

FOURACE

科利

FOURACE INDUSTRIES GROUP HOLDINGS LIMITED

科利實業控股集團有限公司

Incorporated in the Cayman Islands with limited liability
於開曼群島註冊成立之有限公司

Stock Code 股份代號：1455



Environmental, Social and
Governance Report
環境、社會及管治報告

2020/21



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1. ABOUT THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

This is the Environmental, Social and Governance (“ESG”) Report issued by Fourace Industries Group Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group” or “we”). The ESG Report presents the corporate social responsibilities, principles and actions of the Group carried out during the business operation over the previous year. As for the information of corporate governance, please refer to the Corporate Governance Report of the 2021 Annual Report.

1.1 Reporting Scope

The ESG Report covers the environmental and social performance of the Group’s principal business in China and Hong Kong during the period from 1 April 2020 to 31 March 2021 (the “Year”). The key performance indicators (“KPIs”) for the environmental aspect as disclosed in the ESG Report mainly focus on the factory in Shenzhen, which is the only existing production base of the Group.

1.2 Reporting Standard

The ESG Report was prepared in accordance with Appendix 27 Environmental, Social and Governance Reporting Guide to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Stock Exchange”).

1.3 Reporting Principles

The content of the ESG Report is determined through engaging stakeholders and conducting materiality assessments, including identifying ESG-related issues, collecting and examining the opinions from internal management and different stakeholders, evaluating the relevance and importance of the issues and formulating and reviewing the data reported. The ESG Report comprehensively covered the material issues concerned by different stakeholders.

The ESG Report discloses the quantitative environmental and social KPIs, allowing stakeholders to understand the ESG performance of the Group comprehensively. Information of the standards, methodologies, references and source of key emission, and the conversion factor of these KPIs are stated wherever appropriate. In order to facilitate the comparison of the ESG performance between years, the Group adopted the same calculation methodologies as far as reasonably practicable. If there is any change in methodology, the Group will also present and explain it in details in the corresponding sections.

1.4 Information and Feedback

We value your opinions on the ESG Report. For any enquiry or advice, please feel free to send email to ir.contact@fourace.com.

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2. ESG GOVERNANCE

The Group believes that sound ESG governance can enhance the corporate investment value and bring long-term returns to stakeholders. To ensure the effective implementation of ESG management measures, the Board is responsible for overseeing the ESG-related issues and works of the Group, including the progress and quality of the ESG work, and strives to implement the ESG development strategies in daily operation.

2.1 Stakeholder Engagement

The Group's key stakeholders include the government and regulators, shareholders, business partners such as contractors and suppliers, customers, employees, as well as our industry, environment and community. We believe that the stakeholder engagement and their continuous support are important for the long-term development of an enterprise. The precious opinions provided by them allow us to continuously improve the Group's ESG performance.

During the Year, the Group maintained close communication with stakeholders including people from different organizations and sectors of society who have provided various perspectives, opinions and expectations. We adopted a variety of communication methods to allow stakeholders from different sectors to express their opinions and suggestions. The opinions are helpful for us to determine the new potential risks in business operation, to identify the ESG topics concerned by stakeholders and to improve our ESG performance and the future development strategy.

| Stakeholder | Requirement and Expectation | Communication and Response |
|--|--|---|
| Governments and Regulatory Bodies | <ul style="list-style-type: none"> Compliance with national policies, laws and regulations Promotion of local economic development Drive local employment Tax payment in full and on time Safe production | <ul style="list-style-type: none"> Regular reporting Regular meeting with regulatory organizations Examinations and inspections |
| Shareholders | <ul style="list-style-type: none"> Returns Compliant operations Rise in company value Transparent information and efficient communication | <ul style="list-style-type: none"> General meetings Company announcements Emails, telephone contacts and company websites Dedicated reports Interim and annual reports |
| Partners | <ul style="list-style-type: none"> Operations with integrity Fair competition Performance of contracts Mutual benefits and win-win results | <ul style="list-style-type: none"> Reviews and appraisal meetings Business communication Quotation comparison Exchange and discussion Engagement and cooperation |
| Customers | <ul style="list-style-type: none"> Outstanding products and services Health and safety Performance of contracts Operations with integrity | <ul style="list-style-type: none"> Customer feedback surveys Customers meetings Return visits |

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| Stakeholder | Requirement and Expectation | Communication and Response |
|-------------------------------|---|--|
| Environment | <ul style="list-style-type: none"> Compliance with emission standards Energy conservation and reduction of emissions Ecological protection | <ul style="list-style-type: none"> Communicating with local environmental departments Communication with local residents |
| Industry | <ul style="list-style-type: none"> Formulation of industry standards Promotion of industry development | <ul style="list-style-type: none"> Participation in industry forum Field visits and reciprocal visits |
| Employees | <ul style="list-style-type: none"> Protection of rights Occupational health Remunerations and benefits Career development Humanity cares | <ul style="list-style-type: none"> Employee communication meetings Company internal journal and intranet HR department Training and workshops Employee activities |
| Society and the Public | <ul style="list-style-type: none"> Improvement of community environment Participation in public welfare Open and transparent information | <ul style="list-style-type: none"> Company website Participation in public welfare Company announcements |

2.2 Materiality Assessment

In order to clearly and effectively formulate the ESG management methods, the Group has engaged an independent consulting firm to help collect and analyze stakeholders' opinions about the Group's ESG issues. With the result of questionnaire survey, the Group works out ratings and rankings for each ESG issue based on the degree of concern of stakeholders. Meanwhile, in order to review the ESG issues that are material to the business of the Group in a more comprehensive way, the consulting firm also helps review internal and external documents with reference to the materiality maps provided by external authoritative organizations¹ so as to identify the ESG issues which are the key concern for the industry. In conclusion, based on the above ratings and the selection result, together with the professional opinions of the management and the consulting firm, the Group has identified 8 material ESG-related issues during the Year and will be discussed in this report.

