



GUANGDONG TANNERY LIMITED

粤海制革有限公司

Stock Code: 01058



2021

Environmental, Social and  
Governance Report





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# I. ABOUT THIS REPORT

## Overview

The board of directors (the “Board”) of Guangdong Tannery Limited (the “Company”) is pleased to present this Environmental, Social and Governance (hereinafter called “ESG”) Report (the “Report”) of the Company and its subsidiaries (collectively as the “Group” or “We”) for the year ended 31 December 2021 (the “Reporting Period”). This Report summarizes the ESG policies, sustainability strategies, management approach, initiatives and performance adopted by the Group.

## Reporting Scope

This Report covers the investment holding, the processing and sale of leather businesses of the Group. During the Reporting Period, there were no significant changes in the scope of this Report.

## Reporting Basis

This Report discloses the information required by the “comply or explain” provisions of the Environmental, Social and Governance Reporting Guide set out in Appendix 27 to the Listing Rules. The relevant provisions and details are set out at the end of this Report.





## I. ABOUT THIS REPORT (Continued)

### Reporting Principles

The Group follows the following reporting principles as the basis for the preparation of this Report.

#### 1. **Materiality**

When the Board determines that ESG issues will have a significant impact on the Group's investors and other stakeholders, the Group shall report on them, details of which have been disclosed in the sections headed "Stakeholders' Engagement" and "Materiality Assessment".

#### 2. **Quantitative**

Quantitative environmental and social key performance indicators (KPIs) are disclosed in this Report to enable the Group's stakeholders to have a comprehensive understanding of the Group's ESG performance. The information is accompanied by a narrative explaining its purpose and impact.

#### 3. **Balance**

The Report gives an unbiased picture of the Group's ESG performance as far as possible, and avoids selections, omissions, or presentation formats that may inappropriately influence the decision or judgment by the Report readers.

#### 4. **Consistency**

The Group has used consistent disclosure statistical methods as far as reasonably practicable to allow for meaningful comparisons of ESG data over time.





## II. MANAGEMENT OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE

### Chairman's Statement

The Group has always been concerned about corporate social responsibility, and is committed to taking into account the environmental, social and economic benefits, hoping to balance the Group's business expansion and the interests of key stakeholders, and comprehensively operate its business in a sustainable manner. To achieve this vision, we have established a sustainability framework that focuses on environmental protection, resource management, employee and social well-being and guides our efforts to promote sustainability to ensure the integration of sustainability elements into all aspects of our operations and all business decisions.

The problem of global warming is getting more serious. China has formulated more stringent environmental laws and regulations. The Group takes the national environmental protection policies as its development blueprint, adheres to the principles of safety, harmony, green development and clean production, and incorporates environmental management concepts into the core of operating activities. At the same time, it pays attention to and cares for nature, and works with employees to build an environmentally friendly and resource-saving enterprise.

Despite the global outbreak of COVID-19 pandemic in the past year, the Group has fully leveraged its team spirit and managed to overcome difficulties in the face of crisis. The Group seized the opportunities to promote high-end production technologies and further optimize its product mix by leveraging on its corporate advantages and extensive industry experience over the years. At the same time, in the face of the severe pandemic, we have taken a multi-pronged approach to support our employees to protect them from infection and stop the spread of COVID-19 in society. Our pandemic prevention and control measures include the implementation of the work plan for the emergency prevention and control of the COVID-19 pandemic, the establishment of a pandemic emergency, prevention and control leading group, and the provision of pandemic prevention materials to employees. Regardless of the severity of the pandemic, we still guarantee our employees' remuneration and benefits, development opportunities and a safe working environment. We invest resources to develop environmentally friendly products to bring positive changes to the global climate. However, there might be still a long way to fight against the pandemic, and we hope that the Group, all of our people and the society will continue to put unremitting efforts in leading through the crisis and challenges and make continuous progress towards sustainable development.

To achieve this vision, the Board has set a number of environmental and social KPIs, taken a top-down approach to disintegrate the KPIs into functional departments and urge us to make changes in different areas such as reducing greenhouse gas emissions, making good use of resources and improving the employee well-being. At the same time, the management team and all employees actively support the Group's sustainable development strategies and objectives. We have made some achievements. The scope, progress and achievements relating to the environmental and social KPIs will be disclosed in the Report.

With the goal of becoming a respected enterprise, the Group hopes to enhance its business performance and create more meaningful long-term value for the enterprise and its stakeholders by adhering to the principles of stable operation and prudent financial management through its professional management team, bravely meeting the challenges ahead, implementing sustainable development strategies and creating an environmental-friendly and conservation-oriented corporate image.





## II. MANAGEMENT OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE (Continued)

### Governance Structure

The Board believes that sound ESG strategies can create investment value for the Group and deliver long-term returns to its stakeholders. Establishment of appropriate governance framework is critical to successful implementation of the Group’s ESG sustainability strategy, therefore, we set up the ESG governance structure with clear duties and responsibilities. The Board sets long-term policies and strategies for all sustainability matters, reviews the implementation status and progress of ESG work annually and reports on its performance. The Board also discusses internally to identify, review and evaluate the Group’s corporate responsibility, sustainability and climate change response. The management team reports to the Board on a regular basis to assist the Board in assessing and determining whether the company has established an appropriate and effective ESG risk and internal control system to contain the ESG risks. At the operational level, functional units are responsible for ensuring the integration of sustainability strategies and practices into the Group’s business operations and exploring new action plans or initiatives.

