opinions and suggestions from stakeholders will help the Group establish more comprehensive sustainable development strategies in the future. If you have any questions about the content or reporting format of the Report, please feel free to contact the Group.

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CHAIRMAN'S STATEMENT

In face of the COVID-19 pandemic as well as the severe domestic and international economic situations in 2020, the PRC natural gas market encountered new opportunities and challenges in terms of reform, gas sources, gas storage and trading. Despite the serious impact caused by the COVID-19 pandemic on the domestic economy, the Group has timely adjusted its development strategy by actively promoting all business segments under the layout of “one body, three wings”, maintaining the steady development of various businesses.

Looking back on 2020, the Group sold diversified ancillary products such as gas appliances, insurance and bellows under its own retail brand “Zhongyu Phoenix” (中裕鳳凰) in response to the market changes during the pandemic, and provided users with safe and efficient stove equipment and services to further increase customer stickiness and promote the brand image of the Group. The online retail platform “Zhongyu iFamille” (中裕家) has recorded good sales since its launch, which helped the sales of goods with local features and supported the resumption of work and production.

With the transition to a low-carbon economy and the promotion of the coal-to-gas policy, the domestic demand on natural gas is increasing. According to the Medium- and Long-term Oil and Gas Pipelines Network Plan issued by the National Development and Reform Commission and the National Energy Administration, the domestic natural gas pipeline network will reach 163,000 km by 2025. Meanwhile, the PRC will strive to promote the target of “carbon neutrality”, which has fostered the green energy transformation.

As the Group develops rapidly under the policies, the Group is also committed to responding to the development trend of the industry. Under the Group's “one body, three wings” development strategy, the energy trading segment will reform its business model in customer energy solutions, smart logistics and supply chain digitization. Meanwhile, the Group will gradually establish a user-oriented, diversified and low-carbon new energy system that is smart, safe, clean and efficient in order to provide higher quality energy to the public and reduce its impact to the environment. It also provides users with more efficient and stable, safe and convenient, clean and low-cost integrated energy services, in order to achieve transformation and upgrade in products, operations and strategies and become a new driver of the Group's “second takeoff”.

Apart from the environmental aspect, the Group also participated in the establishment of the industry union while serving the community to support the development of national and local gas industry. The Group actively participated in various social welfare activities related to poverty alleviation organized by the government, and paid special attention to poor households and elderlies living alone, which reflects good practice in corporate responsibility of the Group as a listed company. In addition, the Group also hopes to promote the concept of gas safety to every household by educating the children about natural gas in order to reduce potential safety hazards of household gas use and enhance service image of the Company.



The Group attaches great importance to corporate governance and regards safety, quality, efficiency and effectiveness as its core values, especially safety, which is a necessity to support the long-term development of the Group. Accordingly, the Group emphasizes on safety checks, education and trainings. The Group will strengthen quality control, improve the management systems of all departments, including the implementation of management measures such as the “Ten Red Lines of Zhongyu Gas Employee Behavior” and “Notice on Further Strengthening the Supervision and Contribution of the ‘Top Leaders’ and the Management Team”, and enhance the prevention and control of risks as well as the comprehensive supervision of all businesses to foster the overall development of the Group.

In 2021, the Group should firmly grasp new development opportunities, stay committed to the Group’s “one body, three wings” strategy layout, and make our best effort to carry out every task with an aim to promote high quality development. The city gas segment should seek advancement and improvement, promote innovation and expand customer base; the value-added business and new retail segment should increase the scale of both regular and online businesses; the smart energy segment should create new source of earnings and develop new competitive drivers and advantages; and the energy trading segment should continue to optimize its source to achieve further enhancement of the structure of gas source and operating efficiency. Meanwhile, the Group will continue to carry out the third “Deepening Management Improvement Year” action by focusing on our operating tasks to fuel the new journey of “one body, three wings” with refined management. All staff members will continue to forge ahead with a determined focus of reform and innovation, so as to achieve Zhongyu’s vision of becoming “the most valuable integrated energy service provider” with promising results!

Wang Wenliang

Chairman

Hong Kong

19th July, 2021



SUSTAINABILITY GOVERNANCE

The Board of Directors of the Company is committed to high standards of corporate governance. We believe that good corporate governance measures can effectively help Zhongyu Gas establish and achieve its long-term strategies and objectives, and lead the Group to grasp opportunities and respond to risks arising from sustainable development. The Board of Directors also assumes full responsibility for the Group's environmental, social and governance strategies and reporting. Currently, the Group has set up an environmental, social and governance working group. The working group is fully responsible for the work related to the Group's sustainable development and is required to report regularly to the Board of Directors. The main duties of the working group are:

1. Formulating environmental, social and governance strategic programmes
2. Assessing environmental, social and governance risks
3. Coordinating and communicating with external organizations, facilitating sustainable development

As an essential component of corporate governance, the Group is of the view that, the risk management and internal control system has a key role and is significant to the fulfillment of business objectives. The Board of Directors is responsible for the establishment of the risk management and internal control system to ensure clear management structure with well-defined monitoring rights and responsibilities. The effectiveness thereof is reviewed regularly by the Audit Committee.

The Group has formulated Environmental, Social and Governance Policy and optimized internal management system for environmental, social and corporate governance. The purpose of formulating the policy is to strengthen internal communication and ensure all staff members understand as well as implement the policies and specific measures in a proper manner. To ensure the proper implementation of the policy, the Group has appointed the department of planning and finance to coordinate with related departments, including the human and resources department, the marketing department, the procurement department, the audit and supervision department, the safety operation department and the president office. The department of planning and finance is also responsible for overseeing the implementation of the policy, assuring the continuous communication with the staff members regarding the policy, and regular modification of the policy. Taking into account factors such as the change of operation, regulatory requirements, the results of participation of stakeholders and the effectiveness of the environmental, social and governance measures, the planning and finance department has to conduct review at least once a year to examine and modify the policy. All modifications of the policy are subject to approval from the management headquarters. And all staff members and related stakeholders should be notified in writing in respect of the modifications.

Based on the risk management and internal control system, and the assessment of the environmental, social and governance working group of the Group, the Board of Directors has identified the following environmental, social and governance risks and ensured that the corresponding measures are adequate and effective.



| Principal Environmental, Social and Governance Risks | Impact | Control measures |
|--|--|--|
| Occupational safety | As an energy sales enterprise, the Group attaches great importance to the protection of employees' health and safety at work. In the course of operation, employees' trust in the Group will falter when health and safety problems occur to employees, thus affecting the operating performance of the Group. | <p>The Group strives to reduce possible occurrences of safety accidents during operation by the following means.</p> <ul style="list-style-type: none"> Safety inspection: In 2020, we established a team of internal safety auditors to carry out safety audit on the basis of safety inspection, covering the acquisition of working permits for employees who engage in specific types of jobs, distribution of work protective devices and maintenance of safety facilities. Safety education and training: For instance, operation training on safety for special operation personnel, fire safety training, and emergency response drills. |
| Product liability | The Group considers the management of health and safety risks of the products to be of great importance. In case of product quality issues, the Group will not only bear the corresponding legal risks, but also cause huge impacts on the safety of residents residing in areas around the operation sites. | By improving the internal supervision and examination and risk control policies, as well as strengthening the management of pipeline maintenance, gas leakage and emergency plans, the Group is committed to ensuring that product quality is in line with national laws and regulations and the interests of users. We have also set up a hotline to encourage users to report any irregularities and gas accidents. |

Future prospects: improving sustainability governance

In order to standardize the work and progress in sustainable development of the Group, the Board of Directors will require each department of the management headquarters and subsidiaries to appoint a person in charge to manage the environmental, social and governance work of their department or subsidiary. Meanwhile, the Board of Directors understands that the existing risk management and internal control system has not adequately covered all sustainable development issues, and hence plans to include potential environmental, social and governance issues into the Group's risk management system to improve risk management.



