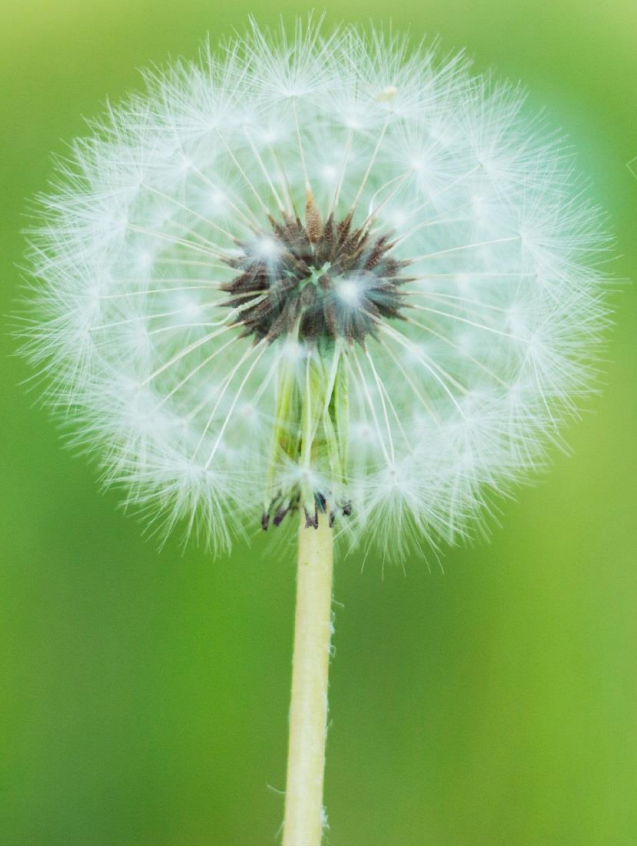
CHTC FONG'S INTERNATIONAL COMPANY LIMITED

(Incorporated in Bermuda with limited liability)
(Stock Code: 641)



Environmental, Social and Governance Report 2021

CHTC Fong's International Company Limited (Stock Code: 641)

Environmental, Social and Governance Report 2021

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1. Scope

This Environmental, Social and Governance Report 2021 ("**this Report**") covered the disclosure of CHTC Fong's International Company Limited (the "**Company**", and together with its subsidiaries, collectively referred to as the " **Group**") during the period from 1 January 2021 to 31 December 2021, regarding the performance of the following business scopes and the four operating regions which represented the majority of the Group's business revenues and the significant implication with the environment:

- Hong Kong Headquarters

  (Level 13, Tower 2, Kowloon Commerce Centre, 51 Kwai Cheong Road, Kwai Chung, Hong Kong)

- Fong's National Engineering (Guangdong) Co., Ltd.

  (9 Xiangshan Avenue, Cuicheng New District, Zhongshan City, Guangdong Province, the PRC)

  - business covers the manufacture of dyeing and finishing machines

- Monforts Fong's Textile Machinery (Zhongshan) Co., Ltd.

  (19 Xiangshan Avenue, Cuicheng New District, Zhongshan City, Guangdong Province, the PRC)

  - business covers the manufacture of dyeing and finishing machines

- Tycon Alloy Industries (Zhongshan) Co., Ltd.

  (28 Wugui Road, Cuicheng New District, Zhongshan City, Guangdong Province, the PRC)

  - business covers the manufacture of stainless steel casting products.

The contents of this Report are prepared in accordance with the Environmental, Social and Governance Reporting Guide as set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") , and the frequency of publication is once a year.

2. Reporting Principles

- **Materiality:** The Group regularly makes reference to the industry sustainability standards at the local and international level and strives to integrate with them. At the same time, regular communication with stakeholders of various aspects is used to identify the most concerned and important sustainability topics for the Group. Those sustainability topics will also be incorporated into the Company's development policies under the overall strategy of the Company's operations. During the year, the Group also conducted stakeholder surveys to identify their expectations on the Group and developed appropriate strategies to respond to their views and needs.

- **Quantitative:** The Group is committed to quantifying and disclosing key performance indicators and data within the environmental and social categories, and whenever feasible, explaining the methods of data collection and calculation to enhance transparency of the data.

- **Balance:** In order to maintain the balance of reporting content, fair disclosure of sustainability performance and challenges related to the Group and stakeholders is provided with impartial information to the public.

- **Consistency:** The Group adheres to the "Environmental, Social and Governance Reporting Guide" of the Listing Rules for disclosure, which allows the Group to make meaningful annual comparisons of past performance under the same framework, and to disclose updated calculation methods of relevant data when necessary.

3. Board's Governance on Environmental, Social and Governance Topics

The Board of Directors of the Group ("we") oversees the relevant environmental, social and governance (ESG) aspects within the framework of the current business strategy in order to ensure that operations are in continued compliance with local laws and regulations in the local regions of the business, thereby safeguarding the interests of the Group and its stakeholders and enhancing the brand image of the company.

The Group collects environmental, social and governance information on a regular basis through different committees and working groups, and then consolidates, analyses and discloses performance in the ESG report. At the annual meeting of the Board of Directors, board members will review ESG performance disclosed in the report, regarding the status of suitability and compliance with the Group's business strategy and identifying the sustainability topics being material to the Group and stakeholders, so as to make appropriate decisions and adjust the relevant strategies as necessary.

ESG Governance Structure

The Board will evaluate the potential risks disclosed from the ESG information, to prioritise the management of the ESG topics with significant impacts, and formulate effective preventive and control measures in order to ensure the sustainable development of the Group, the scope may cover but not limited to:

- Priority of product design given to the use of environmentally friendly materials or products that could enhance the characteristics of environmental protection
- Enhancement in the environmental protection characteristics of the equipment and machinery along the production lines
- Investment in the exploration and application of renewable energy projects such as system for photovoltaic generation of electricity
- Collaboration with customers and business partners in the supply chain to explore green technology
- Establishment of sustainability targets such as for use of resources, emission control, etc.

The Board of Directors will conduct annual evaluation on the current business challenges and those ESG measures that need to be improved and will determine the employee trainings to be strengthened for continued improvement in the performance. From the Board's evaluation in the current year, it was confirmed that we had overcome the impacts of the novel coronavirus outbreak and that the Group had strengthened occupational health and safety measures on employees, enabling the Group to resume operations at a faster pace and take the lead in meeting market demand.

Furthermore, we believe that the main factors affecting the Group's ESG performance in the coming year would be geopolitical disputes, as well as global economic downturn and supply chain strain incurred by the novel coronavirus pandemic. Consequently, the Group aims to raise products' competitiveness, particularly on fulfillment of the market trend for pursuing environmental protection characteristics and the enhanced performance on energy efficiency and emission reduction. Moreover, we need to reinforce the partnership with suppliers of core materials for establishment of reliable and stable supply of materials, as well as maximizing environmental protection characteristics during procurement of materials. through the regular evaluation on the capability of our core material suppliers. On the other hand, in view of the environmental and other compliance risks posed by the global response to climate change, the Board will formulate relevant policies or targets and regularly review progress and performance to align with the Group's sustainable development direction.

4. Communication with Stakeholders

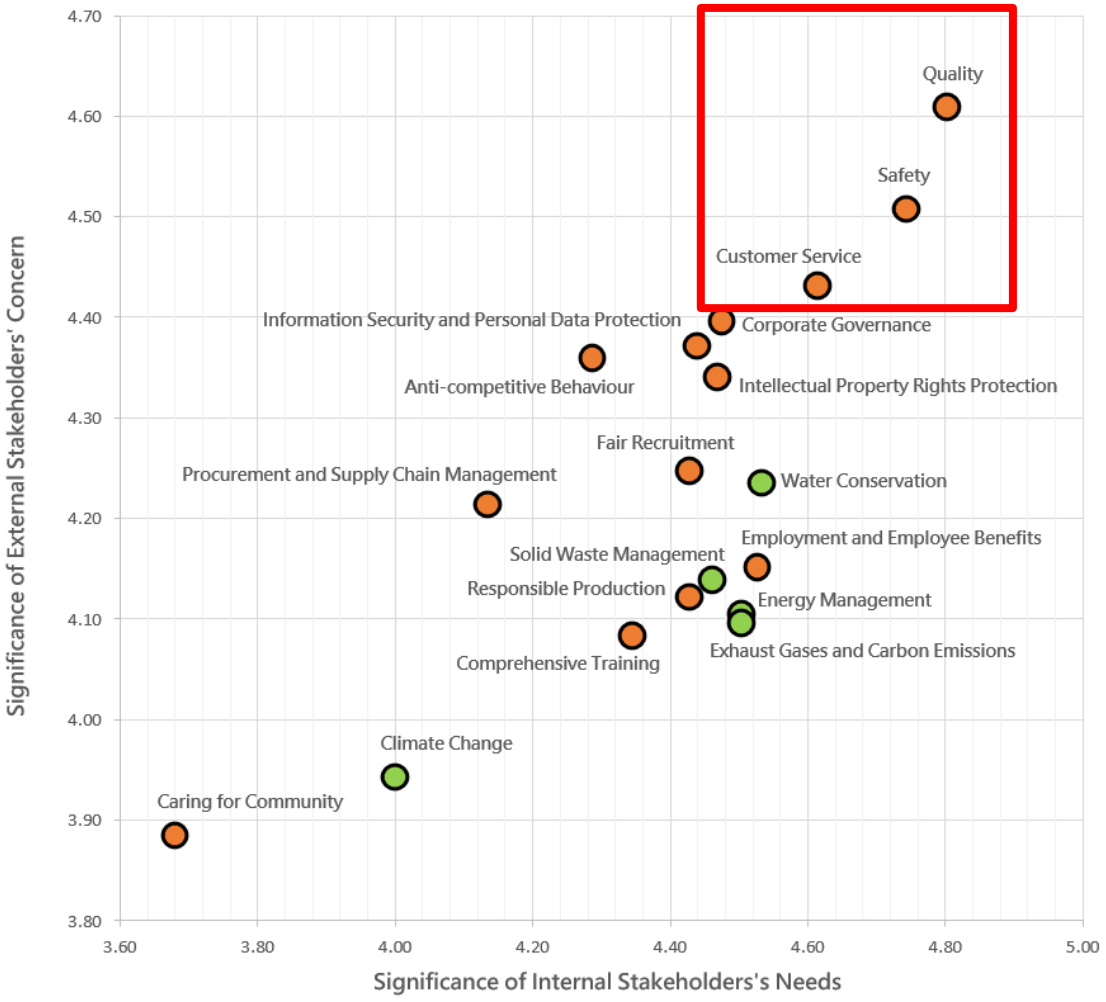
The Company convenes an annual general meeting which provides an effective platform for the Board of Directors to exchange views with its shareholders. In addition to the annual general meeting, for maintaining close relationships with customers, suppliers and other stakeholders, the Group communicates from time to time with stakeholders and listens to their views and needs through visits, phone conferences, e-mails, customer service representatives, and trade exhibitions, etc. The Group's overall business performance is also reported to the investors in the annual report of the Company.