| Material issues | Relevant sections |
|--|--|
| Compliance management | <ul style="list-style-type: none"> Environmental protection Employment and labor practice Operating practices |
| Waste management | <ul style="list-style-type: none"> Emissions |
| Wastewater management | <ul style="list-style-type: none"> Emissions |
| Health and safety | <ul style="list-style-type: none"> Health and safety |
| Supply chain management | <ul style="list-style-type: none"> Supply chain management |
| Quality control | <ul style="list-style-type: none"> Products responsibility |
| Intellectual property and privacy protection | <ul style="list-style-type: none"> Products responsibility |
| Anti-corruption | <ul style="list-style-type: none"> Anti-corruption |

¹ The materiality maps referenced in the materiality assessment include the ESG Industry Materiality Map and the SASB Materiality Map produced respectively by Morgan Stanley Capital International (MSCI) and the Sustainability Accounting Standards Board (SASB).

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3. ENVIRONMENTAL PROTECTION

3.1 Emissions

The Group adheres to the ideas of environmental protection and clean production. The Group strives to enhance the efficiency of environmental protection in the production process and reduce environmental pollution and energy consumption in order to take up the responsibility of environmental protection amidst corporate development. During the Year, we strictly abide by the laws and regulations related to pollutant discharge and environmental protection promulgated by the national and local governments, including but not limited to the Environmental Protection Law of the People's Republic of China, the Law of the People's Republic of China on Promoting Clean Production, the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution Caused by Solid Wastes, the Water Pollution Prevention and Control Law of the People's Republic of China and the Atmospheric Pollution Prevention and Control Law of the People's Republic of China. We control each type of emission during the production process. The Group actively reviews its policies on environmental protection and will make efforts to improve the Group's environmental performance.

Waste Disposal

The non-hazardous wastes generated by the Group mainly consist of waste paper, metal and plastics disposed at landfills. The hazardous wastes mainly consist of waste paint residues, waste ink, waste empty barrels and waste cloth/gloves generated from spraying, waste activated carbon generated after the use of waste gas treatment equipment, waste engine oil generated during machine operation, and sludge in water treatment and light tubes. The total amount and intensity of non-hazardous wastes and hazardous wastes from the Group during the Year are set out in the table below:

| Wastes | 2021 |
|--|------|
| Total non-hazardous wastes (tonnes) | 227 |
| Intensity of non-hazardous wastes (kg/product) | 0.07 |
| Total hazardous wastes (tonnes) | 85 |
| Intensity of hazardous wastes (kg/product) | 0.03 |

The Group attaches great importance to the disposal of hazardous wastes and handles all kinds of hazardous wastes in strict compliance with regulations and internal requirements. We collect and temporarily store hazardous waste according to the hazardous waste collection and transportation management regulations, and conduct follow-up and arrange disposal to avoid soil or water pollution. By entering into hazardous waste treatment agreements with qualified hazardous waste treatment units, we regularly deliver hazardous wastes such as sludge in water treatment, waste paint residue, waste activated carbon, waste empty barrels and waste diluent liquid to relevant units for harmless treatment and disposal to prevent environmental pollution. For non-hazardous wastes, the Group also arranges qualified waste disposal companies to regularly clean up the waste, and eventually dispose them in the landfill or sell and reuse the reusable portion after treatment.

Adhering to the concept of green office, the Group has adopted a series of measures to raise the environmental awareness of employees and reduce the amount of waste. We advocate the reuse of office stationeries such as envelopes, binders and file cards, and using changeable pen refills to reuse pens barrels. We also set up specific garbage bins to recycle waste batteries. During procurement, we select recyclable ink cartridges and reusable cutlery to reduce the use of disposable products and regularly evaluate the usage of materials to avoid waste caused by overstocking. In terms of paper consumption, we advocate using waste paper to jot notes, double-sided printing, and recycling paper documents, such as posters and letters, which to be sent to waste paper recycling companies for recycling. In addition, we promote paperless office and make full use of electronic office systems and telecommunication technologies to transmit information, so as to reduce paper consumption.

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Wastewater Treatment

As a manufacturing enterprise, the Group's production process involves the consumption of water resources and also generates wastewater. There is a wide variety of pollutants and complex components in wastewater. The wastewater produced by the Group is mainly integrated wastewater and spray painting wastewater, therefore we have developed various wastewater treatment methods. In view of the characteristics of comprehensive wastewater, we have established a wastewater treatment facility with a treatment capacity of 12m³ per day and obtained the "Pollutant Discharge Permits of Guangdong Province" (廣東省污染物排放許可證), which has corresponding treatment tanks, such as oil removal pool, phosphorus removal pool and cleaning pool, to ensure that the concentration of pollutants in wastewater is effectively reduced before being discharged. In addition, we have built a buried wastewater collection tank with a volume of approximately 20m³ to collect paint wastewater, which is treated to meet the discharge standard and therefore will not affect the surrounding surface water environment.