COMMUNICATION WITH STAKEHOLDERS

Zhongyu Gas values the participation of stakeholders¹ and strongly believes that building a relationship of trust not only enables stakeholders to understand the Group's work and performance in promoting sustainable development, but also enables the Group to understand stakeholders' opinions and needs so as to examine potential risks and opportunities. The Group communicates with each key stakeholder through daily operations and various communication channels.

| Internal stakeholders | External stakeholders |
|--|---|
| Directors, management, executives and general employees | Investors, customers, suppliers, government, banks and partners |
| Communication means include emails, phone calls, meetings, interviews and seminars | |

The Group has appointed an independent consultant to assist in the preparation of the environmental, social and governance report during the Year. In the course of preparation, the consultant assisted the management of the Group in reviewing the environmental, social and governance issues under the Guide and identifying substantive issues according to their importance to stakeholders and the extent of the Group's impact on society and the environment. Based on the results of the review, the management considers that the substantive issues of the Group during the Year remain unchanged, namely:

1. Utilization of resources – the board of directors believes that the reasonable use of resources is an integral part of achieving sustainable development and saving operating costs. The Group insists on saving energy and water in daily office work. Inspection and analysis are regularly conducted to improve the efficiency of energy resources utilization.
2. Employment – the board of directors indicates that employees are the most valuable asset of the Company, and the management of talent and the career development of employees are the priorities of the Group. It strives to introduce people-oriented policies to attract and retain employees.
3. Development and training – the board of directors places great emphasis on employee development and training. It actively provides various development and training opportunities to employees, and organizes training activities to enhance employees' vocational skills and expand their career development paths.

Future prospects: facilitating communication with stakeholders

The Group is convinced that the opinions of stakeholders can allow the management to have an overall understanding of the risks of sustainable development and formulate corresponding measures for improvement. Therefore, the Group will consider using different forms of stakeholder communications, such as online questionnaires, to understand the level of concern of internal and external stakeholders on different sustainable development issues and relevant suggestions.

¹ Stakeholders refer to groups and individuals who have a major impact on, or are impacted by, the Group's business, including internal board of directors, management, executives, and general employees, as well as external shareholders, business partners, customers, suppliers, government and regulators, banks and investors, and community groups.



The Group is committed to comply with all applicable laws and regulations in each operation location, such as the Environmental Protection Law of the People's Republic of China, Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste, Waste Disposal Ordinance and Water Pollution Control Ordinance, manage and reduce impacts from its daily operation on the environment, and foster environmental responsible operation culture in each operating site. Subsidiaries in each operation location would examine the impacts of their business operation on the environment and set up appropriate measures for environmental management. The environmental protection approach adopted by Zhongyu Gas focuses on the three aspects of "Emissions", "Utilization of Resources" and "Environment and Natural Resources". For such purposes, the subsidiaries have developed specific management guidelines and measures in accordance with the Group's policies and its own operating characteristics.

MANAGEMENT OF EMISSIONS AND USE OF RESOURCES

| | | | |
|---|---|--|--|
| Greenhouse gas emission 31,797.5 tonnes of CO ₂ equivalent | Air pollutants emission Nitrogen oxides, sulphur oxides and respiratory suspended particles | Non-hazardous waste generated 605.4 tonnes | Energy consumption 158,681.2 MWh |
|---|---|--|--|

Zhongyu Gas has established a monitoring and emission mechanism to formulate and adopt specific measures, so as to ensure proper management and reduction of air pollutants, greenhouse gases, waste and wastewater emissions from its operations.

Air pollutants emission

The main sources of air pollutants emission of the operation of the Group's offices during the Year including nitrogen oxides, sulphur oxides and respiratory suspended particles were generated from the use of vehicles, standby power generation and fossil fuel combustion in boilers. During the Year, the scope of disclosure of the key environmental performance indicators includes the offices in Hong Kong and Mainland China. Certain offices in Mainland China are equipped with kitchen equipment, generators and boilers, which produce air pollutants emission when used. Compared with 2019, in 2020, due to the increase in the usage of LNG in various places, the Group needs to utilize more vehicles to assist in the transportation of LNG. In addition, the Group's business development is booming, both of which have a certain impact on air pollutants emission. In the future, the Group will be committed to conducting research in reducing air pollutants emission and jointly building a clean environment.

| | Type | Emission in 2020 (kg) | |
|-------------------------|--|-----------------------|----------------|
| | | Hong Kong | Mainland China |
| Air pollutants emission | Nitrogen oxides | – | 4,373.7 |
| | Sulphur oxides | 0.1 | 609.7 |
| | Respiratory suspended particles (PM10) | – | 161.0 |



ENVIRONMENTAL PROTECTION

Greenhouse gas emission

Zhongyu Gas pays close attention to its carbon footprint. During the Year, Zhongyu Gas continued to engage a professional consultant to assess the Group's greenhouse gas emission, including carbon dioxide, methane and nitrous oxide. The quantification process of greenhouse gas is based on the guidelines² issued by the Environmental Protection Department and the Electrical and Mechanical Services Department in Hong Kong, guidelines³ issued by the National Development and Reform Commission of the PRC, as well as the international standards such as ISO14064-1 and the Greenhouse Gas Protocol. The total carbon emission generated by the Group's office operation during the Year was about 31,797.5 tonnes of CO₂ equivalent. Due to the pandemic in 2020, the Group further adopted the video conferencing system to replace the physical meetings held previously. As a result, the number of employees' business trips was reduced. This measure has led to a slight reduction in the greenhouse gas emissions intensity per capita in the Year when compared to last year.

| Scope | Emission in 2020 (Tonnes of CO ₂ Equivalent) | |
|---|--|----------------|
| | Hong Kong | Mainland China |
| Scope 1 Direct greenhouse gas emission ⁴ | 15.5 | 18,948.7 |
| Scope 2 Energy indirect greenhouse gas emission ⁵ | 9.2 | 12,290.1 |
| Scope 3 Other indirect greenhouse gas emission ⁶ | 0.6 | 533.4 |
| Total greenhouse gas emission | 25.3 | 31,772.2 |
| Greenhouse gas emission intensity (Calculated by the number of employees) | 6.8 tonnes of CO ₂ equivalent/employee | |

| | Emission in 2019 (Tonnes of CO ₂ Equivalent) |
|---|--|
| Greenhouse gas emission intensity (Calculated by the number of employees) | 7.0 tonnes of CO ₂ equivalent/employee |

² The "Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings (Commercial, Residential or Institutional Purposes) in Hong Kong"

³ The "Guide for Greenhouse Gases Emission Accounting Methods and Reporting for Petroleum and Natural Gas Production Enterprises in China (Trial)" (《中國石油天然氣生產企業溫室氣體排放核算方法和報告指南(試行)》)

⁴ It includes the Group's fossil fuel combustion from fixed and mobile sources, as well as greenhouse gases released during the operations of equipment and systems.

⁵ It includes greenhouse gas emissions produced during the Group's electricity consumption.

⁶ It includes greenhouse gas emissions from waste paper disposal in offices and business travel by air by the Group's employees.



Waste

During the Year, the Group's office operations generated a total of 2.2kg of hazardous waste, mainly including waste batteries and disposable masks, which were collected and disposed of by qualified contractors. At the same time, the Group generated a total of 605.4 tonnes non-hazardous waste, which are mainly office wastes and domestic wastes. Most office wastes are recyclable wastes. The Group implements a waste classification and management system on office wastes which recovers and recycles as much as possible, so as to reduce environmental pollution. Certain non-degradable wastes are transferred to the municipal department for disposal. Domestic wastes are also classified and recycled as far as possible, so as to reduce the pressure on the environment due to degrading wastes.