In order to better understand the environmental, social and governance awareness and expectations of our stakeholders, in addition to the above stakeholder communication channels, the Group conducted a survey of stakeholders in the reporting year and proceeded the following three steps to prepare and conduct the materiality assessment:

Step 1 Identify topics on environmental, social and governance	In accordance with the Hong Kong Stock Exchange's Environmental, Social and Governance Reporting Guide as the framework for materiality assessment, and taking into account factors such as corporate development strategies, industry trends, regulatory and market requirements, the stakeholder questionnaire was developed to proceed survey on 18 sustainability topics in four categories: environmental protection, employment and labour management, operating practices and community investment.
Step 2 Identify stakeholders and set up questionnaires	The stakeholders identified as utmost important to the Group are our customers, suppliers and employees. According to their respective perceptions and expectations, specific content of the topics was formulated in their respective questionnaires. The questionnaires were then distributed to the sampled stakeholders, whose feedback was collected within the specified time frame.
Step 3 Evaluate and identify material topics	Through statistical analysis of survey feedback from external stakeholders, and review of the Group's strategies and the priorities of internal stakeholders, data of both external and internal demands was consolidated for plotting the "ESG Materiality Matrix Diagram". From the aforesaid 18 sustainability topics, the ESG material topics of the Group were identified (in red text in the table below, as well within the red square in the upper right corner of the matrix diagram).

Environmental Protection	Employment and Labour Management	Operating Practices	Community Investment
Water Conservation	Safety	Quality	Caring for Community
Energy Management	Employment and Employee Benefits	Customer Service	
Solid Waste Management	Fair Recruitment	Corporate Governance	
Exhaust Gases and Carbon Emissions	Comprehensive Training	Information Security and Personal Data Protection	
Climatic Change		Intellectual Property Right Protection	
		Anti-Competitive Behaviour	
		Procurement & Supply Chain Management	
		Responsible Production	

ESG Materiality Matrix Diagram



5. Environmental, Social and Governance Performance

5.1 Environmental

5.1.1 The Environment and Natural Resources

In response to the public concerns about environmental protection topics, the customers of the Group also expect the advancement in our products aligning with the global trend towards the requirements of energy conservation and emission reduction. Consequently, the Group aims to satisfy the requirements of communities and customers by adopting green principles in the manufacturing and office operations as well as raising the relevant environmental awareness of employees.

(a) Directional Targets on Environmental Protection

The Group is committed to corporate social responsibility and protection of environment, therefore, has established the following targets with the aim to mitigate the adverse environmental impacts incurred from the operation:

Environmental targets	**Directional statements**	**Measures taken during the year**
Emission reduction	1. Reduction in emission of exhaust gases containing volatile organic compounds (VOC)	i. Application of powder-spraying line for substitution of paint-spraying process, which led to reduced emission of volatile organic compounds ii. Use of water-based paint in replacement of oil-based paint, for reducing the emission of volatile organic compounds
	2. Enhancement in the filtration and treatment system for exhaust gases / dust	i. Increase in the facilities for dust removal at polishing stage and for treatment of exhaust gases ii. Installation at paint-spraying room with water curtain collection system, cleaning towers, ultra-violet photolysis and activated carbon absorption equipment, as well as high altitude emission devices, for reducing emission of dust and volatile organic compounds
	3. Increase in the use of clean energy for reducing pollution incurred from coal-fired power generation	i. In the paint-spraying room of dyeing and finishing machine manufacturing factory, substitution of electricity by natural gas for provision of heat energy ii. In the heating furnace of stainless-steel casting production factory, use of natural gas in replacement of electricity as the energy source
	4. Decrease in the vehicles' consumption of diesel oil or gasoline	Introduction of 2 new electric forklifts in replacement of 2 diesel forklifts, consequently for reducing emission of exhaust gases and greenhouse gases generated by the engines of diesel forklift

Environmental targets	**Directional statements**	**Measures taken during the year**
Waste reduction	1. Re-use of relevant raw materials along the production processes for reducing industrial wastes	In stainless-steel casting production factory, practices for recycling and re-use of materials were in place: • Re-use of casting sands • Recycling of wax
	2. Upcycling of raw materials from nonconforming products or wastes	i. In stainless-steel casting production factory, reuse of scrap casting products ii. In dyeing and finishing machine manufacturing factory, steels from scrap products were extracted for use in the factory's internal engineering works, through modifications of non-conforming products of large specifications to products of small specifications
	3. Application of devices which could achieve waste reduction	i. Cutting machines of environmental model were adopted. Within cutting departments in factories for manufacture of dyeing and finishing machines, one new CNC underwater plasma cutting machine and 2 sets of CNC precision plasma cutting machines were installed for replacement of 5 sets of CNC water-jet sand cutters, aiming to reduce the generation of waste sands ii. In factories for manufacture of dyeing and finishing machines, in-house CNC equipment for processing of composite chain parts was in place for reducing discharge of waste lubrication oil
	4. Re-use of paper-based resources	i. Within packaging processes in factories for manufacture of dyeing and finishing machines, scrap carton boxes were reused, such as for packaging of components delivered to customers ii. In Hong Kong office, scrap carton boxes were collected and reused for packaging of mails and parcels to customers

Environmental targets	Directional statements	Measures taken during the year
Energy use efficiency	1. Application of heat recovery technology for reducing energy consumption	In stainless-steel casting production factory, natural gas consumption was reduced by installation of energy-saving device for recovery of heats from exhaust gases of boilers
	2. Increase in use of energy-saving equipment	i. In factories for manufacture of dyeing and finishing machines, energy-efficient welding equipment was adopted. In addition, energy-efficient boilers were installed in Tooling Equipment department to substitute the old boilers for reducing consumption of natural gas ii. In air-conditioned water towers of stainless-steel casting production factory, inverter for temperature control was added for energy conservation
	3. Process improvement for reducing energy consumption	In tube and plate welding process of factories for manufacture of dyeing and finishing machines, machinery was adopted to replace manual practices for reducing energy consumption by two sets of welding devices
	4. Increase in the use of renewable energy for process / equipment deployment	Application on streetlights using solar energy
Water use efficiency	1. Reuse of wastewater that was treated and meeting the specified standards	In factories for manufacture of dyeing and finishing machines, treated wastewater was recycled for non-production usage in the factories, such as floor cleaning and greening activities, through utilization of sewage treatment facilities
	2. Adoption of water recycling equipment	In factories for manufacture of dyeing and finishing machines, "pressure-test water recycling system" was established with water pool for collection and recycling of water

(b) Green Office Management

In addition to establishing the aforesaid environmental targets for factory's operations, the Group is also very concerned about the environmental impacts from office operation. Through various means, consumption of resources and generation of wastes is reduced.

(b)(1) Electronic Management

The Group understands that paper is an important resource consumed in the office environment, and actively promotes electronic documentation in day-to-day operations. Computer files are used instead of paper-based documentation in an attempt to implement the paperless office operations, which would reduce the use of paper consumables in the office. At the same time, the Group requires employees to adopt double-sided printing, and to reuse papers with only one-side used for the aim of paper saving.

(b)(2) Facility Management

Apart from use of energy efficient LED lighting, most of the electrical equipment in the Hong Kong office has been installed with electrical ballasts to increase energy efficiency. Dust filters on air conditioning vents are regularly cleaned by the property management office. Besides energy saving, these measures also help extend the useful life of the central air conditioning system and reduce the replacement frequency of air-conditioner, this in turn reduces waste generation from malfunctioned air conditioners.

(b)(3) Administrative Measures

The Group thoroughly understands that business trips increase energy consumption and lead to an increase in greenhouse gas emissions. Consequently, the Group actively reduces the number of business trips in order to reduce greenhouse gas emissions, alternatively uses other effective means of communication in an effort to reduce greenhouse gas emissions that arise from additional traffic, e.g. avoidance of meetings which need long travelling, replacement by phone and/or video conferencing, and encouragement to employees using public transportation.

In addition, the Hong Kong office has been administered with waste recycling measures, such as collection of the outdated magazines and waste papers for recycling by qualified companies, and transferring of electronic wastes (including old computers) to recycling companies for appropriate handling.

(c) Environmental Education to Employees

The Group values employees as one of the important stakeholders. Through induction training and posting of slogans in workplace, the Group aims to raise environmental awareness of employees and to advocate them of energy conservation practices, such as requesting employees to switch off all electrical equipment responsible at the end of the working day. Moreover, for the appropriate environmental topics, relevant training would be arranged to employees. Amongst the operating regions covered by this Report in the reporting year, the Group has arranged a total of 916 participants in the environmental awareness trainings, for the purpose of their effective implementation of the environmental measures on energy saving and emission reduction, etc.

5.1.2 Emissions

The Group actively responds to the global trend of emission reduction and is committed to minimising the emissions or discharges of greenhouse gases, air-borne particulates, waste water and solid wastes in its daily operations. The Group is seeking for innovative technology and new products to improve environmental protection performance and has developed a series of environmental policies to strengthen control. During the reporting period, the Group did not identify any significant non-compliance to the regulations pertinent to emissions or other environmental issues.

(a) Solid Wastes

(a)(1) Waste Disposal

The Group has formulated Environmental Handbook or relevant environmental practices that manage the environmental impacts resulting from manufacturing operations; these impacts include the handling of malfunctioned parts, consumption of electricity and other resources in the manufacturing process. At the same time, measures are taken to recycle all usable scrap materials in order to mitigate the environmental impacts from such waste discharge.

The Group classifies various wastes for appropriate handling, which includes identifying recyclable/reusable wastes and designating areas for storage of these wastes; training employees to categorise and put wastes into the designated areas; appointing the qualified vendors for disposal of the finally confirmed wastes.