<p><b>BOARD OF DIRECTORS</b></p>	<p>Board members are responsible for:</p> <ul style="list-style-type: none"> <li>• Developing long-term sustainable development policies and strategies</li> <li>• Assessing and identifying risks and opportunities associated with ESG</li> <li>• Ensuring appropriate and effective ESG risk management and internal monitoring systems</li> <li>• Reviewing and approving policies, objectives and action plans or measures related to ESG</li> <li>• Approving ESG reports</li> </ul>
<p><b>MANAGEMENT TEAM</b></p>	<p>The management team is responsible for:</p> <ul style="list-style-type: none"> <li>• Developing and reviewing ESG-related policies, objectives and action plans or measures</li> <li>• Monitoring and reporting to the Board on the progress and quality of implementation of the action plan or measures</li> <li>• Identifying ESG risks and opportunities</li> <li>• Reviewing the ESG report</li> </ul>
<p><b>FUNCTIONAL DEPARTMENT</b></p>	<p>The functional departments are responsible for:</p> <ul style="list-style-type: none"> <li>• Identifying, assessing, defining and reporting to management on significant ESG issues</li> <li>• Performing ESG risk management and internal monitoring</li> <li>• Ensuring ESG policies, objectives and action plans or measures are integrated into business operations</li> <li>• Reporting to management on progress and quality of implementation of the action plan or measures</li> </ul>

The Board has appointed an independent consultant to assist in managing the Group’s ESG matters, to conduct data and information collection and analysis, and to provide improvement recommendations on ESG performance. The Group has also collected and analyzed the views of key stakeholders on ESG matters and conducted a materiality assessment to identify important ESG issues for the Group, details of which are disclosed in the sections “Stakeholders’ Engagement” and “Materiality Assessment” below. To effectively lead the Group’s ESG process, the Board continuously monitors the work of all departments to ensure that they work closely together to achieve the sustainable development goals of operational compliance and social responsibility.





## II. MANAGEMENT OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE (Continued)

### Stakeholders' Engagement

The Group is committed to maintaining the sustainable development of its business as well as dedicated to safeguarding the environmental protection of communities in which it operates. We maintain close contacts with our stakeholders, including government/regulatory organizations, shareholders/investors, employees, customers, suppliers, community, etc. and strive to balance their opinions and interests through constructive communications in order to determine the directions of our sustainable development. We assess and determine our ESG risks, so as to ensure that the relevant risk management and internal monitoring systems are operating properly and effectively. The stakeholders' expectations and concerns, communication channels and the Group's management response are as follows:

Stakeholders	Expectation and concern	Communication channel	Management response
Government/ regulatory organizations	<ul style="list-style-type: none"> <li>➢ Compliance in laws and regulations</li> <li>➢ Fulfill tax obligation</li> <li>➢ Cooperate with national development strategy</li> <li>➢ State-owned assets preservation and appreciation</li> <li>➢ Combat Coronavirus Disease ("COVID-19") together</li> </ul>	<ul style="list-style-type: none"> <li>➢ Periodic reports and announcements</li> <li>➢ Communicate with regulatory bodies regularly</li> <li>➢ Deal with affairs through government websites and apps</li> </ul>	<ul style="list-style-type: none"> <li>➢ Uphold integrity and compliance in operations</li> <li>➢ Pay tax on time, and in return contributing to the society</li> <li>➢ Establish comprehensive and effective internal control system</li> <li>➢ Actively implement the national development strategy</li> <li>➢ Fully implement the safety production responsibility system</li> <li>➢ Comply with the government's measures and guidance against COVID-19 so as to contain the spread of COVID-19</li> </ul>





## II. MANAGEMENT OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE (Continued)

### Stakeholders' Engagement (Continued)

Stakeholders	Expectation and concern	Communication channel	Management response
Shareholders/ investors	<ul style="list-style-type: none"> <li>➤ Return on investment</li> <li>➤ Information transparency</li> <li>➤ Corporate governance policies</li> <li>➤ Anti-corruption and fraud</li> </ul>	<ul style="list-style-type: none"> <li>➤ Disclose information on the websites of the Company and HKEx</li> <li>➤ The website of the Company and official WeChat account</li> <li>➤ General meetings and other shareholders' meetings</li> </ul>	<ul style="list-style-type: none"> <li>➤ Management possesses relevant experience and professional knowledge to ensure business sustainability</li> <li>➤ Ensure transparency and effective communications through regular publication of information on the websites of HKEx and the Company</li> <li>➤ Make every effort to improve internal control and risk management, and establish anti-fraud system</li> <li>➤ Taking efficient prevention and controlling measures to contain the spread of COVID-19 and reduce its impact on the operations of the Group</li> </ul>
Employees	<ul style="list-style-type: none"> <li>➤ Labor rights</li> <li>➤ Career development</li> <li>➤ Compensation and welfare</li> <li>➤ Health and safety</li> <li>➤ Combat COVID-19 together</li> </ul>	<ul style="list-style-type: none"> <li>➤ Staff activities</li> <li>➤ Employee performance appraisals</li> <li>➤ Induction and on-the-job training</li> <li>➤ Internal meetings and notices</li> <li>➤ Get in touch via email, telephone and communication apps</li> </ul>	<ul style="list-style-type: none"> <li>➤ Set up contractual obligations to protect labor rights</li> <li>➤ Encourage employees to participate in continuous education and professional trainings to improve their abilities</li> <li>➤ Establish a fair, reasonable and competitive remuneration scheme</li> <li>➤ Focus on occupational health and safety</li> <li>➤ Continuously identify, monitor and eliminate hazards in the plant</li> </ul>