Meanwhile, we strictly monitor wastewater discharge. A third-party testing institute is engaged to quarterly check and monitor the water quality at the discharge outlets so as to ensure the discharged water meets the recycling standard and is in compliance with the related requirements set out in the Discharge Limits of Water Pollutants and the Emission Standard of Water Pollutants for Electroplating, which are local standards of the Guangdong Province. The Group records the status of wastewater and analyzes and improves the non-compliance situation. In addition, the Group has formulated emergency measures for accidents, set up emergency pools in the wastewater treatment station area, and implemented anti-leakage measures to effectively store accidental wastewater to reduce the risk of loss to the enterprise. Test results of sewage discharge of the Group have met the standards required by the relevant regulations during the Year. Data of sewage discharge is set out in the following table:

| Emission Intensity ¹ | Emission Standard ² | 2021 |
|-----------------------------------|--------------------------------|-------|
| Chemical oxygen demand (mg/liter) | 50 | 30.00 |
| Ammonia nitrogen (mg/liter) | 8 | 0.75 |
| Suspended matter (mg/liter) | 30 | 7.00 |

Note:

- 1 Emission concentration is the unit of sewage test and there is no statistics data for the weight of pollutants.
- 2 Discharge Standard of Water Pollutants for Electroplating (DB44/1597-2015), the local standard of the Guangdong Province, is used as the emission standards of chemical oxygen demand, ammonia nitrogen and suspended matter.

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Greenhouse Gas and Exhaust Emissions

The greenhouse gas (“GHG”) emission of the Group during operations mainly comes from (i) direct GHG emission generated from fuel consumption of vehicles and air-conditioning refrigerant and reduction in tree planting; (ii) energy indirect GHG emission generated from purchased electricity; and (iii) other indirect GHG emission generated from waste paper disposal and electricity consumption for fresh water and sewage treatment. The GHG emissions data of the Group during the Year is set out in the table below:

| GHG ¹ | 2021 |
|---|-------|
| Total GHG emissions (tonnes CO ₂ e) | 5,339 |
| Scope 1 — Direct GHG emissions (tonnes CO ₂ e) ² | 43 |
| Scope 2 — Energy indirect GHG emissions (tonnes CO ₂ e) ³ | 5,269 |
| Scope 3 — Other indirect GHG emissions (tonnes CO ₂ e) ⁴ | 28 |
| GHG emission intensity (kg CO ₂ e/product) | 1.61 |

Note:

- 1 The greenhouse gases inventory of the Group includes carbon dioxide, methane and nitrous oxide. GHG emissions are presented in carbon dioxide equivalent.
- 2 It is calculated based on the “Guidelines for Accounting and Reporting Greenhouse Gas Emissions for China Electronic Equipment Manufacturing Enterprises (Trial)” published by the National Development and Reform Commission of the People’s Republic of China (“PRC”) and “Reporting Guidance on Environmental KPIs” issued by the Stock Exchange of Hong Kong.
- 3 It is calculated based on the “Average Carbon Dioxide Emission Factors of China Regional Power Grid 2011 and 2012” published by the National Development and Reform Commission of the PRC.
- 4 It is calculated using the data provided by Shenzhen Water Group Co., Ltd. and “Reporting Guidance on Environmental KPIs” issued by Stock Exchange of Hong Kong.

Exhaust gas is generated during the production process of personal care and lifestyle electrical appliances. In view of this, the Group uses special equipment for exhaust gas treatment to remove the hazardous substance of the exhaust gas of production workshop by the process of scrubbing towers. Exhaust gas will be emitted if statutory standards are met. We strictly observe the related requirements of regulations, including but not limited to the Emission Limits of Air Pollutants. We regularly engage environmental protection institutes to check and monitor the emission of controlled emission and fugitive emission in the factory area. Test results of exhaust gas emissions of the Group have met the standards of relevant regulations during the Year. Data of emissions is set in the following table:

| Emission Concentration ¹ | Emission Standard ² | 2021 |
|---|--------------------------------|-------|
| Benzene (mg/m ³) | 12 | 0.41 |
| Toluene (mg/m ³) | 40 | 0.69 |
| Xylene (mg/m ³) | 70 | 4.57 |
| Volatile organic compounds (mg/m ³) | – | 17.56 |

Note:

- 1 Emission concentration is the unit of gas emission monitoring and there is no statistics data for the weight of pollutants.
- 2 The Emission Limits of Air Pollutants (DB44/27-2001), the local standard of the Guangdong Province, is used as the emission standard of benzene, toluene and xylene.

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In addition, air pollutants including nitrogen oxides, sulfur oxides and particulate matters are emitted by the vehicles during operations of the Group and the emission data is set out in the table below:

| Emissions ¹ | 2021 |
|--------------------------|-------|
| Nitrogen oxides (kg) | 38.21 |
| Sulfur oxides (kg) | 0.19 |
| Particulate matters (kg) | 1.97 |

Note:

- 1 It is calculated based on "Reporting Guidance on Environmental KPIs" issued by the Stock Exchange of Hong Kong.

The Group strives to minimize exhaust emission during the production and operation process. To ensure the effectiveness of exhaust gas treatment and improve the management system of exhaust gas emissions, the Group checks and maintains the equipment regularly. In terms of vehicles, we have purchased some hybrid electric vehicles and electric vehicles. We conduct regular check for the vehicles, keep tires inflatable in a timely manner, maintain appropriate tire pressure, and ensure that there is no idling engine to maintain the efficiency of vehicles.

In addition, we have formulated emergency handling procedures as well as corresponding measures for emergencies including fire incidents, leakage of hazardous chemicals, leakage of hazardous waste and wastewater and excessive emission of exhaust gas, so as to effectively address the incidents and reduce the risk of losses to the company and the risk of environmental pollution.