Types of wastes	**Total Annual Emission (tonne)**	**Emission Intensity (per tonne of production units)**
Hazardous wastes	180.7	0.0070
Non-hazardous wastes	3069.9	0.1197

(a)(1)(i) Manufacture of Dyeing and Finishing Machines

From the manufacture of dyeing and finishing machines, hazardous wastes generated, mainly cutting wastes, waste activated carbons, empty waste containers, waste paint residues, sludge, etc. will be collected and processed by qualified contractors; non-hazardous wastes, mainly, general metallic wastes and scrap wooden materials, are classified into two types namely recyclable and non-recyclable categories. Recyclable wastes are processed by qualified contractors or sold, while the non-recyclable wastes are moved to the designated garbage processing centre.

Manufacture of dyeing and finishing machines	**Unit**	**Year 2020**	**Year 2021**
Hazardous waste emissions	(tonne)	606	167
Emission intensity[1] (per tonne of production units)	(tonne / tonne)	0.04	0.01
Non-hazardous waste emissions	(tonne)	2,879	2,905
Emission intensity (per tonne of production units)	(tonne / tonne)	0.18	0.13

[1] Calculation is based on the production units of 21,620 tonnes in the year 2021 from the operations for the manufacture of dyeing and finishing machines.

(a)(1)(ii) Manufacture of Stainless Steel Casting Products

For the stainless-steel casting production, main hazardous waste generated from the casting operation is cutting solvent, while non-hazardous wastes are mainly waste sands and metal wastes, both are collected and processed by qualified contractors.

Manufacture of stainless-steel casting products	**Unit**	**Year 2020**	**Year 2021**
Waste sand emissions	(tonne)	28.9	101
Emission intensity[2] (per tonne of production units)	(tonne / tonne)	0.011	0.025
Cutting solvent emissions	(tonne)	8.6	6.1
Emission intensity (per tonne of production units)	(tonne / tonne)	0.003	0.002

(b) Measures for Waste Reduction

(b)(1) Manufacture of Dyeing and Finishing Machines

The Group is striving to enhance the automation control for supporting emission reduction, including the development of equipment for digital-controlled composite chain parts processing in the Zhongshan factory. In addition, the powder-spraying line was commissioned in replacement of the traditional paint-spraying process. This reduced the amount of organic solvent containers generated during the paint-spraying process and hence reduced the waste type of empty containers.

Also, the factory is striving to reuse and utilise the materials from the non-conforming or scrap products, such as: through the modifications of non-conforming products of large specifications to products of small specifications, and re-use of steels from scrap products for the factory's internal engineering, as well as through best use of resources in the packaging process by reusing scrap carton boxes for packaging of components to customers.

Re-use of Steel Wastes
Annual savings
100 tonnes

Re-use of Scrap Cartons
Annual savings
5,000 kilograms

(b)(2) Manufacture of Stainless Steel Casting Products

The Group utilizes recycling processes to reduce the waste generation; these processes include the recycling of used sands from sand casting operations and the recycling of wax. In addition, it is committed to extracting reusable steel from the scrapped products to achieve reducing waste while improving material consumption rate.

[2] Calculation is based on the production units of 4,034 tonnes in the year 2021 from the operations for the manufacture of stainless-steel casting products.

Casting Sands - Reuse
Annual savings
7,202 tonnes

Wax Recycling
Annual savings
265 tonnes

Scrap Steel Materials – Extracted for Reuse
Annual savings
170 tonnes

Through the re-use of casting sands and based on the new sand's consumption of 5,262 tonnes in the reporting year, the savings of casting sands amounted to around 58% of the annual consumption.

During the wax recycling process, used wax would be collected for filtering, evaporating, mixing, settling, and then recycled for use. Based on the new wax's consumption of 45 tonnes in the reporting year, the savings of wax exceeded 85% of the annual consumption.

For those non-recyclable wastes, the Group will identify the suitable contractors for sale in order to reduce the environmental impact caused by waste discharge directly.

(c) Control of Sewage Discharge

The Group has established measures for managing industrial effluent. In the factories for the manufacture of dyeing and finishing machines, they have established wastewater treatment facilities which use continuous high-frequency pulse ionization membrane system, for prevention of environmental pollution incurred by industrial wastewater. During the reporting period, wastewater treatment system was utilized with the annual target of processing around 1,950 cubic metres of wastewater.

Sewage Treatment Facilities

(d) Control of Air Pollution

(d)(1) Equipment for Emission Filtration

(d)(1)(i) Manufacture of Dyeing and Finishing Machines

Sites for the manufacture of dyeing and finishing machines would release exhaust gas to external environment. Factories adopted high-efficient dust removal and purifying facilities for reduction of dusts emitted during welding as well as exhaust gases and acidic mists released from other production processes.

Movable Welding Smoke Treatment Facilities

Acidic Mist Exhaust Treatment Facilities

Paint-spraying room was installed with dust removal and purification facilities, including water curtain system for collection of exhaust gases, cleaning towers, ultra-violet photolysis and activated carbon absorption equipment, as well as high-altitude emission devices. All these achieved annual target on reducing emission to environment of around 7 tonnes of dust and volatile organic compounds.

Water Curtain System for collection of spray paint exhaust

Spraying Tower for handling of paint exhaust

UV Photolysis and High-altitude Emission System for handling of spray paint exhaust

For minimizing emission of volatile organic compounds, the spraying production area used “water-based paint” in replacement of oil-based paint. Moreover, the factory adopted the powder-spraying technology to replace the use of paint oils in the spraying process, this reduced the application of volatile organic solvent and eventually annual emission reduction was estimated around 9 tonnes of volatile organic compounds.

(d)(1)(ii) Manufacture of Stainless Steel Casting Products

The factory for the manufacture of stainless steel casting products has also established control for emission of exhaust gas and equipped with facilities for reduction of pollutants to the environment. Supervisory personnel perform daily inspection patrol to ensure normal operations of the relevant environmental facilities for dust removal and the automatic doors of sand casting facilities. In accordance with the systems and regulations pertinent to environmental protection, types of emissions and standards stipulated in the discharge permit are being controlled, such as those for benzene/toluene/xylene. Also, they maintain records for monitoring and take prompt actions in event of abnormalities.

(d)(2) Use of Clean Energy

The Group's operations are striving to the use of natural gas, which is clean energy in replacement of coal fuel supply for reducing the generation and emission of sulphur compounds and nitrous oxides.

In the factories for manufacture of dyeing and finishing machines, natural gas was used in paint-drying room, for substitution of municipal electricity supplied by coal combustion, from which achieved annual reduction of around 74 tonnes in coal equivalent emission and consequently achieved mitigation to pollution incurred from coal-fired power generation.

In the manufacturing processes for stainless steel casting products, natural gas was used in the areas like furnace room and wax-removal room. Power supply for heating boilers was changed from electricity to natural gas, which accounted for about 60% reduction in emission through the use of this clean energy. Furthermore, some equipment like street lighting was switched to solar energy application, with the aim of using this renewable energy to avoid emission of greenhouse gases.

From the overall perspective, the following table set forth the sources and emission volumes of various greenhouse gases (GHG) generated during the reporting period, and the GHG emission intensity was calculated per unit of production:

Total GHG emission[3]	**Direct GHG emission[4] (Scope 1)**	**Energy Indirect GHG emission[5] (Scope 2)**	**GHG emission intensity[6]**
40,299 tonnes CO_2 equivalent	**7,495 tonnes CO_2 equivalent**	**32,804 tonnes CO_2 equivalent**	**1.57 tonnes CO_2 equivalent / tonne**

[3] Global Warming Potential (GWP) adopted in this GHG calculation were based on the values disclosed in the Fifth Assessment Report (AR5) of Intergovernmental Panel on Climate Change (IPCC).

[4] Direct GHG emission was mainly originated from fuel combustion by vehicles, and consumption of diesel oil / gasoline, natural gas, acetylene and refrigerant (R-134a) by manufacturing facilities. Method of calculation was based on "2006 IPCC Guidelines for National Greenhouse Gas Inventories".

[5] Energy indirect GHG emission was originated mainly from consumption of electricity purchased from external source. Regional grid emission factors used in the calculation were referenced to the values issued by National Development and Reform Commission (NDRC) in People's Republic of China.

[6] The base for calculation of emission intensity is the total production units (in weight of tonne) from both business for manufacturing of dyeing and finishing machines and business for stainless-steel casting production.

GHG emission sources	Group Overall
Diesel oil consumption from stationary sources (litres)	9,491
Gasoline consumption from stationary sources (litres)	9,549
Diesel oil consumption from mobile sources (litres)	25,465
Gasoline consumption from mobile sources (litres)	76,828
Natural gas consumption (cubic metres)	1,944,062
Acetylene consumption (kilograms)	5,985
Refrigerant (R-134a) consumption (kilograms)	2,135
Electricity consumption (kWh)	40,850,710

5.1.3 Use of Resources

The Group is concerned on environmental protection and upholds its business philosophy "Conservation as Priority, Management at Sources", and hence carries out appropriate measures to enhance the utilisation of resources:

(a) Energy Conservation

For reduction of energy consumption, the Group is striving to use energy-efficient products and equipment in an attempt to replace equipment with high energy consumption, including the use of energy-saving LED lighting, and whenever feasible to maintain illumination level at the designated range in order to mitigate extra energy consumption caused by excessive lighting.

(a)(1) Manufacture of Dyeing and Finishing Machines

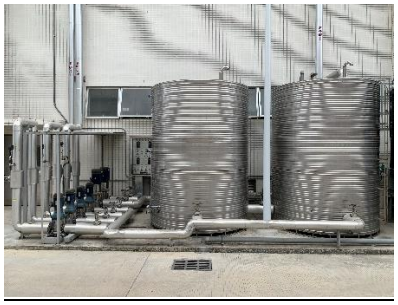
In respect of the operations for the manufacture of dyeing and finishing machines, the Group has formulated "Environmental Handbook", "Energy Management Handbook" or the relevant operating documentation for energy conservation in an attempt to achieve energy saving and efficient operations. Through machinery control for achieving energy efficiency, the Group uses inverter controls in electrical equipment of high power consumption, use of energy efficient welding machines, manual plasma cutting machine, and digital-controlled composite chain parts processing.