In order to continue to reduce different types of emissions generated by the operations of the Group's offices, the Group has established waste reduction goals and is committed to reducing the intensity of hazardous and non-hazardous wastes per capita in the Year. The following measures have been implemented to minimize the environmental impact of office operations.

| Emission | Measures |
|--|---|
| Air pollutants and greenhouse gases | <ul style="list-style-type: none"> Identify sources of air pollutants and greenhouse gases generated during the operation and strengthen source management; and Encourage employees to take public transportation and avoid the use of the company's vehicles when possible. |
| Hazardous and non-hazardous waste* | <ul style="list-style-type: none"> Adopt the "5R" principle ("replace", "reduce", "reuse", "recover" and "recycle") to manage wastes; put the waste management system into practice based on the principle of reducing waste at source, and ensure that relevant staff understands the disposal requirements of hazardous and non-hazardous waste; Implement garbage classification of hazardous and non-hazardous wastes, and separate hazardous waste for storage; and Regularly review the generation and recovery of hazardous and non-hazardous waste, and develop waste reduction targets based on actual circumstances. |

* The Group regularly analyzes the use of resources and the recycling of wastes on an annual basis. At the same time, it clearly instructs all departments to dispose of hazardous wastes at designated points and time. Non-hazardous wastes are required to be placed separately, and all resources should be recycled, recovered and reused as much as possible. The intensity of hazardous and non-hazardous waste in 2019 and 2020 is listed below for reference.

| Intensity of waste (Calculated by the number of employees in Mainland China) | 2020 | 2019 |
|---|----------------------|----------------------|
| Hazardous waste | 0.47 g/employee | 2.51 g/employee |
| Non-hazardous waste | 0.13 tonnes/employee | 0.15 tonnes/employee |



ENVIRONMENTAL PROTECTION

Energy and water resources

In terms of energy consumption, it mainly resulted from the office operations in Hong Kong and Mainland China, and the non-renewable fuel used for private cars and trucks, including diesel, unleaded gasoline, liquefied petroleum gas, gasoline, kerosene, natural gas and LNG. The total energy consumption amounted to approximately 158,681.2 MWh in the Year. In general, the total energy consumption increased as compared with that of last year. As a result, the energy consumption per capita in the Year has slightly increased to 33.9 MWh, representing a slight increase of approximately 10%. The Group has regularly reviewed energy targets and indicators through the establishment of an energy management system based on the data from the previous year to lower the electricity consumption per capita and continuously enhance the Group's energy performance. The Group controls the use of air conditioners and requires employees to adjust the temperature to 26 degrees celsius. Meanwhile, employees should turn off the electricity when leaving the workplace. Mid-level management from various departments is expected to strengthen supervision on the use of electricity to reduce waste of energy. In the future, we will enhance the education on energy saving and emission reduction.

The Group hopes not only to promote energy conservation and efficiency at a group level, but to continue to demonstrate the Group's strengths in sustainable industries. The Group strives to promote high-quality smart energy and decentralized energy projects. By introducing decentralized energy, customers can improve the comprehensive utilization efficiency of energy and the advantages of the Internet and intelligent energy system will improve the energy structure and achieve energy transformation. Among which, the distributed energy system of the Xinmi Women and Children's Energy Station of the Group has energy-saving advantages, which has an average annual energy utilization rate of 82.4%. Compared with the general distribution method, the distributed energy system using natural gas can reduce the use of standard coal each year by 446 tonnes and reduce the emission of carbon dioxide by 2,255 tonnes, sulfur dioxide by 89 tonnes, nitrogen oxides by 69.5 tonnes and dusts by 807 tonnes, which is equivalent to the emission reduction of planting 123,000 trees each year.

In terms of the use of water resources, the operation of offices in Mainland China consumed a total of approximately 97,677.7 m³ of water resources in the Year. As the Hong Kong office does not have a separated metering, the attempt to obtain water consumption data was unsuccessful after communicating with the property management. As the number of employees in the Hong Kong office only accounts for approximately 0.2% of the total number of employees of the Group, water consumption of that office is negligible. To reduce water consumption, the Group has enhanced its efficiency of water usage by introducing water-saving technologies such as water-saving faucets and water-saving toilet systems, thereby reducing the use of water in its daily operation. Meanwhile, the Group has also posted water-saving slogans in the operation sites, educated staffs to save water and encouraged them to treasure water, thereby improving management of water resources in various operation sites. Through implementing management measures of water resources, the Group's water consumption per capita reduced from 25.8 m³ in the previous year to 20.9 m³ in the Year, which decreased by approximately 19.3%.



Packaging materials

The packaging materials of the Group were mainly generated from the packaging for the sales of stoves. The Group has used a total of 1.0 tonne of plastic and 0.4 tonnes of paper for packaging in the Year. According to the national policy on strengthening plastic pollution governance, companies are required to gradually reduce the use of plastic packaging, strengthen green management responsibilities, and jointly deal with plastic pollution. The Group strongly supports this policy and will re-examine the use of packaging materials and implement effective measures to actively reduce the use of packaging materials.

Future prospects: continual assessment for emissions and use of resources

Going forward, the Group expects to continuously assess, record and disclose annual data regarding different emissions and use of resources. At the same time, the Group will encourage employees to reduce the utilization of resources and increase the tendency of reusing and recycling resources, and optimize its energy management. Data from the Year will be taken as a base figure to form the foundation of the formulation of improvement measures as well as energy saving and emission reduction targets in the future.

ENVIRONMENT AND NATURAL RESOURCES

Zhongyu Gas understands that its operations may cause certain impacts on the surrounding environment and natural resources. Meanwhile, natural gas can moderately alleviate air pollution caused by the use of coal. The Group strictly abides by the Environmental Protection Law of the People's Republic of China and Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste, and utilizes the clean nature of natural gas to implement "coal-to-gas", so as to minimize air pollution caused by its operations. The "coal-to-gas" measure has contributed more than one-third of the reduction of PM2.5. The previous national coal-based energy structure has caused air pollution to the atmosphere. In recent years, as the "coal-to-gas" project continues to advance, the national environmental problem has been improved significantly. The Group is committed to strengthening its work related to natural gas management based on the Group's internal environmental, social and governance policies, so as to ensure that the Group's operations are in compliance with the principles of sustainability in various aspects, and is dedicated to set ecology protection and clean energy development as its main work direction.

The Group is committed to avoiding pipeline construction in ecologically sensitive areas based on scientific selection principles. Meanwhile, it will increase the vegetation coverage to reduce soil erosion during the construction process, thereby ensuring that construction of the whole project is in line with the Group's environmental management plan. In the future, apart from continuing to follow national environmental policies, the Group will also pay attention to the development of smart energy and decentralized energy business to promote the diversification of energy supply.

The Group complies with relevant laws and regulations, such as the Environmental Protection Law of the People's Republic of China, Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste, Waste Disposal Ordinance and Water Pollution Control Ordinance. During the Year, there were no reported cases of non-compliance in respect of emission or the environment.



EMPLOYMENT AND LABOUR PRACTICES

Employment system

The Group values and respects its employees, strictly abides by the Labour Law of the People's Republic of China, the Labour Contract Law of the People's Republic of China and the Employment Ordinance (Cap. 57 of the Laws of Hong Kong), and has formulated internal policies such as the "Administrative Measures for Reserve Cadres of Zhongyu Gas" and "Environmental, Social and Governance Policies" which strive to improve the employment relationship and promotion mechanism, and set requirements on equal opportunities, diversity and anti-discrimination, so as to achieve the goal of establishing a diverse and equal working environment. At the same time, the subsidiaries have gradually developed management systems such as the "Organizational Discipline Management System" and the "Labour Management System" to further improve the framework of the Group's employment system and protect employees' legitimate interests from being infringed.