3.2 Use of Resources

Resources are the foundation of enterprise production and the Group places its emphasis on energy-saving and reduction of resources consumption. In the production and daily operations of personal care and lifestyle electrical appliances, the main resources that the Group needs to use include (i) direct consumption arising from consumption of vehicle fuel; (ii) indirect consumption arising from purchased electricity; (iii) water consumption; and (iv) packaging materials. The Group's development goal of continuously improving the effectiveness of resource use gradually enhances the resources utilization efficiency. The below table sets out the data on the use of resources by the Group during the Year:

| Resources consumption | 2021 |
|--|--------|
| Total energy consumption (MWh) | 10,120 |
| Direct energy consumption (MWh) ¹ | 125 |
| Indirect energy consumption (MWh) | 9,996 |
| Energy consumption intensity (MWh/product) | 3.06 |
| Total water consumption (m ³) | 82,765 |
| Water consumption intensity (m ³ /product) | 0.03 |
| Total weight of packaging materials (tonnes) | 961 |
| Packaging materials consumption intensity (kg/product) | 0.29 |

Note:

- 1 It is calculated based on the "Guidelines for Accounting and Reporting Greenhouse Gas Emissions for China Electronic Equipment Manufacturing Enterprises (Trial)" published by the National Development and Reform Commission of the PRC.

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Energy Management

As energy consumption is closely linked to global warming, the Group has been striving to improve energy management. Therefore, we have implemented electricity saving measures in the office to raise the awareness of all our employees on environmental protection. The Group issues notices on saving electricity and promotes the environmental protection spirit of “shut down the machines and turn off the power when he or she leaves” to prevent waste. We encourage our staff to turn off all unnecessary lighting systems and other electronic devices, such as printers, computers, etc., to avoid idling of electrical appliances. Meanwhile, we set up light switches that can be controlled independently and adopts highly efficient light fixtures in different areas of the office, and use daylight illumination as much as possible to save energy. We also clean the lights and air-conditioning filters regularly to ensure their efficient operation. In addition, we set the air-conditioning temperature reasonably at approximately 25.5 degree Celsius, and conduct regular inspections to reduce the possibility of refrigerant leakage.

The Group appoints department managers and supervisors to be the first responsible person of electricity conservation, and arrange inspectors to conduct irregular inspection on electricity consumption to strengthen the supervision. If there is any violation of rules, the relevant department will be notified for rectification, and the department head, manager and relevant personnel may be subject to warning and punishment, such as deducting performance bonus.

Water Conservation

Water is a precious resource. The Group understands the importance of water conservation so we are committed to reducing unnecessary production and domestic water consumption and proactively carries out water conservation measures. We have posted water saving notices in every lavatory and employees are reminded to turn off the faucet tight after use to raise employees’ awareness of water conservation. We also conduct regular leakage tests and will notify the property management company at once to arrange repair and check if water leakage is found in the water supply facilities. During the Year, the Group had no issues in sourcing water.

Promotion and Training

Staff support and participation is the key to implementation of environmental protection policies. By ways of quarterly offline training, the Group promotes the knowledge of energy-saving, emission reduction and environmental protection to our employees. The Group held exhaust gas treatment, sewage treatment, pollutant management and energy conservation and environmental protection meetings during the Year, and is committed to incorporating the concept of environmental protection into all of its operational decision-making processes in manufacturing and sales, keeping encouraging and leading its employees to take part in the continuous improvement of the environment, and integrating the concept of energy-saving and emission reduction into daily operations.

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4. EMPLOYMENT AND LABOR PRACTICE

4.1 Employment

Staff is the foundation of enterprise development and the Group strives to provide its employees with a good working environment to enhance their sense of belonging, safeguard their rights and interests, and establish a business platform that conduces to the development of employees' talents and the realization of their values. We continue to protect the legitimate rights and interests of our employees by formulating the internal human resources management procedures in strict compliance with employment-related laws and regulations, including but not limited to the Labor Law of the People's Republic of China, the Labor Contract Law of the People's Republic of China, the Provisions on the Prohibition of Using Child Labor and the Employment Ordinance of Hong Kong. Also, we keep attracting experienced and quality talents and constantly foster the formation of a harmonious labor relationship. The number of employees and turnover rate of the Group as of 31 March 2021 are as follows:

| Number of employees | 2021 |
|---|------------|
| Total number of employees | 781 |
| By gender | |
| Male | 361 |
| Female | 420 |
| By employment type | |
| Full-time | 781 |
| Part-time | 0 |
| By age group | |
| Aged below 30 | 187 |
| Aged 30-50 | 551 |
| Aged 50 above | 43 |
| By region | |
| Mainland China | 768 |
| Hong Kong | 13 |
| Employee turnover rate ¹ (%) | 2021 |
| Total | 38 |
| By gender | |
| Male | 38 |
| Female | 37 |
| By age group | |
| Aged below 30 | 66 |
| Aged 30-50 | 30 |
| Aged 50 above | 14 |
| By region | |
| Mainland China | 38 |
| Hong Kong | 0 |

Note:

1 Employees who did not pass the probation are not included.

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Recruitment Practices

The Group adheres to the principle of “fair competition and merit-based admission”, seeking to recruit and nurture outstanding employees to build an elite team and provide talent reserve for enterprise development. During the recruitment, the Group focuses on individual’s morality, professional skills, work experience and suitability for relevant job requirements and prohibits any form of discrimination. The Group strictly prohibits the employment of child labour in accordance with the relevant laws and regulations such as the Provisions on the Prohibition of Using Child Labour of the PRC. Applicants’ identification documents, relevant certificates and work experience would be checked and reviewed during the recruitment process to verify their age. If child labour is found, we will stop his work immediately and carry out investigation to identify the loophole, implementing remedial measures, preventing the event from happening again so as to eradicate the occurrence of such incidents completely. Before the formal entry of employees, the Group will enter an employment contract with employees, which explicitly specifies the terms such as working hours, rest period, remuneration, insurance and benefits of employees, so as to safeguard the freedom and interests of employees, and avoid forced labour. The Group has also formulated an employee withdrawal management system listing out proper resignation, termination and dismissal procedures. When an employee submits a resignation, the responsible personnel of human resources department will meet with the employee, understanding the reasons of resignation.