In-house CNC Equipment for processing of composite chain parts

(a)(2) Manufacture of Stainless-Steel Casting Products

In the stainless-steel casting operations, apart from replacement of energy-saving lights, the factory is also reducing electricity consumption by recycling of thermal energy through the other processes such as heat recovery from boilers and control of fan-assisted cooling towers by using water temperature. Through heat recovery from boilers, there was around 3% saving of natural gas consumption. In the fan-assisted cooling towers of casting workshop, annual saving of around 48,000 kWh could be achieved by addition of temperature control of inverter-type in the air-conditioned cooling towers.

Thermal-energy Recycling Device



Heat Recovery Device

Furthermore, the stainless-steel casting factory has been adopting the "water storage tank of cold energy" since the previous year, for providing energy mainly in the wax-injection and molding workshops of fine casting production. In addition to raising the cost effectiveness, the equipment could be considered as a backup power supply. Through its function as storage tank of cold energy, it improves the stability of air conditioning system, and more importantly, reduces the pressure of the regional power grid, which in turn brings energy effectiveness to the communities in the region.

Water Storage Tank –
cold energy storage /
air-conditioning equipment

Technical principles:

- Capitalize on the characteristics of low electricity price at nighttime
- Store the cold energy within the water storage tank, in form of freezing water at 4 degree Celsius
- Use the stored energy at daytime when the electricity is priced high

Energy effectiveness to society:

- Power plant: reduce investment in new power plants and raise the effectiveness of power generation at nighttime
- Power grid: balance the load of the power grid and enhance safe operation performance of the power grid
- Environmental protection: mitigate the peak adjustment pressure at power generation side and promote more consumption of clean energy

(b) Water Conservation

The Group has adopted appropriate equipment and administrative measures in order to enhance water utilization.

(b)(1) Use of Appropriate Equipment

Factories for the manufacture of dyeing and finishing machines has set up wastewater treatment facilities within the sites for recycling of treated wastewater, such as for acid washing process at the Zhongshan factory. Moreover, a reservoir has been built for collection of rainwater, with the aim of reducing use of fresh water.

Use of Recycled Water
Annual savings
21,600 cubic metres

Rainwater collection for greening usage
Annual savings
2,300 cubic metres

(b)(2) Administrative Measures

In the factory for the manufacture of stainless steel casting products, the Group has improved existing techniques to reduce water consumption, at the same time has formulated monitoring control whereby abnormal water consumption will be investigated for identification of the cause of abnormal water leakage.

Furthermore, the Group inspects water consumption facilities in the manufacturing plants and offices, and takes timely remedies to any water leakage or dripping. Water conservation slogans are posted and promoted to raise employee awareness of water conservation and to remind employees and visitors to conserve water.

(c) Consumption of Packaging Materials

The following table set forth the weight[7] of main packaging materials consumed by the Group during the reporting period:

Packaging Materials		Weight of Annual Consumption
Paper	(tonne)	39.55
Plastic	(tonne)	94.05
Wood	(tonne)	461.95
Metal	(tonne)	2.40

[7] Only covered those packaging materials with accurate records of their weight data.

(d) List of Resource Consumption

Electricity consumption
40,850,710 kWh

Natural gas consumption
1,944,062 cubic metres

Diesel oil consumption
34,956 litres

Gasoline consumption
86,377 litres

Water consumption
409,036 cubic metres

Packaging materials consumption
598 tonnes

Based on the calculation per tonne of production units, the following table set forth the consumption intensity of various key resources:

Resources		Annual Consumption	Consumption Intensity per tonne of production[8]
Electricity	(kWh)	40,850,710	1592.39
Water	(cubic metre)	409,036	15.94
Natural gas	(cubic metre)	1,944,062	75.78
Diesel oil	(litre)	34,956	1.36
Gasoline	(litre)	86,377	3.37
Packaging materials	(tonne)	598	0.02

[8] Calculation of consumption intensity is based on the total production units (in weight of tonne) from both operations for the manufacture of dyeing & finishing machines and the manufacture of stainless-steel casting products.

5.1.4 Policies for Responding to Climate Change

The Group is well aware of extreme weather being the main risks posed by climate change, which ultimately results in damage caused by typhoons and rainstorms. In accordance with the analysis of different risks and past incidents at various operating locations, potential hazards to the Groop's operation have been identified. The following preparedness plans have been developed accordingly to cope with operational disruptions or other adverse effects resulting from extreme weather, in order to resume production for continued operations:

(a) Policies for responding to climate change

(a)(1) Preparedness for Typhoons and Rainstorms

For factories near the coast or more vulnerable to typhoon attack, the Group takes into account of experience with the previous damage caused by super typhoons, and would update the relevant response strategies and enhance the resilience of operating facilities against extreme weather conditions, including:

- Reinforce factory structure to better withstand typhoon attack ;
- Secure outdoor equipment or machinery prior to super typhoon signal hoisted ;
- Request employees to check and ensure all windows closed prior to typhoon attack, as well as to regularly inspect windows for avoidance of damages caused to operating regions ;
- Purchase appropriate insurance to cover financial loss caused by damage from natural disaster.

(a)(2) Management of Flooding Risks

For addressing flooding incurred by typhoons and rainstorms, the Group develops strategies and measures to ensure that production processes and related equipment would not be interrupted by flooding and those goods and raw materials in the warehouse would not be damaged by flooding.

(a)(3) Management for the Impacts of Disasters on the Supply Chain

For addressing the disruption to transportation incurred by typhoons and rainstorms, the Group develops contingency measures to ensure the supply of raw materials and on-time shipments to customers. Whenever necessary, the Group assesses the impact of climate change on procurement of raw materials, such as prices and quantities, in order to arrange appropriate storage and alternatives to raw materials at the earliest.

(a)(4) Management for Hot Weather

For addressing potential heat waves incurred by climate change, the Group evaluates the impacts on production processes, such as the operation of air conditioners and automated machines. Moreover, in response to the hot working environment caused by extreme weather, factories develop appropriate production plans to avoid heat stroke and mitigate health and safety risks to employees.

(a)(5) Enhancement of Employee Awareness on Disaster Preparedness

The Group has developed guidelines for working arrangement during the period of adverse weather, which guide staff in responding to possible emergencies, such as incapability to normal work incurred by flooding or typhoon attack, when typhoons and rainstorms weather warnings are hoisted. The Group also arranges appropriate trainings or drills to ensure that employees acquire knowledge of disaster preparedness and are proficient in emergency measures in order to cope with the impact of extreme weather on the business.

(b) Policies for Mitigation of Climate Change

In addition to the above-mentioned plans for addressing climate change, the Group has also developed policies to reduce greenhouse gas emissions in order to mitigate climate change:

(b)(1) Low-carbon Operational Targets

The Group makes reference to the best practices in energy-efficient applications within the industry, in setting realistic long-term targets for reducing carbon emissions, and where appropriate for the business conditions, allocates budgets for enhancing facilities or technologies in order to reduce greenhouse gas emissions and air pollution.

(b)(2) Green Procurement

The procurement of materials and services is preferred for low carbon and energy efficiency, and the Group prioritizes and engages local suppliers to minimize greenhouse gas emissions during transportation.

(b)(3) Environmental Equipment

The Group directs all departments to actively conserve energy and to make efforts to use energy-efficient lamps and equipment, and whenever feasible in the scope of operations, to increase the use of facilities adopting renewable energy (e.g. solar energy).

5.2 Social

5.2.1 Employment

In addition to complying with the requirements of local employment regulations, the Group has also formulated a series of employment policies to ensure that employees are treated in a fair and reasonable manner. Relevant policies will be regularly reviewed to identify the needs of update.

Recruitment and Promotion

The Group gives equal opportunity to every job applicant and shall not reject any applicant because of their gender, age, race or nationality. Employment decisions are based solely on fulfilment of the job requirements. Besides local applicants, applicants of other ethnicities and nationalities are also considered at the time of recruitment.

The Group has an equitable promotion mechanism that only makes reference to an employee's performance, experience and competence; other irrelevant factors such as ethnicity, gender, and marital status will not be considered.

Salaries and Benefits

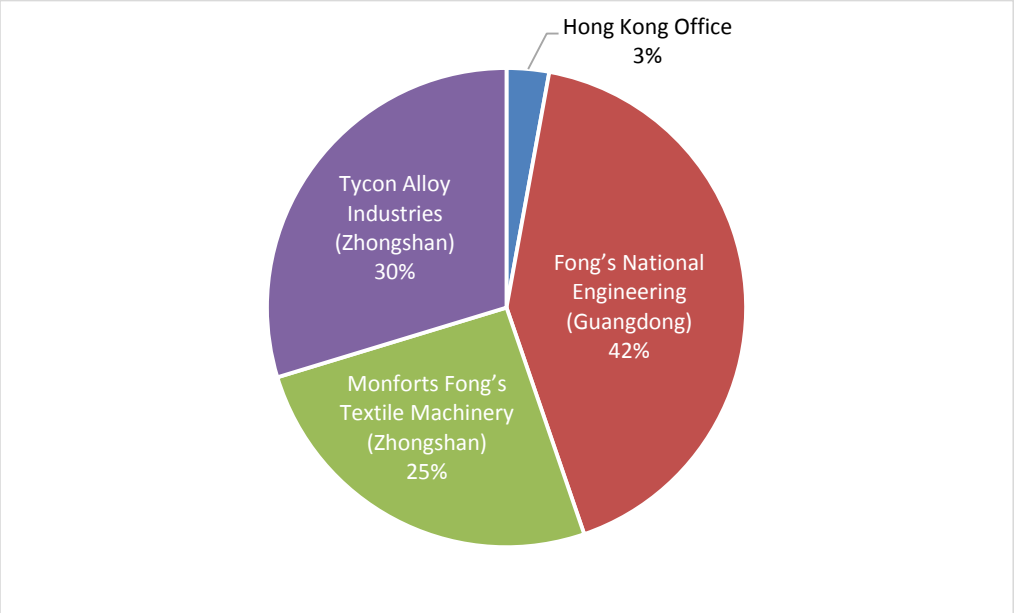
The Group makes reference to various factors, e.g. local market data, company's results, employee's performance, inflation and local employment regulations, in formulating and evaluating regularly the salaries and benefits system which consists of minimum wage, bonuses, overtime pay, paid holidays, sick leave, leave for work-related injuries, etc. At the same time, the Group also purchases the mandatory social insurance for employees according to local regulations.