Compensation and dismissal

The relevant labour management requirements are:

- The Group adopts various compensation policies for different employee categories. The human resources department formulated a specific compensation plan. After being reviewed by the financial manager and the general manager, the human resources department will implement the plan. The Group adopts a unified compensation system for employees of all city gas subsidiaries.
- In principle, the salary of employees at all levels shall be established by the respective departments where they belong in accordance with the relevant compensation policies, and the salary of management level of each subsidiary shall be determined by the management headquarter. The salary of employees will be adjusted according to their working positions.
- In general, a certain proportion of performance incentives is included in the employee's salary, which, the amount will be adjusted according to the performance and the appraisal result of the employee. The bonus of employees (including year-end performance bonus and other special bonus) is discretionary, and its payment as well as the amount of payment depend on actual circumstances, including but not limited to: the performance and effectiveness of the unit the employee belongs to, and his/her individual performance and contribution etc. The Group adopts a differentiated bonus distribution method to provide an equitable and fair compensation to employees based on their contribution, value creation and devotion.
- Resignation: If an employee resigns, he/she should complete the Resignation Application Form thirty days in advance and report to the supervisors at the relevant levels for approval, negotiate on terminating the labour relationship, and complete the resignation and handover procedures before the last working day. The Company will issue a certificate of labour contract termination, perform salary settlement, suspend the payment of the Insurance and Housing Fund and other related remuneration and benefits accordingly.
- Dismissal: Termination of contracts by the Company includes the "dismissal of employees in accordance with laws and regulations" and the "dismissal through negotiation in accordance with laws". In case of the above situations, it is necessary to provide evidence and related information that complies with the basis for termination of contracts, report to the supervisors at all levels, and obtain approval from the legal affairs management department. Upon the issuance of the termination notice or agreement, the termination time, salary settlement, economic compensation, Insurance and Housing Fund, handover and other subsequent rights and obligations are explained and agreed in accordance with relevant laws and regulations.



Recruitment and promotion

Policies of the Group stipulate that:

- Recruitment: All recruitment practices are subject to the employment law of the place of operation. Labour contracts are signed to protect the rights of both the employers and employees.
- Promotion: In order to provide a complete promotion ladder and career path development opportunities, the Group has divided the promotion channels into “technical” and “management” to guide employees to the management or technical path development, so as to expand promotion career paths for different employees. In addition, the Group also implements a performance management system and employee reward and punishment system to encourage employees to make continuous progress.

Working hours and rest period

The Group promises to manage staff working hours, rest period and leave in accordance with the relevant laws and regulations of the place of operation. In case of overtime work, it has negotiated with its employees that compensatory time-off or overtime allowance would be granted in accordance with the law.

Statutory holidays are full-paid holidays, and the number of days shall be subject to the notice issued by the General Office of the State Council. The actual day-offs are arranged by each unit in consideration of actual production and operation needs, as well as the nature of work of different positions. Other paid leaves are provided in accordance with relevant national regulations. For annual leave, marriage leave, bereavement leave, maternity leave, paternity leave, medical sick leave, work injury leave, International Women’s Day leave and family reunion leave, corresponding salary will be approved and paid in accordance with the existing leave management policy of the Group. Employees applying for such leaves shall stick to the leave approval procedures in accordance with the relevant management system of the Group and each of its subsidiary. Completion of leave approval procedures are necessary for the approval and payment of paid holiday to employees.

Other benefits and welfare

The Group implements a unified benefit system for all employees with a consistent distribution standard. Meanwhile, employees are guaranteed various statutory benefits in accordance with the law, and are provided with corporate benefits in consideration of actual situation.

The statutory benefits of employees are paid by their unit in accordance with local policy requirements and relevant systems of the Group, including social insurance and housing provident fund. For the statutory benefits for employees who are non-full-time labour dispatched employees, and other labour personnel, it shall be implemented as stipulated in their corresponding contracts.



EMPLOYMENT AND LABOUR PRACTICES

In addition, the Group provides corporate benefits to its employees, including:

- Holiday benefits: including Lunar New Year benefits, Mid-autumn Festival benefits, Dragon Boat Festival benefits and International Women's Day benefits for female employees.
- Seasonal benefits: including subsidies for hot summers and cold winters.
- Medical checkup: the Company provides an annual medical checkup for employees who passed their probation.
- Union benefits: gifts or condolences given by the Company in respect of marriage, illness and funeral of employees (and their immediate family members); organize cultural activities outside work for employees.

The aforesaid corporate benefits shall be implemented by the units that the employees belong to based on where the employees are located and their positions in accordance with the corresponding standards stipulated by the Group.

Equal opportunity

The Group values equal opportunities for all employees, including but not limited to employment matters regarding recruitment, promotion, transfer, training and development, compensation and benefits. Employees may consult or give feedback to their superiors level-by-level in case they have doubts on the results or consider themselves being treated unfairly in position arrangement, compensation and benefits, performance appraisal, and rewards and punishments that involve their personal interests, or they could consult or give feedback to the human resources department. Upon receiving consultation or feedback from employees, the management will explain or handle correspondingly according to their authorities.

The Company encourages employees to provide advice and suggestions for the Company's development. In case of any opinions or suggestions on operation and management, they can give feedback to their superiors level-by-level, or to the related department.

Diversity

The Group values having teams with employees from a diverse background on the adoption of policies such as hiring employees with different nationalities and ethnic groups. Disabled people are encouraged to join the Group to promote the cultural inclusion of the disabled. The Group considers individual differences as a driving force for sustainable development.

Anti-discrimination

The Group undertakes to observe the principle of equal opportunities in all employment matters, ensure that employees are respected, and not to differentiate employees by their gender, disability, pregnancy, family status, race, color, religion, age, sexuality, nationality and union membership. At the same time, we will also formulate a reporting mechanism on anti-discrimination or harassment in the workplace to deal with relevant complaints, so as to ensure that all reports are fairly handled.

The Group complies with relevant laws and regulations, such as the Labour Law of the People's Republic of China, the Labour Contract Law of the People's Republic of China and the Employment Ordinance (Cap. 57 of the Laws of Hong Kong). During the Year, there were no reported cases of non-compliance related to employment.



DEVELOPMENT AND TRAINING

The Group believes that the growth of a company is inseparable from the continuous development of its employees. Therefore, the Group encourages our employees to actively engage in self-study or participate in internal and external trainings. The Group has expanded the scope of their career development path by organizing training programmes to enhance employees' professional skills. The Group has established the Training Management System to regulate employee training programmes, and also sets out training management policies.

The human resources department of the management headquarters is fully responsible for the trainings of the Group, which mainly include the construction and maintenance of the training system, the management and organization of the lecturer team, and the evaluation and summary of the training results. The Group utilizes online learning and various knowledge sharing channels to reach more employees and maximize learning results. It will regularly develop new courses for employees to support current and future business development needs. The Group provides different types of training to its employees, including:

| Type of training | Description of training |
|-------------------------------------|--|
| Orientation training | Employees are required to receive orientation training, with content including corporate culture, corporate systems and safety production knowledge, to understand the basics of different positions. Upon completion of the orientation training, employees shall undergo orientation training assessment. Those who fail shall continue to study as required, and those who fail the orientation training assessment twice during probation shall be deemed as not meeting the employment conditions, which could be dismissed by the Company. |
| Internal on-the-job training | In accordance with the needs of business development, the Group conducts annual and monthly training for the relevant employees to improve their work skills. The Group also organizes training activities to enhance the professionalism of employees, in which employees are required to attend tests and assessments of the trainings, and conduct performance appraisals on the relevant results. |
| External training | <p>The training department encourages employees to participate in professional training organized by education and training institutions, government agencies or other various associations to understand the latest developments in the industry. The Group has formulated the External Training Management Measures (Trial) in early December 2019 to further standardize the management of external trainings, effectively coordinate the use of external resources, ensure learning results and meet the learning and development needs of the employees. The Group also arranges internal trainings on the content that employees learnt during external trainings by referring to the records and relevant information collected.</p> <p>According to the Group's external training management system, employees can attend trainings during working hours or to reimburse the expenses of external trainings as long as they meet the relevant requirements and obtain approvals from their units in advance.</p> |

After the training, if necessary, the training organization will also conduct examination to assess the performance of employees to ensure that their job knowledge and skills have been improved.

In addition, the Group also regularly evaluates the performance as a reference for employee promotion and benefits. Each department carries out performance target setting, performance improvement guidance, performance appraisal and performance incentives payment for each employee in accordance with the existing performance management system. The performance appraisal results provide a basis for the follow-up work improvement and training development of employees, as well as a reference to position arrangements of employees. The Performance Management System provides that the Group has established a performance management committee to assess the operation of each subsidiary and the performance of its employees, based on the principles of consistency, objectivity, fairness, impartiality and confidentiality.