Remuneration and Promotion

The Group offers clear career pathway and competitive salary for employees to attract and retain talents. The Group implements a minimum wage guarantee system, under which employees’ wages shall not be lower than the local minimum wage standard. If overtime work is required, we will pay overtime pay to employees in accordance with relevant regulations. In terms of career development, the Group has established a monthly performance appraisal system to evaluate employees’ work performance, execution ability and communication and coordination ability comprehensively, and assess the work performance of each employee in an objective and comprehensive manner. The Group arranges promotion and demotion based on employees’ assessment performance, career development planning and position vacancies. We give priority to internal promotion, then consider external recruitment, providing a broader development path for employees. We also have full attendance award and annual performance award, and conduct remuneration review and adjustment with reference to factors such as employee position, job performance, work experience and capabilities to motivate employees to continuously improve themselves.

Employee Benefits

As a way to care about employees, and at the same time stimulate their working initiative, the Group offers all employees a wide range of welfare and benefits. The Group provides social insurance and housing provident fund for the employees in accordance with local government’s regulations. We also purchase medical insurance for all our employees and provide benefits on employees’ birthday and various festivals, such as Women’s Day, etc. Meanwhile, the Group cares about both physical and mental health of its employees and adopts a five-day work week with eight-hour working system arrangement to ensure that employees have sufficient rest time. Employees are also entitled to marriage leave, maternity leave, sick leave, funeral leave, annual leave and other statutory holidays, and long-term incentive will be given to workers who provided long-term service to the Group. To enhance the sense of belonging of employees to the enterprise, we provide late night suppers subsidies for our night-shift employees and high-temperature subsidies in the hot season.

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4.2 Health and Safety

The Group places its highest priority on the health and safety of employees. To prevent accidents and minimize occupational hazards, the Group strictly abides by the national and local laws and regulations with regard to labor safety, including but not limited to the Production Safety Law of the People's Republic of China, the Law of the People's Republic of China on the Prevention and Treatment of Occupational Diseases, Emergency Response Law of the People's Republic of China and the Occupational Safety and Health Ordinance of Hong Kong, to assure the personal safety of employees and create a safe and hygienic work environment for all of them.

The Group upholds a "safety production and prevention-based" approach for safety production and formulates a comprehensive safety production management system and safety operating procedures. We require our new employees to undergo three levels of safety training and participate in safety training and assessment at the plant level, workshop level and team level after the training. We also stipulate that employees in special positions must have received relevant professional trainings and obtained certificates before they can formally work to ensure those employees possess relevant capabilities and safety knowledge. For positions that may be exposed to occupational hazards, employees must wear or use personal protection equipment as required by the Group's management. For the sake of safeguarding employees' safety more effectively, the Group implements a safety production responsibility system and requires the responsible persons of each department to sign a safety management responsibility statement to strengthen the leadership and management of safety work during production. We have set up a safety management committee and designated safety officers to handle issues such as safety production management as well as work injuries and illnesses of our employees for medical treatment. They are also responsible for optimizing medical assurance measures and relevant requirements on occupational health and safety and are fully in charge of labor safety and hygienic matters in the entire factory area. In order to protect employees from occupational diseases and occupational hazards at work, we arrange regular physical examination and conduct occupational health education and safety training for all our employees during the Year to enhance employees' self-protection awareness and ability.

In order to strengthen the safety management of hazardous chemicals, the Group has formulated a safety management system for hazardous chemicals which requires all chemicals to be accompanied with chemical safety technical specifications provided by suppliers and all packages to comply with the packaging safety requirements for dangerous chemicals to strengthen the management of hazardous chemicals. We also implemented and complied with relevant Restriction of Hazardous Substances in Electrical and Electronic Equipment ("RoHS") requirements to reduce the use of harmful ingredients and minimize the safety risks of employees' work. In addition, we have formulated the management system of emergency plans for safety production accidents in accordance with relevant laws and regulations, and carried out safety production accident drills and fire drills regularly to enhance employees' emergency response capabilities.

During the Year, the number of work-related injury within the Group was 11 and recorded 17 working days lost and there was no work-related fatality for the past three years.

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Response to the epidemic

During the Year, COVID-19 has caused a dramatic impact on society. The Group attaches great importance to the control and prevention of the COVID-19 epidemic and implemented various precautionary measures. We actively cooperated with the local government in epidemic prevention. During the Year, the Group established an internal working group for controlling and preventing the epidemic and arranged designated staff to be responsible for the management of publicity and patrol, disinfection of factory, logistics support, emergency handling and other management matters. Also, it formulated and implemented a contingency plan and precautionary measures for the epidemic, including but not limited to:

- Require all employees to wear protective masks;
- Check employees' body temperature;
- Regular disinfection of office areas and workshops;
- Register the travel trajectory of the vehicle after travelling;
- Ensure sufficient epidemic prevention materials;
- Employees will be sent to the dormitory quarantine area and reported to the local health authorities and the disease control center once they are found with abnormal body temperature.