During the reporting period, the Group did not identify nor receive any significant legal non-compliance or complaints pertaining to discrimination or recruitment.

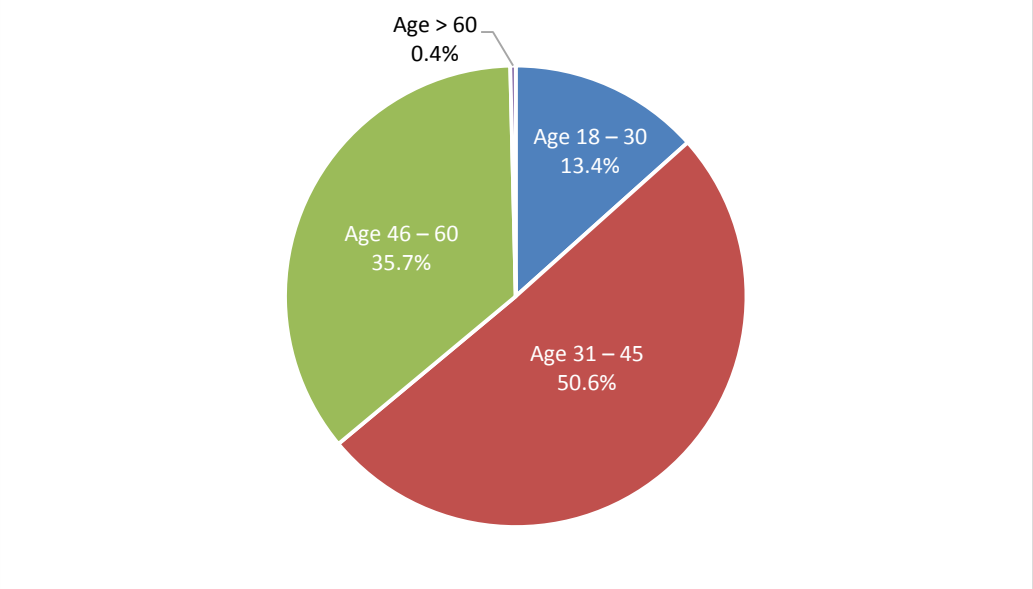
As at 31 December 2021, the table below listed out the number of employees and their associated age distribution:

	Number of Employees
Gender	
Male	2,550
Female	349
Job Type	
Full-time	2,896
Part-time	3
Age	
18-30	388
31-45	1,466
46-60	1,034
> 60	11
Region	
Hong Kong	83
Mainland China	2,816
Total	**2,899**

Employee proportion per region of operation



Employee proportion per age group



In the previous year, there was a substantial change in human resources owing to the factory's move from Shenzhen to Zhongshan, consequently this led to an abnormal high in the overall employee turnover rate of the Group (5.88%). During the reporting year, the employee turnover was resumed to normal after the factory's move and the overall employee turnover rate was substantially dropped to 1.72%. The following table outlines the monthly average employee turnover rate by gender and age group:

	Monthly Average Employee Turnover Rate (%)
Gender	
Male	1.71
Female	2.24
Age	
18-30	4.51
31-45	1.98
46-60	0.89
> 60	0.00
Region	
Hong Kong	1.06
Mainland China	1.95
Overall Average	**1.72**

5.2.2 Health and Safety

The Group has established an occupational health and safety management system which uses different measures to minimize the occurrence of occupational disease and industrial injury.

Workplace Safety Management

The Group assesses safety risks in the workplaces and formulates corresponding operating rules to manage the health and safety hazards posed to the employees. The Group also has formulated relevant contingency and precautionary measures. Operating rules are developed in response to the risks posed by relevant production processes and equipment, e.g. operating rules for safe handling of flammable gases, administrative measures for safe storage of gas cylinders, administrative measures for operating with X-ray radiation. The Group requests employees to abide by the operating rules, also arranges supervisory personnel to conduct on-site inspection and supervision, as well as to handle and rectify any non-compliant practices. Beyond the operating rules, the Group also evaluates the job risks to provide employees with suitable personal protective equipment, and appoints qualified agencies or internal qualified personnel to conduct regular inspection and testing of operating equipment. According to the identified safety risks, the Group installs essential protective devices on the relevant equipment.

For special working conditions such as high-temperature environment in the stainless steel casting factory, the Group provides cooling facilities (air conditioners, fans, etc.) and monitors and records the temperatures of the workplaces. Relevant rules are established and employees are provided with protective equipment against high temperature. Employees are requested to abide by the operating rules and supervisory personnel are assigned to undertake site inspections, as well as to report and supervise rectification in event of non-compliant situation.

Besides paying attention to hazards in the manufacturing sites, the Group also manages health and safety risks in the office. For example, regular cleaning of the air conditioning system and replacement of relevant components are arranged to ensure good indoor air quality for protection of employees' health.

In response to the pandemic of the novel coronavirus, the Hong Kong office has formulated "Guidelines for Prevention and Control against Pandemic", and a series of work arrangements has been in place to ensure the safety and health of employees.

Moreover, the Group regularly monitors the compliance status in other aspects such as the provision of fire-fighting equipment and regular inspection of such equipment.

Employee Safety Training

The Group arranges suitable trainings to ensure effective implementation of operating rules and safe operation of equipment. The main content includes the correct use of protective equipment, knowledge and case studies in safe production and occupational health, safe operating practices for job and equipment. For special positions with required qualifications, the operators are required to hold the valid permit or to pass the professional training. The Group also arranges employees to attend fire and emergency drills on a regular basis to ensure they are familiar with evacuation routes in case of emergency.

Design of training program varies in response to occupational health and safety requirements of general staff and special positions. Relevant evaluation and examination will be arranged after training. To ensure the trainings more comprehensive and the sustainable development of employees, the Group invites external professional organizations to extend the scope of appropriate trainings, which include trainings related to environmental protection (e.g. implementation and review of environmental protection laws, carbon emission management), job-related technical and safety trainings (e.g. machinery operation, theory and practices of electrical engineering to enhance knowledge and skills in electrical operation), and management skill trainings (e.g. trainings in mediation of employment disputes, relevant terms and interpretations of social insurance).

In addition to arrangement of basic safety training for new employees, occupational health and safety training arranged by the Group's factories during the year addressed different safety hazards: skills of safety hazard identification, avoidance of occupational hazards, chemical safety, fire safety, safety of special operation personnel and emergency drills. Moreover, the Shenzhen factory invited external professional institutions to provide suitable enhancement training to strengthen employees' understanding in work-related technical and safety knowledge.

Occupational Health & Safety Training Participants in the Year

8,381

Occupational Health & Safety Training Hours in the Year

29,155

Employee Health Examination

The Group provides the employees with an annual occupational health examination to ensure they are free from occupational diseases. Also, occupational health records are established for the employees. For those employees in production departments exposed to potential hazards, including dust, noise, high temperature, welding, paint spraying, polishing, sand blasting, acid washing, sewage treatment, etc., the Group even arranges specialized health examinations to them.

A total of 903 employees exposed to hazardous positions have been arranged to attend health examination in the reporting year, and there was 1 case of occupational disease diagnosed which involved one employee in the factory of stainless-steel casting production. His original role was located in the sand-blasting position of refined casting department. In March of the reporting year, he was diagnosed with the illness of silicosis. At the early stage of his suspect illness, the factory has relocated him away from the hazardous position, then his illness was gradually recovered and could engage in normal work. After identification of the incident, awareness training and promotion activities had been reinforced amongst other staff regarding prevention measures against occupational disease. Occupational health examination and workplace environmental monitoring had been regularly conducted, as well as the reinforced supervision of wearing personal protective equipment. As of the end of the reporting period, no recurrence of similar incident was identified.

Performance of Occupational Health and Safety

In the past 3 years including the current reporting period, there was no work-related fatality of the employee, and the number of working days lost due to work-related injuries amounted to 2,519 days in the reporting period.

During the reporting period, a severe injury was identified in the operation for manufacture of dyeing and finishing machine in May of the reporting year. The incident was identified as non-compliance to the local regulation of “Safe Production Law”. It was originated from a welding worker whose eye was seriously injured during adjustment of the machinery, owing to the consequence of unsafe equipment condition and unsafe personal behaviour. After cause analysis, apart from following the instructions from the local authority for suspending the use of the relevant machinery, a series of preventive and corrective measures has also been established and implemented, including: launching a thorough review of any potential hazards, regular safety check on the operational status of relevant equipment, training to the other operators, instruction to the operators on wearing of safety goggles during operation, as well as reinforced onsite supervision for safe production. By end of June in the reporting year, the local authority of safe production administration has conducted verification of the essential corrective measures achieved by the Group and has granted the confirmation for approval of the factory’s operational resumption. On the other hand, since the occurrence of that incident, there was no similar recurrence by the end of the reporting period.

Work-Life Balance

The Group is not just concerned with the occupational health and safety of the employees but also concerned with the psychological well-being and need of private life of the employees. Hence, the Group devises various categories of leaves relating to an employee's family life, and makes provision for early leave, flexible vacation, etc. to align with the roles of an employee in his/her family. In addition, the Group will arrange a variety of activities to ease the employees’ pressure and enrich employees’ life outside of work.

The Group is very concerned with employees’ opinions towards the management and operations of the Group. Hence, the Group designates communication channel and suggestion box for the employees, and regularly follows up the employees’ opinions received.