EMPLOYMENT AND LABOUR PRACTICES

HEALTH AND SAFETY

Zhongyu Gas, as a company specializing in the sales of gas, will cause huge impact on the health and safety of its employees if an accident occurs, such as a gas leakage in the workplace. Therefore, the Group has formulated internal policies such as the “Zhongyu Gas Safety Production Management Regulations”, “Safe Production Liability Insurance System” and “Zhongyu Gas Safety Production Ban”, so as to comply with laws and regulations such as the Law of the People’s Republic of China on Work Safety, the Law of the People’s Republic of China on the Prevention and Control of Occupational Diseases and the Occupational Safety and Health Ordinance. It aims at achieving zero work injury, and continuously improving occupational health and safety, so as to improve the Group’s management regarding employees’ health and safety.

In order to ensure the safety of employees, the Group has clearly defined the production safety responsibilities of each supervisor at all levels in the Group to identify hazard risks and factors in the workplace and to take effective preventive and control measures.

| Relevant person in charge | Production safety responsibility |
|--|--|
| Head of Headquarters and Head of Subsidiaries | <ul style="list-style-type: none"> Implement the national regulations on safe production and establish corresponding safety management systems; and Formulate major accident preventive measures and emergency response plans. If a material production safety accident occurs within his/her jurisdiction, he/she should arrive at the scene promptly to organize and give commands during the rescue work. |
| Deputy general manager of safety | <ul style="list-style-type: none"> Organize and commence safety education and training to raise employees' safety awareness, to enhance the standards of safe operation, and to supervise employees who are engaged in safety management and special work to acquire permits before they work; and Supervise each department to fulfill the production safety responsibilities and implement production safety regulations, to rectify any dereliction of duty in the production process in a timely manner, and also to supervise any rectification of major production safety hazards. |
| Person-in-charge for production safety of each department | <ul style="list-style-type: none"> Responsible for announcing production safety information, such as: accident and casualties statistics, etc; Organize work related to production safety emergency drills; and Report the status of production safety to the safety supervision and management department on a monthly basis, and actively make suggestions based on the actual situation. |
| Safety administrator | <ul style="list-style-type: none"> The engineering and operation departments shall establish the position of safety administrators according to the arrangements for work safety, who are responsible for production safety management. |

In addition, each subsidiary should conduct regular safety inspections to improve the level of safety management to ensure timely elimination of safety hazards arising during operation. In June 2020, the Group issued “Zhongyu Gas safety review form” (2020 version) to replace the original “Zhongyu Gas safety checklist”. The reviewing standards consist of 5 sections, namely safety management, customer safety, transmission and distribution management, station management and “coal-to-gas” project in rural areas, totaling 502 items which are more stringent, specific and scientific.



In addition, detailed rules and regulations of “Zhongyu Gas Safety Production Ban” are clearly set out in the staff handbook for employees’ reference and compliance to prevent any accidents. Management personnel also monitor the work of employees with reference to the Ban, thereby safeguarding the health and safety of employees at root.

The Group complies with relevant laws and regulations, such as the Law of the People’s Republic of China on Work Safety, the Law of the People’s Republic of China on the Prevention and Control of Occupational Diseases and the Occupational Safety and Health Ordinance. During the Year, there were no reported cases of non-compliance regarding health and safety.

LABOUR STANDARDS

The Group respects human rights and formulates management measures in accordance with the Labour Law of the People’s Republic of China, the Law of the People’s Republic of China on the Protection of Minors and the Employment Ordinance. It prohibits the employment of child labour and forced labour in the workplace, requiring employees and business partners to comply with corresponding preventive and remedial measures, and strives to protect the legitimate interests of employees.

| Scope | Management measure |
|----------------------|--|
| Child labour | The Group stipulates that all employees shall meet the minimum age requirement stated in local law and shall verify the age of applicants during recruitment process. If a child labour is employed by mistake, the child labour will immediately be stopped from working and sent to hospital for medical examination. Meanwhile, the relevant person in charge shall contact his/her guardian or the education department where he/she is located. All expenses incurred will be borne by the Group. |
| Forced labour | The Group prohibits any forced labour practices and ensures that each employee is working voluntarily. At the same time, they can also resign in accordance with the requirements of their employment contract. The relevant labour management requirements state that all employees who are required to work overtime or be on duty during holidays must obtain prior approval from the general manager. In principle, the Group encourages employees to complete their tasks within the specified working hours and does not encourage working overtime, so as to ensure that they can freely leave the work and dormitory area in their spare time. |

The Group complies with relevant laws and regulations, such as the Labour Law of the People’s Republic of China, the Law of the People’s Republic of China on the Protection of Minors and the Employment Ordinance. During the Year, there were no reported cases of non-compliance related to child labour or forced labour.



OPERATIONAL MANAGEMENT

SUPPLY CHAIN MANAGEMENT

As a responsible gas supplier, it is an important responsibility of Zhongyu Gas to ensure the supply of high quality gas and abide by business ethics. Therefore, the Group has formulated a series of policies on supply chain management, product liability and anti-corruption to ensure that the Group's operation is in the interests of all stakeholders.

Supply chain management is an important part of the Group's operation. Good supply chain management enables the Group to provide high quality products and services to its users. The Group has formulated management systems such as the "Material Purchase Management System" and "Contract Template for Material Procurement" to regulate the selection procedures and standards of suppliers. Suppliers of the Group are mainly shortlisted through business negotiation and tender, and in principle, three suppliers will be shortlisted for each type of materials. During the Year, the Group has employed a total of 246 suppliers from Mainland China and Hong Kong.

Pursuant to the "Regulations on the Material Purchase Management System", the Group has established a supplier selection mechanism to assess the supplier's product quality, price, product usage and after-sales services, and to eliminate suppliers that do not meet the requirements of the Group.

In addition, the "Contract Template for Material Procurement" provides an explicit agreement with the suppliers on the quality assurance of the products where:

- The suppliers that the Group cooperates with shall guarantee that the contract products are brand new and fully comply with the relevant national quality standards, as well as the brand, quality, specifications and performance requirements stipulated in the contract.
- The suppliers shall guarantee the warranty period of the products and the service life and performance of the products. If any product quality problem arises during the product warranty period, the suppliers shall be responsible for free replacement or repair. In case of failure to repair or replace, the suppliers are responsible for refund, and shall timely analyze the cause in order to take corrective and preventive measures.
- Adjustments on the product varieties, specifications, quality and packaging made by suppliers due to substantial changes in production materials, production equipment, production techniques or market are subject to prior negotiations with the Group, and changes could only be made upon written confirmation by the Group.

In addition, Zhongyu Gas also focuses on managing the environmental and social risks of the supply chain, therefore, it undergoes assessment and supervision on its suppliers. While supplying products with good quality, all suppliers must also abide by strict business ethics, pursue the highest level of business ethics and integrity in business operations, and meet the environmental and social requirements of the Group, such as to:

Environmental

- ensure that no hazardous materials are being used in processing and manufacturing;
- develop an environmental protection system to manage environmental risks arising from daily operation; and
- obtain permission for environmental impact assessment.

Social

- resolutely refuse to accept any bribes and misconduct;
- maintain fair trade and competition;
- comply with relevant labour laws and regulations to ensure that the legitimate interests of employees are protected;
- not to differentiate employees by their gender, disability, pregnancy, family status, race, color, religion, age, sexuality, nationality, union membership or other reasons; and
- respect the basic labour human rights protection principles, including the internationally recognized basic labour human rights principles.

PRODUCT LIABILITY

In order to ensure that the health and safety of the products and services, intellectual property rights, customer complaint handling procedures and customer privacy protection comply with relevant national laws and regulations, the Group has formulated internal management policies such as the “Zhongyu Gas Safety Production Management Regulations”, “Guidelines for the Safety Inspection of Household Gas Facilities” and “Daily Inspection Management System”, committing to improving its products and services liability management structure.

Health and safety

The Group attaches great importance in customer health and safety. Therefore, it establishes a safety management system and implements standardized management. Through supervision, inspection and measurement verification, each process (including facility design, engineering, operation and maintenance) is in compliance with safety standards.