4.3 Development and Training

The Group pays constant attention to the growth and development of its employees and strives to realize their values. The Group develops appropriate annual training programs according to the needs of employees based on its annual operation plans and objectives. We implement employee training policies constantly to fulfill the strategic development needs of the Group's talent structure. The Group records the training projects, time, hours and assessment results as a basis for promotions and transfers of its employees.

We offer comprehensive training resources and learning environment, and provide our employees with orientation, pre-job, professional, management, quality and safety trainings. The Group provides orientation training for new employees, in which the content covers company introduction, rules and regulations systems, ISO basic knowledge and fire safety, to ensure employees know more about the corporate culture and systems, master working techniques and skills and adapt to work quickly.

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In order to enhance the work capabilities of employees, the Group provides internal trainings for them. The internal trainings we organized during the Year encompass areas such as raising safety awareness, enhancing quality management and strengthening professional skills according to their positions, to let employees have a better understanding of their work and related skills required at work. In addition to internal training, we also encourage employees to participate in external training. The Group provides study allowance to subsidize the cost of employees' participation in external training courses, which not only enhances their professional knowledge and skills, but also enables the Group to maintain its advantages in competition. We also encourage experienced employees to serve as internal lecturers to share personal knowledge, experience and skills and create a learning atmosphere in the enterprise. Lecturers who have passed the training certification of the human resources department can receive corresponding compensation according to the certification level and teaching hours. During the Year, the Group's employees training are as follows:

| Average hours of staff training (hour) and training percentage (%) | 2021 |
|--|--------------------|
| Total | 16.6 (99.6) |
| By gender | |
| Male | 16.7 (99.7) |
| Female | 16.6 (99.5) |
| By function | |
| Senior executives | 15.0 (100) |
| Technicians | 14.4 (100) |
| Management executives | 16.9 (100) |
| Manufacturing personnel | 17.0 (99.5) |

5. OPERATING PRACTICES

5.1 Supply Chain Management

The Group puts emphasis on maintaining sound cooperation relationships with suppliers. It also constantly explores opportunities for deeper and wider cooperation so as to provide our wide range of customers with products and services of the highest quality. We establish and carry out a transparent and fair procedure for selection of suppliers, and actively promote socially responsible and sustainable procurement activities.

The Group has established relevant supply chain management system and procurement management requirements in strict accordance with the relevant laws and regulations such as the Contract Law of the People's Republic of China, following the principles of openness, fairness, impartiality, honesty and credibility, and scientific selection of merits to implement supplier evaluation and procurement control procedures. During the selection of suppliers, we require them to submit company introduction, legal business license and tax payment certificate to ensure their compliance. Meanwhile, we consider a number of factors, including the supplier's quality system and control, customer complaint management, warehousing control, document data control, employee quality, technical capabilities and delivery assurance capabilities. We also conduct on-site investigation and assessment according to the needs to further understand the business operation of suppliers. Only qualified suppliers satisfying our requirements will be admitted into the list of qualified suppliers. We will enter into a contract with the entrusted suppliers, setting out the requirements of all aspects and tracking and monitoring their performance and progress. In addition, we conduct annual comprehensive review for suppliers, and if we find that they fail to meet the standards required by the Group, we will terminate the cooperation until the situation has been improved to ensure that the service quality meets the requirements, so as to optimize the supply chain management.

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The Group establishes and implements relevant assessment and management policies to identify the environmental and social risks relating to the supply chain. Our suppliers are required to fill in the RoHS compliance information form and sign the absence of environmental hazardous substances guarantee. We conduct on-site investigation for suppliers with RoHS requirements to ensure that their operation process will not cause harm to the environment. The ISO department also closely monitors relevant information on product safety and environmental protection laws and regulations, including Electromagnetic Compatibility (EMC) certification, Underwriters Laboratory (UL) certification and RoHS requirements, timely updates and informs the Group's suppliers, and provides corresponding training to our employees. In order to reduce social risks, suppliers cooperating with the Group are required to sign a letter of commitment on social responsibility and integrity and anti-terrorism to ensure that the materials purchased are from legitimate labour and the partners comply with relevant legal systems such as counter-human trafficking and slavery to protect human rights. We will directly disqualify our suppliers once they are found to have any business conduct in relation to unethical behaviour, bribery, corruption and other prohibited business practices by local and international laws and regulations.

While striving for corporate development, the Group takes the responsibility to protect our environment. Therefore, the concept of environmental protection is incorporated into our supply chain management and procurement. The Group gives preference to suppliers that are geographically close to the Group during the procurement process to reduce the carbon footprint in the transportation. Also, the Group would consider the products with less impact to the environment, such as the products with eco-friendly labels, provided that such products can satisfy our production demand. We also encourage employees to pay attention to the shelf life of products, and give priority to products purchased earlier to avoid unnecessary waste. During the Year, the number of major suppliers of the Group is as follows:

| Number of suppliers | 2021 |
|--|------------|
| Total number of major suppliers | 284 |
| By region | |
| Guangdong | 241 |
| Hong Kong | 27 |
| Others ¹ | 16 |

Note:

- 1 Other regions include Beijing, Zhejiang, Jiangsu, Hubei, Shaanxi, Fujian, Henan and Shanghai.

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5.2 Product Responsibility

Provision of quality products is one of the major competitive advantages of the Group. The Group has always adhered to its objective of paying attention to details and perfection to provide customers with quality products that cater to their needs. The Group has adopted a series of assessment measures to achieve our goal of providing products with the best quality. We also value feedback from customers and have set up an internal procedure related to customer service to offer timely and effective solutions regarding their complaints and provide them with satisfactory aftersales services at our best endeavor. During the Year, no product recall occurred due to safety and health reasons.