## II. MANAGEMENT OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE (Continued)

### Stakeholders' Engagement (Continued)

Stakeholders	Expectation and concern	Communication channel	Management response
Customers	<ul style="list-style-type: none"> <li>➤ Diversified, high quality products and services</li> <li>➤ Timely delivery</li> <li>➤ Reasonable price</li> <li>➤ Combat COVID-19 together</li> </ul>	<ul style="list-style-type: none"> <li>➤ Business visits</li> <li>➤ Get in touch via email, telephone and communication apps</li> </ul>	<ul style="list-style-type: none"> <li>➤ Continuously provide diversified, high quality products and services for customer's satisfaction</li> <li>➤ Establish an effective and efficient green supply chain</li> <li>➤ Formulate comprehensive quality assurance process and recall procedures</li> <li>➤ Ensure proper discharge of contractual obligations</li> <li>➤ Taking efficient prevention and controlling measures</li> </ul>
Suppliers	<ul style="list-style-type: none"> <li>➤ Stable demand</li> <li>➤ Win-win cooperation</li> <li>➤ Corporate reputation</li> <li>➤ Combat COVID-19 together</li> </ul>	<ul style="list-style-type: none"> <li>➤ Business visits</li> <li>➤ Get in touch via email, telephone and communication apps</li> </ul>	<ul style="list-style-type: none"> <li>➤ Ensure proper discharge of contractual obligations</li> <li>➤ Establish policies and procedures in supply chain management</li> <li>➤ Maintain long-term relationship</li> <li>➤ Select suppliers with due care</li> <li>➤ Fair, open and impartial bidding process</li> <li>➤ Taking efficient prevention and controlling measures</li> </ul>





## II. MANAGEMENT OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE (Continued)

### Stakeholders' Engagement (Continued)

Stakeholders	Expectation and concern	Communication channel	Management response
Community	<ul style="list-style-type: none"> <li>➤ Environmental protection</li> <li>➤ Reduce greenhouse gas emissions</li> <li>➤ Reduce waste generation</li> <li>➤ Effective resource utilization</li> <li>➤ Community participation</li> <li>➤ Economic development and community employment</li> <li>➤ Combat COVID-19 together</li> </ul>	<ul style="list-style-type: none"> <li>➤ Publish corporate information on the website of the Company, the official WeChat account and the information dissemination websites of government departments</li> <li>➤ Participate in community activities</li> </ul>	<ul style="list-style-type: none"> <li>➤ Attend to climate change issues</li> <li>➤ Continuously invest resources in environmental protection</li> <li>➤ Actively innovate environmental protection technology</li> <li>➤ Strengthen energy conservation and emission reduction management</li> <li>➤ Encourage employees to actively participate in charitable activities and voluntary services</li> <li>➤ Maintain good financial performance, business growth and create job opportunities</li> <li>➤ Setting up a pandemic emergency, prevention and control leading group and formulate pandemic prevention and control emergency plan to prevent the further spreading of the COVID-19</li> </ul>



## II. MANAGEMENT OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE (Continued)

### Materiality Assessment

During the Reporting Period, the Group held discussions with the management and conducted materiality assessment through various channels to identify environmental, social and governance issues that their key stakeholders and the Group are both interested in; and assessed the level of concern as viewed by them; so as to select the relatively important environmental and social issues. For materiality assessment, the Group has adopted the following three processes:

<b>Identification</b>	<ul style="list-style-type: none"><li>• Through diverse channels and internal discussion</li><li>• Examines and adopts the environmental, social and governance issues of concern in the past stakeholders' engagement</li><li>• Draws attention to emerging environmental, social and governance issues</li></ul>
<b>Setting priorities</b>	<ul style="list-style-type: none"><li>• Synthesises, analyses and evaluates the views of all parties to identify and prioritise potential and important issues</li><li>• Develops materiality matrix based on the importance of the issue to the Group and its key stakeholders</li></ul>
<b>Validation</b>	<ul style="list-style-type: none"><li>• Interacts with the management team to validate the materiality assessment results and ensure that these issues are aligned with the sustainable development direction sought by the Group</li><li>• Reports the materiality assessment results to the Board and makes disclosure in the ESG report</li></ul>





## II. MANAGEMENT OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE (Continued)

### Materiality Assessment (Continued)

The materiality assessments help to ensure that the Group's business development is in line with the stakeholders' expectations and requirements. The Group's and stakeholders' matters of concern are presented in the following materiality matrix:

		<b>Materiality Matrix</b>		
<b>Importance to Stakeholders</b>	<b>High</b>	<ul style="list-style-type: none"> <li>◆ Anti-discrimination</li> <li>◆ Protecting human rights</li> </ul>	<ul style="list-style-type: none"> <li>◆ Talent management</li> <li>◆ Staff training and promotion opportunity</li> <li>◆ Staff compensation and welfare policy</li> </ul>	<ul style="list-style-type: none"> <li>➤ Customers' satisfaction</li> <li>➤ Product quality and safety</li> <li>➤ Suppliers management</li> <li>➤ Epidemic prevention and battling</li> <li>◆ Occupational health and safety</li> <li>◆ Epidemic prevention and battling</li> <li>◇ Application of clean production and green products</li> <li>◇ Epidemic prevention and battling</li> </ul>
		<ul style="list-style-type: none"> <li>➤ Community participation</li> </ul>	<ul style="list-style-type: none"> <li>➤ Anti-corruption/Fraud</li> <li>➤ Community employment</li> <li>◇ Greenhouse gas emissions</li> <li>◇ Use of energy</li> </ul>	<ul style="list-style-type: none"> <li>➤ Operational compliance</li> <li>➤ Customers' privacy protection</li> <li>◇ Waste gas emission</li> <li>◇ Sewage discharge</li> </ul>
	<b>Medium</b>	<ul style="list-style-type: none"> <li>◆ Preventive measures for child and forced labor</li> </ul>	<ul style="list-style-type: none"> <li>◇ Water resources utilization</li> <li>◇ Discharge of nonhazardous wastes</li> </ul>	<ul style="list-style-type: none"> <li>◇ Use of raw materials</li> <li>◇ Discharge of hazardous wastes</li> </ul>
	<b>Low</b>	<b>Low</b>	<b>Medium</b>	<b>High</b>
		<b>Importance to the Group</b>		
		◇ Environmental	◆ Employee	➤ Operation



### III. ENVIRONMENTAL PROTECTION

The Group strictly abides by national laws and regulations on environmental protection, including the “Environmental Protection Law of the People’s Republic of China”, “Law of the People’s Republic of China on the Prevention and Control of Atmospheric Pollution”, “Law of the People’s Republic of China on the Prevention and Control of Water Pollution”, “Law of the People’s Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste”, “Law of the People’s Republic of China on Prevention and Control of Pollution From Environmental Noise”, “Energy Conservation Law of the People’s Republic of China” and the requirements and standards of the local government. In order for all levels of the Group to better understand the importance of impact on the environment, we continue to adopt various policies, measures and actions to reduce the carbon footprint, thereby reducing the adverse impact of the enterprises’ business activities and employees’ personal lives on the environment. Relevant information will be described in detail in the “Management of Emissions” and “Management of Resources Utilization” sections below.

#### 1. Management of Emissions

The Group’s main emissions come from the production process of Xuzhou Tannery. The tannery industry handles large quantity of animal solid wastes and corrosive chemical raw material with strong acid and alkaline. Most of the production processes are carried out in water which increases the possibility of polluting the environment. Faced with the current strict national environmental policies and global warming, environmental protection is undoubtedly one of the important issues in formulating the Group’s operational strategy. Accordingly, we formulate a comprehensive “Environmental Protection Management System” that meets the needs of enterprise development for meeting the requirement of environmental protection laws and regulations formulated by the state, using the environmental resources effectively and systematically and enabling effectiveness assessment. The results will bring opportunities for future environmental protection projects. We have set up the environment and safety centre in the factory to centrally supervise and monitor environmental protection work, to implement the relevant national environmental laws, regulations and policies and to provide appropriate staff training to ensure that each employee has sufficient knowledge of national policies. Besides, the environment and safety centre works with the production department to promote cleaner production, demanding use of harmless, non-toxic or low-toxicity raw and auxiliary materials as priority, assuring that environmental protection facilities and production facilities operate synchronously to ensure all kinds of emissions have been effectively processed and discharged that compile with standards, and strictly monitor and evaluate all sewage discharge unit. The “Administrative Measures for Environmental Pollution Incidents” is implemented to deal with different kinds of emergent environmental pollution incidents. We investigate and analyze environmental pollution incidents in accordance with the handling procedures of “Emergency Plan for Production Safety Incidents”, report the incident to relevant government departments in a timely manner, and shall not conceal or do anything that harms the interests of the public, the community, the Group and the stakeholders.

China continues to strengthen the environmental protection management of the industry, and the environmental protection requirements for cleaner production processes, water recycling and other aspects have become more stringent. In 2021, the Group stepped up its investment in environmental projects to ensure compliance with pollutant emission standards and renovated the internal environment of its plant to enhance the working and living environment of employees (please refer to the “Management of Emissions” section below for details). To ensure that we are capable of dealing with environmental incidents promptly and safely to prevent serious pollution or casualties due to the spread of the incidents, we engaged a professional testing agency during the year to help us formulate the “Contingency Plan for Environmental Emergencies” in accordance with the laws, regulations and guidelines for preparation of national and local governments. We also entered into an emergency rescue mutual assistance agreement with the surrounding enterprises of our plant to avoid the lack of supplies in the event of an accident. Meanwhile, the environmental protection work at the management and operation levels was further improved on the back of regular drills and training, resulting in the further consolidation of the foundation of the Group.