In addition, the Group also reduces health and safety hazards of gas users through household safety inspection. As stipulated in the “Zhongyu Gas Safety Production Management Regulations”, for non-residential users such as commercial users and industrial users, the household inspection should not be less than twice per year; for residential users, the household inspection should not be less than once per year. The focus of the household inspection should be on the use of gas facilities, such as metres, stoves, water heaters and hoses. If a safety hazard such as a leak is found, the leak test will be performed immediately to further identify the leak point. At the same time, the maintenance personnel will be notified immediately to handle it. After conducting the safety inspection, the Group will also arrange interviews with users, so as to further understand the feedback from them on the services of the Group. The Group requires a customer interview rate of not less than 5%.



OPERATIONAL MANAGEMENT

The Group has established a leading group for emergency incidents handling and specified its responsibilities, and formulated handling procedures according to the types of incidents to ensure timely and effective handling of emergency incidents on gas facilities and reduce the impacts on the location of its operation. The team must evaluate the incident rescue process to identify deficiencies of the emergency procedures and propose improvement measures. In addition, the Group ensures that employees have the ability to implement procedures for emergency incidents through annual planned training and drills.

In the event of a gas leak, each subsidiary will arrange personnel to arrive at the scene in the first place for emergency rescue, repair the faulty gas/pipeline facilities, and resume gas supply after passing the air tightness test. In the event of an indoor gas accident, each subsidiary should follow the “Essential Responses for Gas Accident Emergency of Residential Users” and the emergency plan requirements, and the emergency work group should immediately cooperate with the government organization to carry out emergency rescue and rescue work, and investigate and handle the accident.

Labelling management

The Group is committed to providing external stakeholders (including investors, customers and cooperating agencies) with complete, accurate, sufficient and timely information, including promotional publications and product labels. If the relevant information is found to be inaccurate or misleading, it should be amended and replaced by specified staff as soon as possible to protect the interests of consumers.

Customer privacy protection

The Group values the customer privacy and all data must be collected, held, used and handled in a legal and prudent manner. The management of the Group’s customer data is handled by the marketing department and the customer service department, which includes monitoring the implementation of document management by specified staff, and regularly reviewing the effectiveness of measures and proposing improvement plans. The Group also provides specific guidelines and training for employees to ensure that they understand and comply with relevant regulations and internal measures.

Intellectual property

The Group is committed to protecting intellectual property rights of the Group and its partners from being infringed and complying with the confidentiality agreement and licensing system agreed by both parties.

In addition, to ensure the use of genuine software in all operational links, the Group also provides relevant training on the use of genuine software for information management personnel. In the process of cooperating with external agencies, the contract terms also stipulate that the products and services provided by the agency do not exist any infringement.

Delivered product recall

During the Year, there were no sold or delivered products recalled by the Group due to safety and health reasons.

Complaint handling

The Group is committed to listening to customers' needs and has established a rigorous customer complaint handling mechanism. Users can file complaints directly to the operations management department, satisfying customers' expectation and enhancing service quality. After receiving the complaint, the relevant department must arrange personnel to handle and respond to the customer within three days. In addition, the Group has been taking initiatives to create a healthy business environment, and through various means of online platforms (such as online communities, WeChat official account) and publicity activities, to promote the Company's image to external parties.

The Group complies with relevant laws and regulations, such as The Product Quality Law of the People's Republic of China and Personal Data (Privacy) Ordinance. During the Year, there were no reported cases of non-compliance regarding product liability.

The Group received a total of 127 cases of inquiry and complaint in 2020, which mainly involved the following four major categories. Each department has taken initiatives to handle various complaints and enhance the communication with customers with an aim to enhance customer satisfaction.

| | Description | Handling methods |
|---|---|---|
| Inquiry of gas payment policy | Users made inquiry of the concession policy, gas price, payment method and relevant government policies. | The relevant company or department must arrange personnel to provide an explanation or respond to the customer within twenty-four hours. |
| Unable to understand the recovery notice of gas fee | Control meters malfunctioned by cutting off automatically, or failing to count users' gas usage. Personnel in charge communicated with users on matters in relation to malfunctioned meters and required to replace them. Users did not understand the fee incurred and complaints were made accordingly. | The Company has replaced the malfunctioned meters through household safety inspection. The safety inspection department of the Company will continue to step up its efforts in residence safety inspection, and will replace abnormal meters and recover outstanding gas fee in a timely manner, avoiding the losses and adverse impact to the Company incurred by meter malfunctioning and further protecting the Company's image to external parties. |
| Urge for the opening up of gas service | The Company provides weekly service to villagers in remote rural areas at a scheduled time to open up gas service for them. Since there were plenty of new users waiting at the service hall at the same time, leading to an excessively long waiting time and users were unable to open up accounts, and complaints were made accordingly. | Relevant companies are actively considering an extension of service hours to provide services to more new users. |
| Busy customer service and product repair hotlines | Some companies were only equipped with very few customer service and product repair hotlines but the service demand was high. Therefore, users were unable to put through their calls and complaints were made. | The Company has currently begun to solve the problem by setting up more customer service and product repair hotlines as well as group service supervision hotline to meet the users' need. |



OPERATIONAL MANAGEMENT

ANTI-CORRUPTION

In order to meet the fair and ethical requirements of the Group's operation, Zhongyu Gas has formulated the "Zhongyu Gas Audit and Supervision System", "Zhongyu Gas Accountability System", "Notice on Further Strengthening the Supervision and Contribution of the 'Top Leaders' and the Management Team", "Zhongyu Gas Reporting Management Measures (Trial)" and the "Ten Red Lines of Zhongyu Gas Employee Behavior" to ensure that the Group does not have any form of corruption, bribery, extortion, fraud and money laundering in the operating process, complies with relevant laws and regulations such as the Anti-Unfair Competition Law of the PRC, Anti-Money Laundering Law of the PRC and the Prevention of Bribery Ordinance, and ensure that employees understand and comply with relevant requirements, and must not participate in any bribery or corruption activities. Regulations and processes have become more specialized and specific in the Year, and a new rule, among others, was implemented to heavily punish those involved in non-compliance or disciplinary offences and strengthen accountability.

| Management measure | Detailed description |
|---|---|
| Zhongyu Gas Accountability System | <ul style="list-style-type: none"> In 2019, the Group issued the "Accountability System" (2019 version) to ensure that employees understand the content of the system, standardize daily behavior and ensure the implementation of the system. In April 2020, the audit and supervision department introduced in detail the relevant contents of the "Accountability System" within the Group. |
| Notice on Further Strengthening the Supervision and Contribution of the 'Top Leaders' and the Management Team | <ul style="list-style-type: none"> It was issued by the Group in July 2020. In order to enhance the professional ability and quality of the management of each company, enhance the ability of each company to prevent operation and management risks, combined with the problems discovered by the audit and supervision department over the years, a precise supervision mechanism was established to strengthen management efficiency. |
| Zhongyu Gas Reporting Management Measures (Trial) | <ul style="list-style-type: none"> It was issued by the Group in October 2020. It aimed at maintaining the normal production and operation order of the Company, ensuring that the interests of the Company would not be damaged. It cracked down on violations of laws and regulations such as infringement of the interests of the Company and disruption of the development order of the Company. Employees of the Company were encouraged to actively report various acts that may damage the interests of the Company and the legitimate interests of the whistleblowers would be protected. The Measures clearly set out multi-channel reporting methods, such as by telephone, email and enterprise WeChat, and it will give corresponding rewards to the whistleblowers for verified reporting information. |
| Ten Red Lines of Zhongyu Gas Employee Behavior | <ul style="list-style-type: none"> It was issued by the Group in October 2020. It aimed at maintaining the normal production and operation order of Zhongyu Gas and strengthening the red line awareness of employees in the operation and management. It clearly defined ten prohibited behaviors, such as prohibits the solicitation, provision or acceptance of benefits from customers, suppliers or anyone who has business dealings with the Group in the name of the Group, and the violation of any of them will be strictly investigated for the relevant responsibilities and heavily punished according to the "Accountability System". |

The Group has set up channels for reporting corruption cases by telephone, email and post for the relevant personnel. After receiving the report, the internal audit department should process the information within two working days to decide whether to initiate further investigation. The Group undertakes to protect the personal information of the whistleblower and no personnel may provide such information to any third party. In addition, the Group also provides anti-corruption training to its employees on a regular basis to ensure that employees are aware of relevant national laws and regulations and the Group's internal policies.