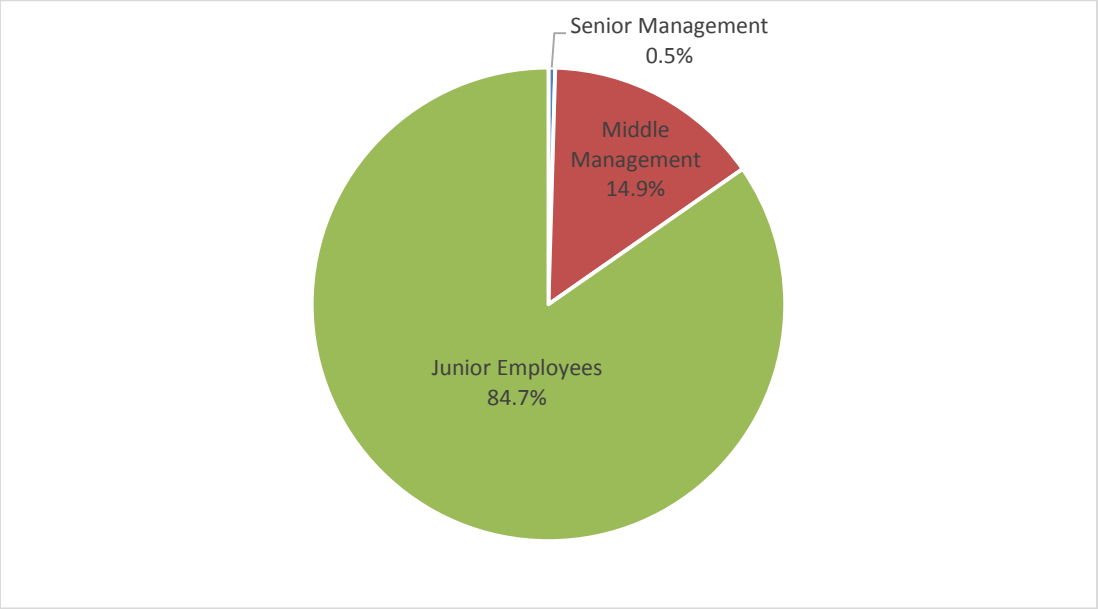
5.2.3 Development and Training

The Group has established a comprehensive training system that covers orientation training, factory's rules and systems training, product workmanship, environmental protection, safety training and other necessary external trainings, etc. In addition to the general classroom trainings, the Group emphasizes practical work and thus will arrange for team leaders, group leaders or experienced employees to guide new recruits in their work. This helps new recruits fulfill the requirements of their positions as quickly as possible and improve training efficiency as well as the new recruits' performance. This arrangement can be flexibly modified according to the new employee's characteristics and experience. At the same time, based on the Group's development strategies for different product types, businesses and projects, career development plan is formulated for the employees to train them on the essential knowledge and skills required by their positions. Employees are offered with promotion opportunities through annual performance evaluation and sustainable development of the Group's business is propelled through this development and promotion system.

Within the operating sites covered by this Report, there was a total of 17,728 counts of participation in employees' training during the reporting period, which totally amounted to 57,491 training hours. As compared with the previous year, following the mitigation of pandemic situation and the resumption of operational stability after factory's move, the number of training participants and training hours were substantially increased by about 250% and 500% respectively. The following diagrams and tables illustrated the monthly average proportion of trained employees and the monthly average training hours per employee:

	Total number of the Group's employees trained in the year
Gender	
Male	16,366
Female	1,362
Employee Category	
Senior Management	81
Middle Management	2,633
Junior Employees	15,014
Total	**17,728**

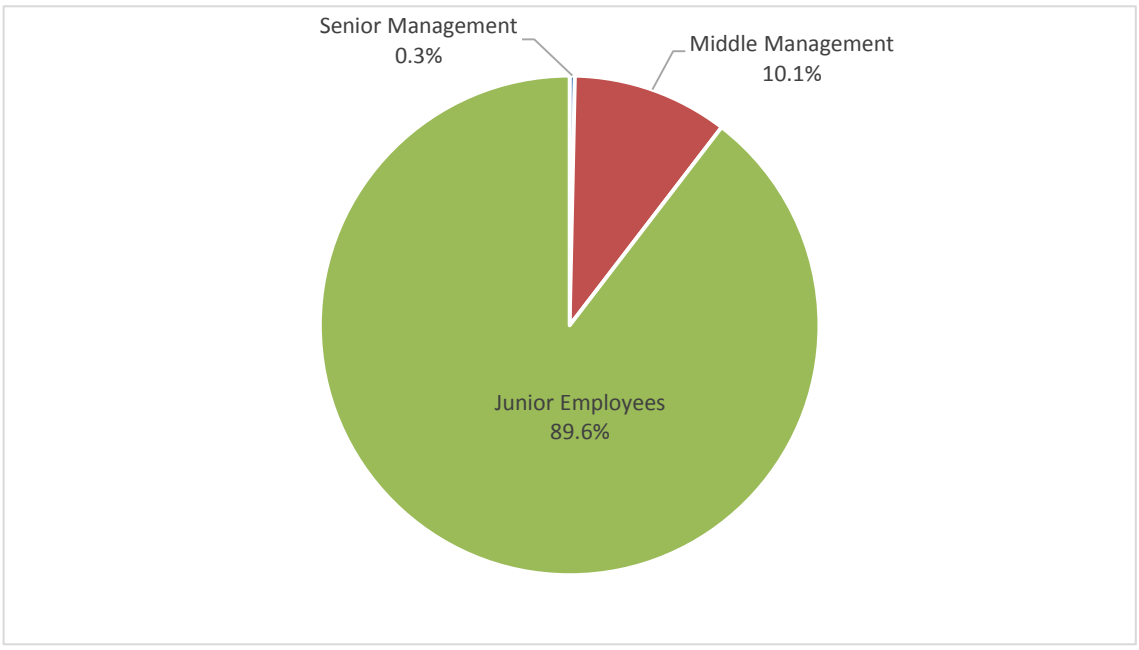
Proportion of training participants by employee category



	Monthly average proportion of trained employees within the Group (%)
Gender	
Male	38.83
Female	26.05
Employee Category	
Senior Management	9.15
Middle Management	33.25
Junior Employees	43.26
Overall Average	**37.64**

	Total number of the Group's employee training hours in the year
Gender	
Male	52,913
Female	4,578
Employee Category	
Senior Management	194
Middle Management	5,793
Junior Employees	51,504
Total	**57,491**

Proportion of training hours by employee category



	Monthly average training hours per employee
Gender	
Male	1.19
Female	0.87
Employee Category	
Senior Management	0.21
Middle Management	0.75
Junior Employees	1.46
Overall Average	**1.16**

5.2.4 Labour Standards

The Group strictly prohibits the employment of child labour and will only employ individuals aged 18 or above while considering the job nature in association with factory operations. The Group ensures there is no forced labour and will arrange jobs according to appropriate scenarios, which will not force employees to do tasks beyond their competencies or other unreasonable jobs. In addition, the Group does not force overtime work; if extended working hours are required, it must be initiated and applied by the employees voluntarily. The Group does not take deposits from employees or withhold their identification documents at the time of recruitment.

For effective prevention of child labour, the recruitment advertisements in mainland China will specify that applicants must be at least 18 years of age. During recruitment, scrutiny is conducted on an employee's identification document and resumes for age verification. The Human Resources Department reviews applicants' resumes and eliminates those less than 18 years of age. Through the Group's annual child labour inspection and daily operation management, employment will be immediately terminated if any child labour is discovered.

The Group has also formulated measures to prevent forced labour. For ensuring voluntary overtime, if an employee wishes to work overtime, the employee must initiate the overtime application to his immediate supervisor through written confirmation with signature. The Group requires that the work arrangement adheres to the afore-mentioned procedure for prevention of involuntary overtime work. Immediate investigation will be conducted in the event of non-compliance with this procedure.

During the reporting period, the Group did not identify any legal non-compliance pertaining to employment of child labour or existence of forced labour.

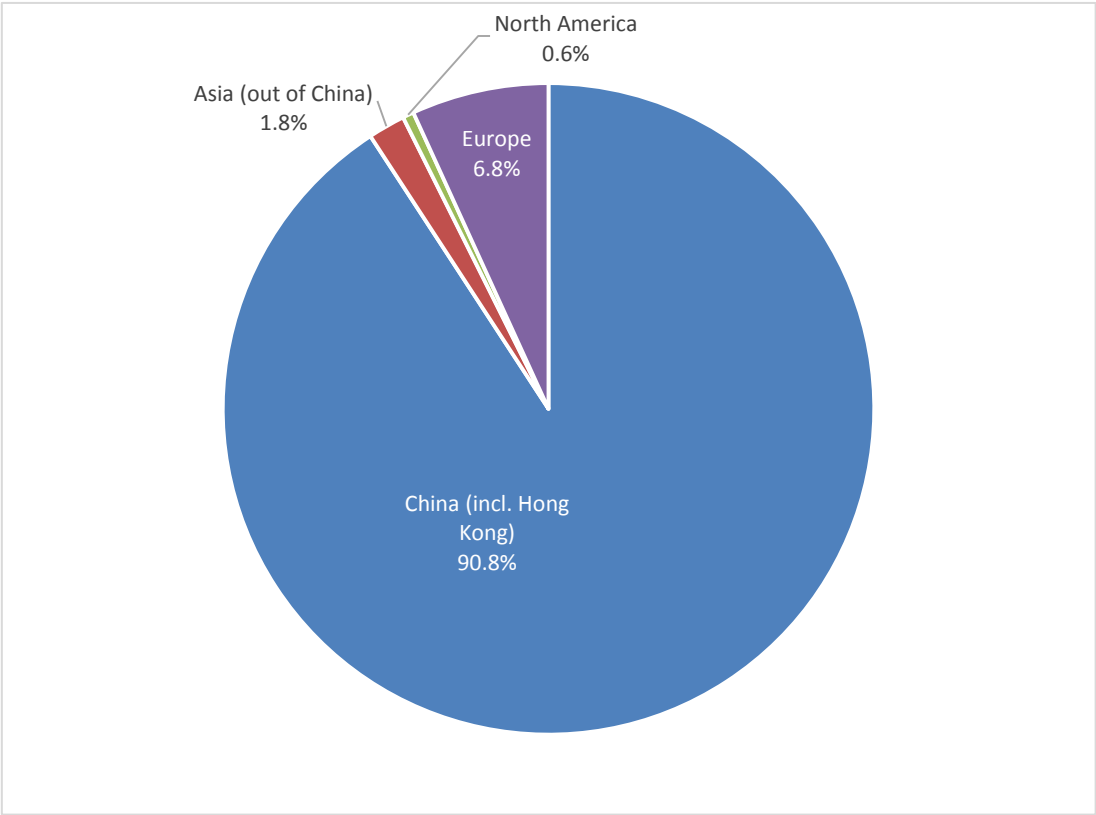
5.2.5 Supply Chain Management

The Group has formulated the supplier management policy which communicates to suppliers of the Group's expectations and the requirements that the suppliers and their employees must abide by. This policy covers aspects including product quality, social responsibility, business ethics, these aspects are also the key criteria used for supplier selection. The Group has established the supplier selection and evaluation system. Apart from consideration of commercial interest, new suppliers would be evaluated prior to procurement and the performance of existing key suppliers would also be evaluated on regular basis. Outcomes of the evaluations are compiled into records which serve as the basis for future monitoring.