### III. ENVIRONMENTAL PROTECTION (Continued)

#### 1. Management of Emissions (Continued)

##### ***Management of Atmospheric Emissions***

The Group always complies with the “Law of the People’s Republic of China on the Prevention and Control of Atmospheric Pollution” and aims at improving the quality of the atmospheric environment within the plant. Internal policies and procedures are established with reference to the State’s “Measures for Environmental Surveillance” and adhere to control the source of pollution in order to ensure that the air emissions by the plant meet the national emission standards.

The exhaust air and greenhouse gas generated by the Group are mainly come from the production facility in Xuzhou with two major sources. One of the sources comes from production procedures such as dust generated during the grinding process, volatile organic compounds (VOCs) produced during the tinting process, greenhouse gas generated when using electricity, etc.. Another source is the odor from waste meat inside the waste storage area and the hydrogen sulfide odor gas produced by the sewage treatment plant.

During the grinding process, the Group uses cloth bags to collect and compress dust in piles in order to reduce the possibility of dust fluttering in the air. The pigments used in the tinting process must be supplied by qualified and reputational vendors who meet the national standards so as to reduce unnecessary emissions due to the use of substandard products. In addition, the installation of VOCs treatment facilities in the plant can further reduce the greenhouse gas emissions into the atmosphere. Besides, we strictly require all workers handling tinting process to wear gas masks or disposable masks for occupational health and safety purpose. In order to comply with the clean production policy promoted by the nation, the Group has used clean energy such as steam instead of coal as the fuel for heating, so as to reduce greenhouse gas emissions. The waste meat scrap and waste fur storage zone is built with cover, using rain cloth and located far away from the living area, and handled the waste on a regular basis, so as to prevent the strong smell from spreading owing to waste stocking to the entire plant and the surrounding environment. The Group strictly monitors the hydrogen sulfide odor gas from the sewage treatment plant and designates maintenance personnel to regularly inspect and repair the production facilities and equipment so as to reduce their chance of failure and gas pollution.

Xuzhou Tannery add exhaust collection and treatment equipment in the raw leather warehouse, desulfurization pool and adjustment pool. The equipment adopts alkaline washing and oxidative washing processes, which can strengthen the treatment of various unorganized exhaust and reduce the concentration of hydrogen sulfide and odor emitted to ensure compliance with air emission standards. The construction and actual operation of the equipment were inspected and accepted by a professional testing agency to further ensure that air emissions will meet the standard limits in the “Odorous Pollutant Emission Standard” after treatment. The desulfurization pool and adjustment pool of the sewage treatment station have sealed, which also greatly reduces the exhaust overflow. In addition, we engaged a professional, licensed treatment company to remove the sludge, meat scraps and waste fur accumulated in the sludge collection area and waste storage area. A timely cleaning mechanism with long-term efficiency was also established to avoid waste accumulation and greatly reduce the spread of odorous air that affects the surrounding environment.



VOCs facilities



### III. ENVIRONMENTAL PROTECTION (Continued)

#### 1. Management of Emissions (Continued)

##### ***Management of Sewage Discharge***

The sewage generated by the Group in its operations mainly includes domestic sewage from the office and sewage containing chromium and sulfur from the production process of tannery. Domestic sewage is directly discharged to local sewage treatment plants through main pipes. Sewage containing sulphur and chromium is produced in the unhairing and tanning processes respectively. The sewage is transported through separate pipes to different sewage collection pool in the plant. After multiple sedimentations and biological or chemical treatments, sewage which meets national discharge standards is discharged to the local sewage treatment plant directly for further treatment, and finally discharged to the sea through the North Jiangsu pipe network. The sewage containing chromium and sulfur is converted from hazardous sewage to non-hazardous sewage after various treatments, and complies with national discharge standards.

For handling sewage containing chromium and sulfur, the Group strictly complies with the “Law of the People’s Republic of China on the Prevention and Control of Water Pollution” issued by the Ministry of Ecology and Environment, and implement various measures in accordance with the “Measures for Environmental Surveillance”, “Measures for Automatic Surveillance of Pollution Sources” and “Self-monitoring Technology Guidelines for Pollution Sources — Leather and Fur Making Industry”, setting up sewage treatment station and online automatic monitoring system in the plant. The national environmental authorities can monitor the emission of ammoniacal nitrogen and chemical oxygen demand data in our plant at any time through the information publishing platform. The environment and safety centre conducts multi-sample testing of sewage outlets in the plant regularly and keeps record as the basis for management purposes, the testing content includes pH value, color, suspended solids, biochemical oxygen demand, total chromium, hexavalent chromium, total nitrogen, total phosphorus, sulfide and chloride, etc.. Relevant data will be uploaded to the information publishing platform for monitoring purposes by the environmental protection department. In the event of considerable changes in the quality of sewage discharged from the production workshop and high readings of individual pollutants in the sewage treatment process, we will promptly adopt the established procedures to sort out the situation and investigate the reasons, communicate with the production centre to adjust the production scale and schedule, stabilize the sewage quality and take the initiative in adjusting the operating parameters to ensure the safe and stable operation of the sewage treatment station and compliance with sewage discharge standards.