The operation of all businesses adheres to the principles of high levels of ethics, transparency, responsibility and integrity. Zhongyu Gas has established an internal audit and supervision system to encourage employees to report any suspected or proven misconduct. Zhongyu Gas ensures that:

- anyone can report in real name or anonymously, and the identity of the whistleblower will be kept confidential;
- all reported cases are recorded, assessed and investigated, and an audit and supervision department with appropriate qualifications that has not been involved in the reported incident is arranged to conduct investigations;
- the audit and supervision department reports to the audit and supervision committee the results of the investigation, actions taken, and recommendations for follow-up plans.

The Group requires all employees to abide by the anti-corruption laws and regulations of the country and location where they operate, such as the Anti-Unfair Competition Law of the People's Republic of China, Anti-Money Laundering Law of the People's Republic of China and the Prevention of Bribery Ordinance. During the Year, there were no reported cases of non-compliance related to corruption and no corruption cases related to the Group and its employees.

INVESTMENT IN COMMUNITY

Zhongyu Gas attaches importance to its commitment to social responsibility and focuses on poverty alleviation and education in the communities in which it operates. The Group fully standardizes the Group's internal approval process and investment plans for community investment. In 2020, the Group has donated a total of RMB1.39 million in community construction and poverty alleviation work and actively participated in social welfare activities, thus adhering to the mission of “developing clean energy and achieving a better life”.



- In 2020, in face of the sudden COVID-19, subsidiaries of Zhongyu Gas voluntarily organized employees to actively donate funds and raise materials to contribute for fighting against the pandemic. The subsidiary in Changli also actively joined the charitable donations and made donations to the Changli Housing and Urban-Rural Construction Bureau, with a total donation of hundred thousands of RMB in funds and materials.



- The subsidiary in Jiyuan, together with Jiyuan “Home of Caring Students”, went to the First Central Primary School of Xiaye town to carry out the “Warm Winter Solstice” caring activity, and sent ear warmers, home made dumplings, red packets and learning supplies to children, and also interacted with the children to warm their heart, so that they can receive appropriate support and care in life and academics.



- The subsidiary in Jiyuan carried out the “Youth Civilization” volunteer poverty alleviation activities for two consecutive years. Volunteers came to clean up houses for elderly with difficulties, chat with them, and also delivered food and other daily necessities, so that the poor elderly could feel the warmth from society.



- Donation made to Shaoyuan Town by the subsidiary in Jiyuan

In recent years, our subsidiaries have spared no effort in charity. Sixian Zhongyu Gas Company Limited has successively won the honorary certificate of “Special Unit Contribution Award” and “Love Contribution Award” due to its active involvement in social donation activities. The Sixian Company sponsored the Urban Management Enforcement Bureau’s Sixian township ban on burning activities. The subsidiaries in Wen County, Wuzhi and Mengzhou also participated in various charitable fund-raising activities.

OVERVIEW OF KEY PERFORMANCE INDICATORS

ENVIRONMENTAL PERFORMANCE

| Key Environmental Performance Indicators | 2020 | | | Unit |
|--|-----------|----------------|-----------|--------------------------------------|
| | Hong Kong | Mainland China | Total | |
| Air pollutants emission | | | | |
| Nitrogen oxides | – | 4,373.7 | 4,373.7 | kg |
| Sulphur oxides | 0.1 | 609.7 | 609.8 | kg |
| Respiratory suspended particles (PM10) | – | 161.0 | 161.0 | kg |
| Total greenhouse gas emission | | | | |
| Scope 1 Direct greenhouse gas emission ⁷ | 15.5 | 18,948.7 | 18,964.2 | Tonnes of CO ₂ Equivalent |
| Scope 2 Energy indirect greenhouse gas emission ⁸ | 9.2 | 12,290.1 | 12,299.3 | Tonnes of CO ₂ Equivalent |
| Scope 3 Other indirect greenhouse gas emission ⁹ | 0.6 | 533.4 | 534.0 | Tonnes of CO ₂ Equivalent |
| Total greenhouse gas emission | 25.3 | 31,772.2 | 31,797.5 | Tonnes of CO ₂ Equivalent |
| Greenhouse gas intensity (Calculated by the number of employees) | | | 6.8 | Tonnes of CO ₂ Equivalent |
| Total hazardous waste | – | 2.2 | 2.2 | kg |
| Intensity of hazardous waste (Calculated by the number of employees in Mainland China) | | | 0.47 | g |
| Total non-hazardous waste | 0.7 | 604.7 | 605.4 | Tonnes |
| Intensity of non-hazardous waste (Calculated by the number of employees) | | | 0.13 | Tonnes |
| Consumption of non-renewable fuels ¹⁰ | 51.0 | 105,785.0 | 105,836.0 | MWh |
| Consumption of renewable fuels | – | 32,691.2 | 32,691.2 | MWh |
| Energy consumption of charcoal | – | – | – | MWh |
| Energy consumption of other biofuels | – | – | – | MWh |
| Electricity purchased for consumption | 13.9 | 21,297.2 | 21,311.1 | MWh |
| Self-generated electricity | – | 1.8 | 1.8 | MWh |
| Electricity sold | – | 1,158.9 | 1,158.9 | MWh |
| Total energy consumption ¹¹ | 64.9 | 158,616.3 | 158,681.2 | MWh |

⁷ It includes the Group's fossil fuel combustion from fixed and mobile sources, as well as greenhouse gases released during the operations of equipment and systems.

⁸ It includes greenhouse gas emissions produced during the Group's electricity consumption.

⁹ It includes greenhouse gas emissions from waste paper disposal in offices and business travel by air by the Group's employees.

¹⁰ It includes diesel, unleaded gasoline, liquefied petroleum gas, gasoline, kerosene, natural gas and LNG used in fixed and mobile combustion sources.

¹¹ Total energy consumption = consumption of non-renewable fuels + consumption of renewable fuels + energy consumption of charcoal + energy consumption of other biofuels + electricity purchased for consumption + self-generated electricity – electricity sold.

OVERVIEW OF KEY PERFORMANCE INDICATORS

| Key Environmental Performance Indicators | 2020 | | | Unit |
|--|-----------|----------------|----------|-------------|
| | Hong Kong | Mainland China | Total | |
| Energy intensity (Calculated by the number of employees) | | | 33.9 | MWh |
| Total water consumption | – | 97,677.7 | 97,677.7 | cubic meter |
| Intensity of water consumption (Calculated by the number of employees) | | | 20.9 | cubic meter |
| Total packaging materials | | | | |
| Packaging plastic | – | 1.0 | 1.0 | Tonnes |
| Packaging paper | – | 0.4 | 0.4 | Tonnes |
| Intensity of packaging materials (Calculated by the number of employees) | | | 0.3 | kg |

SOCIAL PERFORMANCE – EMPLOYMENT AND LABOUR PRACTICES

| Statistics ¹² | | | Mainland China | Hong Kong | Total |
|--------------------------|--------|--------------------------|----------------|-----------|-------|
| Number of employees | Gender | Male | 3,110 | 4 | 3,114 |
| | | Female | 1,563 | 6 | 1,569 |
| | Age | 19 years old or under | 3 | – | 3 |
| | | Between 20-29 years old | 1,155 | 2 | 1,157 |
| | | Between 30-39 years old | 1,846 | 2 | 1,848 |
| | | Between 40-49 years old | 1,124 | 4 | 1,128 |
| | | 50 years old or over | 545 | 2 | 547 |
| | Rank | General manager or above | 234 | 2 | 236 |
| | | Senior manager or above | 402 | 4 | 406 |
| | | Officer, clerk or above | 514 | 4 | 518 |
| | | General employees | 3,523 | – | 3,523 |

OVERVIEW OF KEY PERFORMANCE INDICATORS

| Statistics ¹² | | | Mainland China | Hong Kong | Total |
|------------------------------|------------------------------------|-------------------------|----------------|-----------|-------|
| Number of employees turnover | Gender | Male | 6.4% | – | 6.4% |
| | | Female | 4.7% | – | 4.7% |
| | Age | 19 years old or under | – | – | – |
| | | Between 20-29 years old | 9.4% | – | 9.3% |
| | | Between 30-39 years old | 5.9% | – | 5.8% |
| | | Between 40-49 years old | 2.6% | – | 2.6% |
| | | 50 years old or over | 5.0% | – | 4.9% |
| | Employee turnover rate (by region) | | 5.8% | – | 5.8% |

¹² All social performance is based solely on the number of full-time employees as at 31st December, 2020.