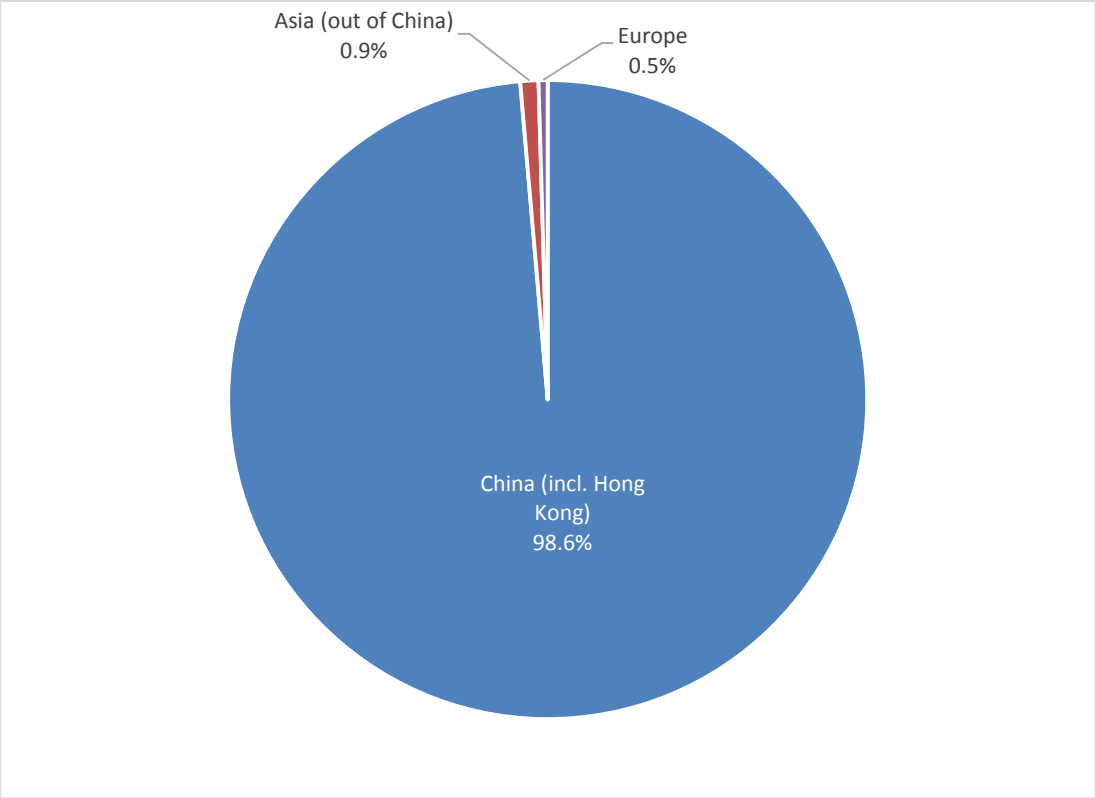
(a) Distribution of Suppliers

As at 31 December 2021, the business for the manufacture of dyeing and finishing machines has engaged not less than 543 suppliers, while the business for the manufacture of stainless steel castings has engaged 218 suppliers. Above 90% of the engaged suppliers were located within the region of mainland China and Hong Kong, and the remaining was distributed amongst Europe, North America and other countries in Asia.

Geographical distribution of suppliers for **manufacture of dyeing and finishing machines**



Geographical distribution of suppliers for **manufacture of stainless-steel casting products**



(b) Evaluation of Suppliers

The Group has developed supplier assessment procedure to evaluate, investigate and conduct statistics on key suppliers regularly of their past performance, including the criteria: on-time delivery, reliability of incoming product quality, reasonableness of service, and price, etc. Based on the extent to which the relevant supplied materials affect the Group's products, the assessment can be conducted in the form of questionnaires, qualification and compliance document reviews, as well as on-site audits for assuring conformance of key requirements.

In the business for the manufacture of stainless-steel castings, in addition to evaluation of the above-mentioned scope, which also covered the status of supplier's certifications: management system certifications on the aspects of quality, environment, energy, occupational health and safety, as well as the applicable industry certification such as RoHS, REACH, and FSC, etc.

During the reporting period, the Group engaged 14 new suppliers for the business of dyeing and finishing machine manufacturing, and 83 new suppliers for the business of stainless-steel casting production. All of them have completed the supplier evaluation prior to procurement. Also, in accordance with the procurement requirements as stated in ISO 9001 quality management system, each factory has completed the regular evaluation on all existing suppliers for assurance of their supplies in continued compliance with the requirements stipulated by the Group. Furthermore, pursuant to the risks of supplied materials or service incurred to the Group's products, the Group has conducted in-depth evaluation on a total of 318 suppliers in the categories of electronic components and electrical parts for machine manufacturing, aiming to assure conformance to product and customer requirements.

(c) Control of Environmental and Social Risks

The Group prioritizes the use of suppliers that do not pose significant environmental impacts, and evaluates their emission, pollution or other adverse impacts on the external environment. Also, the Group considers the operational compliance of business partners in the supply chain and evaluates the relevant social risks involved, such as: labour compliance on employment issues, safety compliance, supply chain interruption, product compliance, and integrity compliance, etc.

The Group is dedicated to promoting the importance of energy conservation and emission reduction in the supply chain. Where appropriate, the terms of the purchase order state clearly the requirements for the supplier's compliance with national environmental regulations, as well as pursuing suppliers who have attained certification on environmental and energy management systems such as ISO 14001 and ISO 50001 certification. Furthermore, for managing environmental risks, special attention is paid to materials having potential hazards, such as: silica sols, cleaning agents, ethanol, plywood, lubrication oils, cutting solvent, the results of environmental testing must be evaluated before the procurement decision and the testing scope mainly covers the content of heavy metals like: cadmium (Cd), lead (Pb), mercury (Hg), hexavalent chromium (Cr (VI)), as well as harmful substances like polybrominated biphenyls (PBBs).

In the business for the manufacture of stainless-steel castings, social responsibility assessments would also be conducted to monitor the social related risks in the following areas:

- whether to pay labor in full and on time, and gradually raise the wage level in accordance with development of society;
- whether to provide a safe and healthy working environment, strengthen labor protection, achieve safe production, protect the safety of workers, and actively prevent occupational diseases;
- whether to establish the vocational education and on-the-job training system for company's employees, and continuously enhance the talent and competence of employees;
- whether it can ensure the authenticity of products, safeguard purchase, honesty and trustworthiness, provide the correct commodity information, ensure the buyer's right to know;
- whether it can provide comprehensive after-sales service and resolve buyer's concerns in a timely manner; and
- whether there is support (donation) to indefinite vulnerable groups in the society.

(d) Green Procurement

Upon complying with the Group's operating requirements, priority will be given to suppliers who are competent to provide environmental-friendly equipment and materials. Upon selection of energy consumption equipment, preference will be given to those suppliers whose products have obtained energy efficiency certification or high-efficient energy label.

Manufacture of Stainless-Steel Casting Products

In the manufacture of stainless-steel casting products, the primary environmental impact of these activities is the generation of wastes. Apart from the above-mentioned technology of recycling, priority in the product specification is using materials of non-hazardous or low hazardous nature in order to ensure that products do not contain any substances hazardous to the environment and reduction in the generation of hazardous wastes. During the reporting year, the relative environmentally friendly procurement has been made for the materials like cleaning agents, silicone sols, ethanol, plywood, etc.

Manufacture of Dyeing and Finishing Machines

Paint is one of the important raw materials in the business for manufacture of dyeing and finishing machines. Under the conditions of fulfilling requirements of both customers and production technology, “water-based paint” would be prioritized for procurement and application by the Group. Comparing to the traditional practice of using oil-based paint, the environmental characteristics of water-based paint could achieve reduction in emission of volatile organic compounds (VOC) during consumption.

Moreover, during the product design phase, the Group is striving for product conformance to environmental protection requirements. Therefore, the design objectives of dyeing and finishing machines and the components being procured would be prioritized on the requirements that could conserve both water and energy, for example, the “stentering machine” of energy-saving model for delivery to customers. That product has been installed with internal heat recycling device, through which exhaust gas from the oven is purified and routed back to the oven. This reduces the energy consumption while maintaining sufficient heat in the oven, consequently this achieves energy saving performance while assuring air quality. For assuring such environmental characteristics, the specifications of the associated materials and components would be reviewed during the procurement.

Local Procurement

In addition, the Group has pursued local procurement policy as one of the measures for green procurement. Under the same quality conditions, priority is given to products and services provided by local suppliers (those within the region of mainland China and Hong Kong), in order to reduce greenhouse gas emissions during transportation in the procurement process. With reference to data of supplier distribution in the previous section of this Report, the proportion of local suppliers exceeded 90% of the total supply base of the Group in the reporting year.

5.2.6 Product Responsibility

The Group thoroughly understands manufacturing of equipment of high quality is the essential element for sustaining long-term business growth. In those countries where there are manufacturing or sale, the Group strictly strict abide by the local regulations as well as those regulations in the customer's home territory. This ensures that the Group's products conform to regulatory requirements of the countries where the business operates, and customers’ needs as well as provision of quality products to customers. The Group assures that the final products are manufactured with high-grade materials and the top-notch workmanship. Products are assured as brand new which have not been used before, and fully compliance to contractual requirements in terms of quality, specification and functionality.


DNV

管理体系认证证书

兹证明

立信门富士纺织机械（中山）有限公司

中国广东省中山市坦背新区香山大道 19 号 邮编：528437
统一社会信用代码：91442000663313980B
地址见附页

质量管理体系符合：

GB/T 19001-2016/ISO 9001:2015标准

此证书对下列产品或服务范围有效：

染色及後整理纺织机械的设计及生产

All factory sites covered by this Report have achieved ISO9001 certification for quality management system standard, providing the customers with even higher level of quality assurance. The system strictly implements the procedures for production quality management and enhances the management and development planning for product quality. During the course of manufacturing and sales, the system strengthens record-keeping in every detail of product quality management. The Group possesses the relevant qualifications in design and manufacturing, and products are designed and manufactured in line with the manufacturing standards of different countries. Before delivery, all products must undergo strict quality and safety testing for assurance of product conformance to the quality and safety levels as required by the legal regulations and customer requirements.