All departments have been strictly implementing various management policies and safe operation procedures for each post of the sewage station and continue to optimize the routine of each post. Regular management and inspection of equipment are two of our key tasks. Failures of old and faulty equipment are well prepared and we are able to procure spare parts in advance to tackle equipment problems that occur during operation in a timely manner to ensure the simultaneous and normal operation of production and environmental protection facilities and the effective treatment of various pollutants in sewage. All employees have to attend the “Three-Level Safety Training” before officially commencing their works to ensure that all newly hired employees possess the required professional knowledge and skills to operate the production and environmental protection facilities so as to be able to work safely and to prevent environmental pollution caused by improper use of facilities. In addition, we have conducted constant job training, pre-shift meetings and post-holiday resume training to guide and evaluate the production line employees on equipment operating skills and instill environmental protection knowledge for employees to strengthen their technical and environmental awareness, and reduce the sewage generation. We built cover at the sewage treatment station, set up multiple liquid-solid separation devices and regularly cleaned the sewage pipes to prevent the fur residue from clogging the drainage pipes and causing sewage overflow and to reduce the chance of sewage pollution.





### III. ENVIRONMENTAL PROTECTION (Continued)

#### 1. Management of Emissions (Continued)

##### *Management of Sewage Discharge (Continued)*

In early 2021, the State updated the Directory of National Hazardous Wastes. Xuzhou Tannery re-evaluated the hazardous waste generation through a third-party company, and the laboratory waste liquid and waste mineral oil were classified as hazardous waste liquid during the year. Therefore, Xuzhou Tannery generated approximately 0.56 tonnes of hazardous waste water in 2021.

During the Reporting Period, the Group carried out the hazardous waste warehouse reconstruction project, which was completed and put into use in October. Due to the requirements of the local environmental protection department, in order to protect the new residential buildings in the surrounding areas, the environmental protection department plans that the enterprises may be relocated to the industrial development zone, and the relocation will be conducted after the approval of environmental impact assessment. As enterprises were required to suspend operation and production due to the large amount of renovation work, the remaining facilities did not carry out renovation work during the year.

During the Reporting Period, the Group generated approximately 604,210 tonnes of non-hazardous sewage, representing a decrease of approximately 51,365 tonnes or 7.83%.

The Group's sewage discharged during the Reporting Period are as follows:

	2021 (Tonnes)	2020 (Tonnes)
<b>Non-hazardous sewage</b>		
Total	604,210	655,574
Intensity <sup>1</sup>	404	425

Note:

1 Emission intensity is based on every 10,000 square feet of leather produced.



### III. ENVIRONMENTAL PROTECTION (Continued)

#### 1. Management of Emissions (Continued)

##### ***Management of Solid Wastes Disposal***

The Group has been complying with the “Law of the People’s Republic of China on the Prevention and Control of Environmental Pollution by Solid Wastes” and has formulated “Measures for Management of Solid Waste” to regulate hazardous and non-hazardous solid or semi-solid wastes generated from operations. The commissioner of the environment and safety centre regularly and randomly inspects each production unit, reports to the management any potential hazards of the production plants and proposes remediation plans. The environment and safety centre and the engineering department coordinate in evaluating the environmental impacts of all new, expansion or reconstruction projects. Environmental factors are taken into account in preparing the development plan so as to reduce the solid waste produced during and after the construction. In addition, the Group’s professional team optimizes and improves the production process continuously and takes the “Clean Production” attitude actively. We wish to promote technological exchanges internationally in the future for product quality enhancement, to raise our competitiveness and to reduce the negative impact on the environment.

##### *Management of Hazardous Solid Wastes Disposal*

In the past, the Group’s hazardous waste was mainly chromium sludge. It is precipitated in the sewage collection tank after treatment of sewage containing chromium. Chromium is a toxic and harmful heavy metal, and therefore we use different pipes to separate sewage containing chromium from other sewage to prevent environmental pollution caused by leakage of sewage containing chromium. In order to reduce the transportation volume of chromium sludge, the sewage containing chromium is treated until the discharge standard is reached. The chromium sludge is then reused in the production process after acid dissolution, hydrolysis, filtration processes, etc.. In order to improve the accounting system for stationary pollution sources, the State implemented the Directory of National Hazardous Wastes (Version 2021) in early 2021. Xuzhou Tannery reassessed the generation of hazardous waste through a third-party company. Starting from 2021, Xuzhou Tannery no longer adopts chrome recycling technology and uses chromium-free tanning technology for production instead. In order to ensure product quality, Xuzhou Tannery completely removed the chrome tanning process circulation tank, and disposed of chromium sludge, which will no longer be generated in this process in the future. In addition, some solid waste was also classified as hazardous waste during the year, including waste photo-oxygen light tubes, painting waste, blue leather furl produced during the cutting process, grinding powder produced during the grinding process, chromium-containing sludge filter waste filter, waste packaging bags/barrels and finished leather trimming.