OVERVIEW OF KEY PERFORMANCE INDICATORS

| Statistics ¹³ | | | Mainland China |
|-----------------------------|--------|--------------------------|----------------|
| Number of trained employees | Gender | Male | 3,011 |
| | | Female | 1,594 |
| | Rank | General manager or above | 119 |
| | | Senior manager or above | 270 |
| | | Officer, clerk or above | 513 |
| | | General employees | 3,703 |
| Ratio of trained employees | Gender | Male | 96.8% |
| | | Female | 100% |
| | Rank | General manager or above | 50.9% |
| | | Senior manager or above | 67.2% |
| | | Officer, clerk or above | 99.8% |
| | | General employees | 100% |
| Average training hours | Gender | Male | 30.6 |
| | | Female | 31.1 |
| | Rank | General manager or above | 25.5 |
| | | Senior manager or above | 26.0 |
| | | Officer, clerk or above | 30.9 |
| | | General employees | 28.9 |

| Region | Number of work-related fatalities | Lost days due to work injury |
|----------------|-----------------------------------|------------------------------|
| Mainland China | – | 53 |
| Hong Kong | – | – |
| Total | – | 53 |

¹³ Excludes offices in Hong Kong.



| Main Aspects | Description | Page Index/Note |
|---|---|---|
| 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 pollutants and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste. | 9-11 |
| A1.1 | The types of emissions and respective emissions data. | 9, 27 |
| A1.2 | Greenhouse gas emissions in total and intensity. | 10, 27 |
| A1.3 | Total hazardous waste produced and intensity. | 11, 27 |
| A1.4 | Total non-hazardous waste produced and intensity. | 11, 27 |
| A1.5 | Description of measures to mitigate emissions and results achieved. | 10-11 |
| A1.6 | Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved. | 11 |
| A2 Use of Resources | | |
| General Disclosure | Policies on the efficient use of resources. | 12-13 |
| A2.1 | Direct and/or indirect energy consumption by type in total and intensity. | 12, 27-28 |
| A2.2 | Water consumption in total and intensity. | 12, 28 |
| A2.3 | Description of energy use efficiency initiatives and results achieved. | 12 |
| A2.4 | Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved. | 12 (The Group has no issue on sourcing water) |
| A2.5 | Total packaging material used for finished products and with reference to per unit produced. | 13, 28 |
| A3 The Environment and Natural Resources | | |
| General Disclosure | Policies on minimizing the issuer's significant impacts on the environment and natural resources. | 13 |
| A3.1 | Description of the significant impacts of activities on the environment and natural resources and actions taken to manage them. | 13 |
| 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. | 14-16 |
| B1.1 | Total workforce by gender, employment type, age group and geographical region. | 28 |
| B1.2 | Employee turnover rate by gender, age group and geographical region. | 29 |

“ESG REPORTING GUIDE” CONTENT INDEX

| Main Aspects | Description | Page Index/Note |
|------------------------------------|---|-----------------|
| 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. | 18 |
| B2.1 | Number and rate of work-related fatalities. | 30 |
| B2.2 | Lost days due to work injury. | 30 |
| B2.3 | Description of occupational health and safety measures adopted, how they are implemented and monitored. | 18 |
| B3 Development and Training | | |
| General Disclosure | Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities. | 17 |
| B3.1 | The percentage of employees trained by gender and employee type. | 30 |
| B3.2 | The average training hours completed per employee by gender and employee type. | 30 |
| 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. | 19 |
| B4.1 | Description of measures to review employment practices to avoid child and forced labour. | 19 |
| B4.2 | Description of steps taken to eliminate such practices when discovered. | 19 |
| B5 Supply Chain Management | | |
| General Disclosure | Policies on managing environmental and social risks of the supply chain. | 20-21 |
| B5.1 | Number of suppliers by geographical region. | 20 |
| B5.2 | Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored. | 20-21 |



| Main Aspects | Description | Page Index/Note |
|----------------------------------|---|-----------------|
| 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. | 21-23 |
| B6.1 | Percentage of total products sold or shipped subject to recalls for safety and health reasons. | 22 |
| B6.2 | Number of products and service related complaints received and how they are dealt with. | 23 |
| B6.3 | Description of practices relating to observing and protecting intellectual property rights. | 22 |
| B6.4 | Description of quality assurance process and recall procedures. | 21-22 |
| B6.5 | Description of consumer data protection and privacy policies, and how they are implemented and monitored. | 22 |
| 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. | 24-25 |
| B7.1 | Number of concluded legal bases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases. | 25 |
| B7.2 | Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored. | 24-25 |
| 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. | 26 |
| B8.1 | Focus areas of contribution. | 26 |
| B8.2 | Resources contributed (e.g. money or time) to the focus areas. | 26 |



VERIFICATION STATEMENT



SCOPE AND OBJECTIVE

Hong Kong Quality Assurance Agency (“HKQAA”) was commissioned by Zhongyu Gas Holdings Limited (“Zhongyu Gas”) to undertake an independent verification for its Environmental, Social and Governance Report 2020 (“the Report”). The Report articulates the sustainability performance of Zhongyu Gas for the period of 1st January 2020 to 31st December 2020.

The objective of this verification was to provide a reasonable assurance on the reliability of the report contents. The Report has been prepared in accordance with the Appendix 27 “Environmental, Social and Governance Reporting Guide (“ESG Guide”) of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited.

LEVEL OF ASSURANCE AND METHODOLOGY

The process applied in this verification was based on the International Standard on Assurance Engagements 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information issued by the International Auditing and Assurance Standards Board. Our evidence gathering process was designed to obtain a reasonable level of assurance as set out in the standard for the purpose of devising the verification conclusion. The extent of this verification process undertaken covered the criteria set in the ESG Guide.

HKQAA’s verification process included verifying the mechanisms for collecting, calculating and reporting the sustainability performance information, reviewing relevant documented information, interviewing responsible personnel with accountability for preparing the Report and verifying the selected samples of data and information. Raw data and supporting evidence of the selected samples were thoroughly examined during the verification process.

INDEPENDENCE

Zhongyu Gas was responsible for the collection and preparation of the information presented in the Report. HKQAA did not involve in the collection and calculation of data or the compilation of the reporting contents. Our verification activities were entirely independent from Zhongyu Gas.



CONCLUSION

Based on the verification results, HKQAA has obtained reasonable assurance and concluded that:

- The Report has been prepared in accordance with the ESG Guide;
- The Report covers the sustainability performance of Zhongyu Gas, in a balanced, clear, comparable, and timely manner, including description of material sustainability aspects; and
- The data and information disclosed in the Report was found reliable and complete.

Nothing has come to HKQAA's attention that the selected sustainability performance information and data stated in the Report has not been prepared and presented fairly and honestly, in all material aspects, in accordance with the verification criteria. In conclusion, the sustainability performance disclosed in the Report is appropriate to the sustainability context and materiality of Zhongyu Gas.

SIGNED ON BEHALF OF HONG KONG QUALITY ASSURANCE AGENCY

Connie Sham

Head of Audit

July 2021

征程万里 笃行致远

BUILT TO LAST



中裕燃气
ZHONGYU GAS

於開曼群島註冊成立之有限公司
INCORPORATED IN THE CAYMAN ISLANDS WITH LIMITED LIABILITY

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