(a) Intellectual Property Protection

The Group has also invested large amount of resources in the innovation for enhancing the productivity and product performance. Also, the Group is well aware of the importance of intellectual property. Whenever necessary, patent application would be proceeded for registration with the national and/or overseas authorities for protecting the intellectual property of the Group.

The Group acknowledges the importance of intellectual property rights and all relevant information will be strictly secured for products of both the Group's own design and customer specification. The Group stipulates in the employee's code of integrity and employees are required to sign this code for acknowledging that confidential information must not be disclosed or replicated without prior authorisation. In addition, the Group will sign confidentiality agreements with its customers to ensure that no disclosure of any customer information to external parties. Confidential information and documents relating to customer's intellectual property rights such as product drawings, technical specifications must be securely stored by the designated department. Without permission, employees are not allowed to make their own copies of these documents, nor take documents out of the Group's premises.

For commercial software being used in the office, the Group is committed to not purchasing any form of pirated software and only procuring software from the licensed suppliers.

(b) Fair Promotion of Products

The Group ensures that product information on promotional websites and in other promotional materials is true and accurate. Some of the Group's products are accompanied with operating manuals, in which the contents are supported by reliable data and evidence. In addition, the Group requires that at the time of promotion, sales personnel should convey only those product information related to the confirmed advantages of the Group's products but not mention the negative aspects of competitors or their products. This prevents customers from being misled at the time of purchase.

(c) After-Sales Service

For the business of manufacture of dyeing and finishing machines, the Group ensures that quality assurance is provided on machinery that has been correctly installed and being properly operated. Upon the product proved satisfactory after testing, product warranty of not less than one year will be provided as stipulated in the sales contract. The Group is responsible for either repairing or replacing in the case of defects arising from proper operation and abnormal wear. During the warranty period, the Group is also responsible for rectifying computer program failure resulting from any software error.

For the manufacture of stainless steel casting products, the Group has also established communication channels via telephone and e-mail, etc. for customer enquiries, elaboration of product details, etc.

(d) Quality Assurance Process

All raw materials from suppliers must undergo incoming quality control conducted by the Quality Department and are distributed for use in the manufacturing plants only after the quality has been verified and passed. Manufacturing process is controlled according to the specified inspection and testing plan, and finished products must pass through the final inspection and testing before delivery to the customers.

(e) Handling of Customer Complaints

The Group has formulated a complaint handling mechanism, whereby, upon receipt of a complaint, it will be analysed by the Quality Department. The mechanism requires responding to the customer in the specified time frame with results of the analysis and the follow-up actions. The Group also designates the responsible departments to follow up the complaint cases and initiate product recall procedures when necessary.

According to product types, the Group has set up different communication channels for customers to make enquiries, give their feedback or file complaints. Designated departments are responsible for following up and responding to the customers, as well as suggesting solutions to the problems encountered by the customers. Customer opinions or complaints are processed through the Group's internal customer complaint management system, which delegates to relevant departments for cause analysis and formulation of corrective actions, thus reducing or even preventing the recurrence of the same problem.

During the reporting period, the Group did not identify any significant non-compliance against the relevant legal regulations pertaining to product responsibility. In the same period, within the business of stainless-steel casting production, there was a total of 296 cases of product return and 447 cases of customer feedback on products. All such cases have been satisfactorily resolved by the end of the reporting period. On the other hand, within the business of the manufacture for dyeing and finishing machines, the following 3 cases of customer complaints had been received by the Group which has assigned engineers to the customers' sites for investigation of each case. Also, all these complaint cases had been satisfactorily resolved within the reporting period:

Details of cases	**Follow-up actions**
Damage on gears of motor	Motor had been returned to company and had been delivered to the customer after repaired
Temperature rises of heat sink not meeting technological requirements	Heat sink has been improved and returned to the customer's site for replacement
Crack on welding point of burning pipe	Duration and environmental conditions for operation with the burning pipe had been explained to the customer and it was concluded that the crack belonged to normal situation. Also, improvement solution has been provided to the customers for their decision on procurement for replacement

(f) Product Recall/Return Procedure

In the event of product rejection by customers, the Group will assess the reasons for the rejection or return of the product. Whenever product recall is deemed necessary, the Group will preserve the product in question and send it to the Quality Department for quality inspection. Relevant departments will also join in to analyse and formulate corrective measures for the identified product's defects. During the reporting period, amongst all products sold, the Group did not identify any product recall incident as a consequence of product safety or health reason.

(g) Privacy Protection of Consumer Information

In order to ensure fairly use of customer information and to strengthen protection of customer information within the Group, access control is defined in the Customer Relationship Management (CRM) system which restricts sales and relevant operation staff to access customer information relevant to their responsible area only. All customer information is carefully managed and can only be accessed by the authorised personnel. For CRM log-in from external systems, the staff identity needs to be confirmed through the Group's Virtual Private Network (VPN) protection system prior to access granted. The aforesaid two systems provide employees with designated account numbers and passwords which strengthen information security management and prevent leakage or theft of customer information.

5.2.7 Anti-Corruption

The Group has established comprehensive infrastructure for internal control and formulated a set of strict policies, which prevent malpractices and unethical business practices, and also avoid the occurrence of corruption and other fraudulent behaviours through effective implementation. The Group has formulated an employee's "Code of Integrity" which includes "Declaration Form for Receipt of Gift" and the associated guidelines for declaration. It requires all employees to declare via filling in "Statement of Integrity". Whenever feasible, terms and conditions relating to anti-corruption are included in the contracts with service providers. It demonstrates the Group's emphasis on anti-corruption and defines the responsibilities and required actions amongst both parties in the occurrence of any corruption.

(a) Anti-Corruption Measures

(a)(1) Declaration for Conflict of Interest

The Group is striving to avoid conflict of interest in the course of its operations and also requests all employees to avoid the situations triggering conflict of interest, including the prohibition to abuse one's authority or position within the Group for personal gain, or avoidance of hindering one's normal duties from compromising the interests of one's family members, relatives or friends. In case of actual or potential conflict of interest, the relevant staff is required to fill in the "Declaration Form for Conflict of Interest" contained in the Code of Integrity immediately, and is subject to the appropriate decision and arrangement by the senior management. During the reporting period, the Group did not identify any significant non-compliance related to declaration for conflict of interest.

(a)(2) Procurement Approval Management

For control of procurement, the Group requires collecting and assessing information of at least two suppliers before making procurement decision. This ensures the purchasing quotation is fair and equitable. Procedure for approval of a specific procurement contract is generally dependent on the contract amount involved. Whenever feasible, the confirmation of a contract needs to undergo multiple approvals, namely, by the managers at the upper two levels senior to the undertaker.

(a)(3) Financial Auditing

The Group engages an independent third-party auditor to audit the Group's financial accounts. This ensures that the Group's accounts are clear and accurate, and strengthens internal financial control and supervision for protecting the interests of the shareholders as a whole.

(b) Whistle-blowing Procedures

The Group has established whistle-blowing mechanism and channel for employees to freely report incidents of misconduct or suspected illegality. Whistle-blower is allowed to report incidents in confidential and anonymous way to the "Board of Directors' mailbox". Upon receipt, the Board of Directors will appoint the relevant department for investigation and follow-up.

Through the aforesaid channel, no reported case pertinent to corruption was received in the reporting year. During the reporting period, the Group also did not identify any significant legal non-compliance or complaints relating to corruption.

(c) Anti-corruption Related Trainings

For assuring thorough implementation by employees at all levels of the above-mentioned policies related to anti-corruption, the Group would arrange trainings at unspecified time to employees who implement the relevant policies and therefore would cover board members and general staff.

The employee's "Code of Integrity" given by the Group includes the terms forbidding corruption, bribery, misconduct, illegal practices, fraud, extortion and other unethical incidents. For effective implementation of the Code, training on "Code of Integrity" will be provided to newly joined employees. For existing employees, they would be reminded on full content of "Code of Integrity", or under appropriate circumstance, provided with other trainings related to anti-corruption. In the year of 2021, there were 2,296 training participants amongst the operating regions covered by this Report and the relevant activities amounted to 7,233 hours of training. In addition, the Group has arranged 9 directors to attend in-depth trainings which covered the topic of compliance management against commercial bribery, which was extracted from the series of "state-owned enterprise's compliance management guide" issued by State-owned Assets Supervision and Administration Commission of the State Council.

Anti-corruption related trainings

Total number of training participants in the year
2,296

Anti-corruption related trainings

Total training hours in the year
7,233

5.2.8 Community Investment

The Group has been partnering with external stakeholders of different sectors and fulfilling the corporate core value on social responsibility. Through own networking of each operating region, the Group would identify the needs of the people and organizations within the community. Over the past years, the community contribution by the Group covered a wide range of activities such as poverty alleviation, education sponsorship, caring visits and enhancement of environmental awareness. In the reporting year, the Group continued the commitment of social responsibility and has been sponsoring and caring on the needs of community and people therein.

For reinforcing the network with the community, the Group is dedicated to participation in various community activities for better understanding of the community needs and the associated support required. For example, the Zhongshan factory participated in the "2021 Cuiheng New Disctrict Basketball Competition" co-organized by the nearby community HR service centre - Cuiheng New Disctrict Executive Talent Service Centre, for building a closer relationship with the community organizations.

The following table set forth key examples of community services supported by the Group in the reporting year.

Education	**Details of the event**
	Donation to "Guangxi School of Electrical and Mechanical Engineering" for sponsoring school activities

Environmental protection	Organizer	Details of the event
	World Wide Fund for Nature (WWF)	Support and promotion of the event "Earth Hour 2021" at the specified period by switching off non-essential lightings for one hour, aiming to encourage energy conservation
	Greeners Action	Support and promotion on the activities for collection of mooncake boxes by "Greeners Action" and for subsequent handling and recycling processes

Charity	Organizer	Details of the event
	Food Grace	Support and promotion on the activities for collection donation of surplus mooncakes by Food Grace to the needy people in different regions
	The Boys' Brigade, Hong Kong	Donation of 4 old air purifiers for collection and re-use
	Kowloon Women's Welfare Club Wong Cheung Kin Memorial Hostel for the Elderly	Donation of old furniture and office equipment, including: 8 sets of computer chairs, 1 set of table, 3 sets of television and 1 set of paper shredder