In accordance with the requirements of the local environmental protection department, the Group sets the annual hazardous waste management plan, which includes reducing the harmfulness and production of hazardous waste, as well as the prevention measures applied to storing and transferring hazardous waste. The Group strictly complies with the national “Standard for Pollution Control on Hazardous Waste Storage”, “Administrative Measures for the Transfer of Hazardous Wastes” and other relevant laws and regulations, and manages the hazardous waste according to the internal “Measures for Management of Solid Wastes”. We have set up a warehouse for storing hazardous waste in the plant, and the relevant warehouse has taken measures to prevent scattering, loss, and leakage, etc. There is a warning sign outside the warehouse. All kinds of hazardous waste containers must be labeled with hazardous waste and kept sealed for avoiding the opportunity of secondary pollution to the environment. The environment and safety centre regularly inspects the warehouse, and handle the abnormalities found in accordance with the emergency system of the plant to prevent further spread of pollution. The warehouse management staff shall record the hazardous waste entering and leaving the warehouse in detail, which efficiently built the stocking management account. For the disposal of chromium waste liquid residues, the environment and safety centre must report to the State Environmental Protection Bureau and apply for the transfer of hazardous waste, and entrust recyclers holding “Permit for Operation of Dangerous Wastes” to transfer the hazardous waste. As the Environmental Protection Bureau closely monitors the situation during the transfer of hazardous waste from the plant to the designated settlement location, thus we need to report the weight of waste, transfer routes, driver information, etc. to the Environmental Protection Bureau to ensure that they will not be dumped illegally and cause environmental pollution.





### III. ENVIRONMENTAL PROTECTION (Continued)

#### 1. Management of Emissions (Continued)

##### **Management of Solid Wastes Disposal (Continued)**

###### *Management of Hazardous Solid Wastes Disposal (Continued)*

During the Reporting Period, the Group strictly followed the requirements of the local environmental protection department for standardized management of hazardous waste and established an application of hazardous waste smart management platform, through which hazardous waste inbound and outbound data are uploaded to the provincial environmental hazardous waste management platform instantly to allow more effective management and data analysis throughout the hazardous waste generation, inbound, storage, outbound and transport processes. During the Reporting Period, the Group generated approximately 914.95 tonnes of hazardous solid waste, an increase of approximately 885.50 tonnes or 30.07 times from the previous year. The increase was mainly due to the thorough cleaning of chromium sludge in the chrome tanning process recycling tank in the Xuzhou Tannery during the year, and classification of seven types of solid wastes as hazardous waste in 2021 as a result of the updating of the Directory of National Hazardous Wastes by the State,.

The amount of hazardous solid wastes produced by the Group during the Reporting Period are as follows:

	2021 (Tonnes)	2020 (Tonnes)
<b>Hazardous solid wastes</b>		
Total	914.95	29.45
Intensity <sup>1</sup>	0.56	0.02

Note:

1 Emission intensity is based on every 10,000 square feet of leather produced.



### III. ENVIRONMENTAL PROTECTION (Continued)

#### 1. Management of Emissions (Continued)

##### **Management of Solid Wastes Disposal (Continued)**

##### *Management of Non-Hazardous Solid Wastes Disposal (Continued)*

The non-hazardous solid waste generated by the Group during the operation period mainly includes industrial sludge after the sewage treatment process, packaging materials (such as rain-cloth wastes, iron drum wastes, paper tube wastes, etc.), engineering maintenance wastes (such as waste rubber tubes, scrap steel, waste tires, scrap steel tiles, etc.) and canteen waste. The Group advocates materials recycling to reduce waste generation. Wastes including pallets, plastic barrels, etc. can be reused in the production process after disinfection. The remaining non-recyclable nonhazardous wastes will be sorted and stored in designated areas, and handled by qualified recyclers. As Xuzhou Tannery disposed of the accumulated industrial sludge during the year, the Group's non-hazardous solid waste generated during the year increased by approximately 945.65 tonnes or 20.80% as compared with the previous year, which generated a total of approximately 5,491.67 tonnes of non-hazardous solid waste.



Sewerage treatment station



Sludge treatment filter press

The amount of non-hazardous solid wastes produced by the Group during the Reporting Period are as follows:

	2021 (Tonnes)	2020 (Tonnes)
<b>Non-hazardous solid wastes</b>		
Total	5,491.67	4,546.02
Intensity <sup>1</sup>	2.98	2.95

Note:

1 Emission intensity is based on every 10,000 square feet of leather produced.





### III. ENVIRONMENTAL PROTECTION (Continued)

#### 1. Management of Emissions (Continued)

##### ***Management of Noise***

The noise generated by the Group mainly comes from the operation of production machinery and equipment. We control the impact of noise on the environment by planning the location of the production workshop and the layout of production equipment as well as the establishment of vibration and noise reduction measures. For instance, materials or structures with good sound insulation performance are chosen for the doors and windows of the workshop; shock-absorbing cushions are installed on equipment that produces noise with high intensity; machinery and equipment maintenance is strengthened; lubricating oil is used to prevent wear and tear of machines; old equipment is phased out and equipment with low noise levels are given priority during procurement. We arrange an appropriate production schedule and green the environment of the factory site to reduce the continual impact of noise on the surroundings with the help of the attenuation effect of trees. The Group strictly complies with the noise emission limits and guidelines in the “Emission Standard for Industrial Enterprises Noise at Boundary” and regulates noise emission in accordance with the internal environmental management system.

##### Compliance

During the Reporting Period, there was no violation or non-compliance incident in relation to environmental protection that had a significant impact on the Group.

#### 2. Management of Resources Utilization

In order to comply with the “Cleaner Production Promotion Law of the People’s Republic of China”, the “Energy Conservation Law of the People’s Republic of China” and related laws, regulations and policies on resource conservation, the production departments and offices of the Group actively take various resource reduction measures in accordance with the requirements of the “Environmental Protection Management System”, pay attention to the publicity and education of environmental protection, energy conservation and emission reduction knowledge. We carry out timely environmental protection education and training to continuously improve employees’ awareness on environmental protection. Every employee understands the importance of resources conservation, and they are required to make full use of resources, maximize their effectiveness and eliminate the phenomenon of wasting resources.