Testing and Examination

To ensure that all the products are in line with the relevant laws including the Product Quality Law of the People's Republic of China and the Regulations on Quality Responsibility for Industrial Products, the Group has formulated a quality policy and set up a quality control department to examine and test the product quality at each stage, from purchase of raw materials, product manufacturing to product delivery, and have established management procedures for unqualified products. We also conduct internal audits of the quality system on an annual basis to assess the legitimacy and effectiveness of the current quality system with an objective to identify potential improvements and improve the quality system level. Meanwhile, we have established a sound quality system document management procedure to systematically control the formulation, approval, distribution and destruction of quality system documents to ensure the applicability and traceability of relevant documents and records. The Group has passed ISO 9001:2015 Quality Management System Certifications.

For the sake of ensuring that the material quality meets production requirements, the Group will examine the raw materials and externally-processed products to avoid receiving any unqualified materials. Raw materials are passed to the incoming quality control department for testing so as to guarantee the incoming materials are in line with our quality requirements. We also continue to implement stringent quality control procedures throughout the production process and regular calibration is performed to ensure each of the production activities are conducted according to standard procedures and that all production parameters are consistent. Before delivery of products, quality assurance department will be responsible for finished product quality inspection procedures, spot checks on products, and safety specification and life-cycle tests. Products that fail the test will be returned or scrapped according to the quality control procedures of unqualified products. The Group will package and deliver the products only after ensuring the finished products meet the required quality requirements.

Customers' Feedback

The Group always adheres to the customer-oriented service concept and attaches great importance to customer evaluation and suggestions. Therefore, we regularly conduct surveys on customer satisfaction regarding our products quality, service attitude, delivery arrangement, etc. Through the statistics and analysis of customer satisfaction results, we will formulate quality objectives and management review standards, continuously improve products or production processes according to the needs, provide customers with high-quality and suitable products, as well as establish good relationships with customers.

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The Group strictly abides by the Law of the People's Republic of China on the Protection of Consumer Rights and Interests and other relevant laws and regulations to ensure the legitimate rights and interests of customers. We also have set up comprehensive procedures for handling customers' complaints, which provide methods for handling customers' feedback information and procedures for taking corrective and preventive actions to effectively respond to customers' complaints. The sales department of the Group is responsible for collecting and translating customers' feedback, send it to relevant departments and refer it to quality assurance department for handling. The manager of the quality assurance department is responsible for classifying on the basis of the type of feedback and its seriousness immediately after receiving the feedback, and arranging corresponding personnel to conduct a comprehensive investigation and propose solutions in a timely manner. The Group attaches great importance to quality-related complaints. Once we receive such complaints, we will immediately report them to the quality assurance department to analyze the causes and formulate countermeasures to improve future production. The ISO department will be responsible for organizing the rectification and preventive measures to be taken in the daily operation of the quality management system to continuously and effectively improve quality problems. During the Year, the Group received a total of 37 complaints in relation to our services provided and they were all properly handled.

Intellectual Property Rights and Protection of Privacy

The Group values intellectual property rights and fully complies with the laws and regulations related to the intellectual property rights, including but not limited to the Specifications for the Administration of Intellectual Property Rights of Enterprises and the Copyright Ordinance of Hong Kong. The Group establishes a sound intellectual property management system, actively carries out intellectual property registration, and timely applies for patents for inventions that meet the conditions for granting patents to obtain legal protection. We also provide intellectual property related trainings to our employees to enhance their awareness of risk identification and prevention and control, and encourage them to develop new products and procedures through an incentive system. When cooperating with other companies or individuals, the terms of intellectual property protection are included in the contracts we enter into. To safeguard the Group's intellectual property rights, we require our employees to keep all information relating to the technologies, operation and management confidential in accordance with Confidentiality and Intellectual Property Protection Agreement (保密及知識產權保護協議). During the Year, we obtained a total of 8 patents.

The Group attaches great importance to information security and privacy protection and strictly follows the relevant laws and regulations, including but not limited to the Personal Data (Privacy) Ordinance of Hong Kong. Employees are not allowed to disclose confidential information during and after employment as clearly stipulated in the Employee Handbook. Once an employee is found to have violated the confidentiality terms, the Group will conduct a comprehensive investigation and terminate his labour contract immediately. In addition, the Group provides relevant training to employees of various departments to guide them to protect information and privacy information, ensuring that employees always keep in mind the importance of customer privacy.

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5.3 Anti-corruption

The Group has zero tolerance on corruption and strictly observes relevant laws and regulations of anti-corruption, including but not limited to the Criminal Law of the People's Republic of China and the Prevention of Bribery Ordinance of Hong Kong. During the Year, there were no legal cases regarding corrupt practices brought against the Group.

In order to effectively prevent corruption, the Group establishes a comprehensive reporting policy and posts anti-corruption notices in corridors to remind employees at all times. The Group requires employees to handle incentive and gifts according to relevant guidelines. In case of any conflict between personal interest and job duties, employees must report such conflict, so that the Company can fully and accurately consider potential issues and take appropriate measures. In case of corruption, employees can report to the Audit Committee through the reporting form. We will keep the information of whistleblowers' strictly confidential to protect the whistleblowers and conduct comprehensive investigation.

Apart from employees, suppliers are also subject to the anti-corruption regulations set by the Group. Before entering into a contract, the Group also requires the suppliers to execute an honest cooperation undertaking, which sets out the ways of reporting corruption cases to the Group. If the supplier violates the terms of the undertaking, it will make an unconditional default payment to the Group after investigation and verification. Meanwhile, we reserve the right to cease the business relationship and seek to enforce our legal right to hold the defaulting party responsible.

During the Year, the Directors and our senior management were provided with business ethics training in relation to conflicts of interest, common misconduct and corrupt practice to promote good corporate governance of the Group and ensure effective internal controls. The company secretary and related professionals also provided guidance during the training so as to safeguard the interests of different stakeholders.

6. COMMUNITY INVESTMENT

The Group attaches great importance to corporate social responsibility and regards the prosperity and stability of society as the cornerstone of its development. In the future, the Group will support charitable projects and public welfare activities. We also encourage employees to participate in volunteer activities to comprehensively enhance employees' sense of social responsibility.

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APPENDIX: ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE CONTENT INDEX

| ESG key performance indicators (“KPIs”) | Summary | Reference Sections | Page |
|---|---|--|----------|
| A. 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. | Emissions | 4–7 |
| A1.1 | The types of emissions and respective emissions data. | Emissions: Wastewater Treatment; Greenhouse Gas and Exhaust Emissions | 5 6–7 |
| A1.2 | Greenhouse gas emissions in total and intensity. | Emissions: Greenhouse Gas and Exhaust Emissions | 6–7 |
| A1.3 | Total hazardous waste produced and intensity. | Emissions: Waste Disposal | 4 |
| A1.4 | Total non-hazardous waste produced and intensity. | Emissions: Waste Disposal | 4 |
| A1.5 | Description of measures to mitigate emissions and results achieved. | Emissions: Wastewater Treatment; Greenhouse Gas and Exhaust Emissions | 5 6–7 |
| A1.6 | Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved. | Emissions: Waste Disposal | 4 |
| A2 Use of Resources | | | |
| General Disclosure | Policies on the efficient use of resources. | Use of Resources | 7–8 |
| A2.1 | Direct and/or indirect energy consumption by type in total and intensity. | Use of Resources | 7–8 |
| A2.2 | Water consumption in total and intensity. | Use of Resources | 7–8 |
| A2.3 | Description of energy use efficiency initiatives and results achieved. | Use of Resources: Energy Management; Promotion and Training | 8 8 |
| A2.4 | Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved. | Use of Resources: Water Conservation; Promotion and Training | 8 8 |
| A2.5 | Total packaging material used for finished products and with reference to per unit produced. | Use of Resources | 7–8 |
| A3 The Environment and Natural Resources | | | |
| General Disclosure | Policies on minimizing the issuer’s significant impact on the environment and natural resources. | Use of Resources | 7–8 |
| A3.1 | Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them. | Use of Resources | 7–8 |

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| B. 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. | Employment | 9–10 |
| B1.1 | Total workforce by gender, employment type, age group and geographical region. | Employment | 9–10 |
| B1.2 | Employee turnover rate by gender, age group and geographical region. | Employment | 9–10 |
| 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. | Health and Safety | 11–12 |
| B2.1 | Number and rate of work-related fatalities. | Health and Safety | 11–12 |
| B2.2 | Lost days due to work injury. | Health and Safety | 11–12 |
| B2.3 | Description of occupational health and safety measures adopted, and how they are implemented and monitored. | Health and Safety | 11–12 |
| B3 Development and Training | | | |
| General Disclosure | Policies on improving employees’ knowledge and skills for discharging duties at work. Description of training activities. | Development and Training | 12–13 |
| B3.1 | The percentage of employees trained by gender and employee category. | Development and Training | 12–13 |
| B3.2 | The average training hours completed per employee by gender and employee category. | Development and Training | 12–13 |

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| ESG key performance indicators (“KPIs”) | | | |
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| | Summary | Reference Sections | Page |
| B4 Labor Standards | | | |
| General Disclosure | Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labor. | Recruitment Practices | 10 |
| B4.1 | Description of measures to review employment practices to avoid child and forced labor. | Recruitment Practices | 10 |
| B4.2 | Description of steps taken to eliminate such practices when discovered. | Recruitment Practices | 10 |
| B5 Supply Chain Management | | | |
| General Disclosure | Policies on managing environmental and social risks of the supply chain. | Supply Chain Management | 13–14 |
| B5.1 | Number of suppliers by geographical region. | Supply Chain Management | 13–14 |
| B5.2 | Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored. | Supply Chain Management | 13–14 |
| 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, labeling and privacy matters relating to products and services provided and methods of redress. | Product Responsibility | 15–16 |
| B6.1 | Percentage of total products sold or shipped subject to recalls for safety and health reasons. | Product Responsibility | 15–16 |
| B6.2 | Number of products and service related complaints received and how they are dealt with. | Customers’ Feedback | 15–16 |
| B6.3 | Description of practices relating to observing and protecting intellectual property rights. | Product Responsibility: Intellectual Property Rights and Protection of Privacy | 16 |
| B6.4 | Description of quality assurance process and product recall procedures. | Product Responsibility: Testing and Examination; Customers’ Feedback | 15 15–16 |
| B6.5 | Description of consumer data protection and privacy policies, and how they are implemented and monitored. | Product Responsibility: Intellectual Property Rights and Protection of Privacy | 16 |

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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 prevention. | Anti-corruption | 17 |
| 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. | Anti-corruption | 17 |
| B7.2 | Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored. | Anti-corruption | 17 |

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 | 17 |
| B8.1 | Focus areas of contribution. | Not disclosed | – |
| B8.2 | Resources contributed to the focus area. | Not disclosed | – |

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