### III. ENVIRONMENTAL PROTECTION (Continued)

#### 2. Management of Resources Utilization (Continued)

##### ***Energy Conservation***

###### *Steam and Natural Gas Conservation*

Steam is mainly used in production lines for running production equipment, product development and the energy for heating of the sewage treatment station. Natural gas is used as the fuel for producing steam. Steam used by the Group is either acquired from suppliers or generated from burning natural gas in the plant. The use of steam itself does not produce any greenhouse gas, but steam is produced by burning fuel, resulting in greenhouse gas and exhaust air emissions. Therefore, we have adopted various measures to save the use of steam and natural gas. We installed thermostatic steam trap in steam pipe networks and equipment. Condensed water, air and non-condensing gas are emitted automatically and the trap can prevent leakage of steam. We continued to strengthen the maintenance of steam pipes and wrapped the pipes with aluminum sheet and thermal insulation cotton to reduce heat loss. The pipeline valve is shut off when natural gas is not in use. The power equipment department is required to report the volume of steam and natural gas to the finance department monthly, and explain the reason in case the actual consumption exceeds the budgeted amount. The power equipment department regularly inspects and repairs natural gas and steam pipes to avoid unnecessary waste caused by leakage. Leakage of natural gas also poses safety problems.

During the Reporting Period, the Group consumed approximately 24,299.00 tonnes of steam, representing an increase of approximately 403 tonnes or 1.69% from the previous year. The Group did not consumed natural gas during the year as the supplier was able to supply sufficient steam to Xuzhou Tannery and the cost of using natural gas was higher.



Natural gas boiler





### III. ENVIRONMENTAL PROTECTION (Continued)

#### 2. Management of Resources Utilization (Continued)

##### **Energy Conservation (Continued)**

###### *Gasoline and Diesel Conservation*

Gasoline and diesel are mainly used in vehicles for office use and warehouse forklifts. The Group sets assessment indicators for the vehicle management department to control the use of fuel. Drivers must plan their routes in advance when using vehicles for office use. If passengers travel to the same or close destinations, they will be arranged to use the same vehicle to reduce petrol and diesel consumption. Regular repair and maintenance of vehicles made by the engineering department was conducted to improve energy efficiency, and to reduce extra fuel use and exhaust air emission resulting from the failures of vehicle's part.

To prevent the contraction of COVID-19, the Group required employees to avoid business visits as much as possible and encouraged them to use electronic communication such as email, telephone and video conference to reduce the use of vehicles in the previous year. Due to the slight alleviation of the epidemic, business visits have gradually returned to normal. As a result, gasoline consumption of the Group increased by approximately 1.34 tonnes or 11.75% from the previous year to approximately 12.74 tonnes during the Reporting Period. During the Reporting Period, diesel consumption of the Group increased by approximately 7.26 tonnes or 22.49% from the previous year to approximately 39.54 tonnes.

During the Reporting Period, the Group's energy consumption and Scope 1 greenhouse gas emissions data are as follows:

	2021		2020	
	Fuel consumption	Carbon dioxide equivalent emissions (Tonnes)	Fuel consumption	Carbon dioxide equivalent emissions (Tonnes)
Natural gas	–	–	1,252.00 m <sup>3</sup>	2.29
Gasoline	12.74 Tonnes	46.80	11.40 Tonnes	41.50
Diesel	39.54 Tonnes	125.31	32.28 Tonnes	101.89
Refrigerant	1.09 Tonnes	1,972.90	–	–
<i>Total emission of the Group</i>		<i>2,145.01</i>		<i>145.68</i>
<i>Emission intensity of the Group<sup>1</sup></i>		<i>0.08</i>		<i>0.09</i>

Note:

1 Emission intensity is based on every 10,000 square feet of leather produced.



### III. ENVIRONMENTAL PROTECTION (Continued)

#### 2. Management of Resources Utilization (Continued)

##### ***Energy Conservation (Continued)***

###### *Electricity Conservation*

The Group focuses on the design of the production plant and places the machineries and transportation systems in the safest and the most convenient location to reduce energy use. The administration department, environment and safety centre, and human resources department work together to formulate energy management policies, promote energy management work comprehensively, increase production efficiency and save electricity, thereby reducing energy loss and enhancing profitability. Since certain production process needs to be operated at high temperature environment, large ice cubes are placed inside the production plant to replace the use of air conditioners which generates greenhouse gas as well as to reduce indoor temperature and the chance of employees suffering from heatstroke. Besides, the Group has set up a series of energy saving measures in the production plant and office. For example, using natural light, adjusting the light by means of zoning control, switching off electrical appliances such as lights, electric fans, air-conditioners, computers, etc. during noon break and after work, and prohibiting random switching on and off of production machineries. In view of the large number of older employees in Xuzhou Tannery, we make use of regular meetings, weekly meetings and constant training as well as assessment procedures and drills to enrich the dull training sessions and make the employees feel enthusiastic and become more active to make sure that every employee could remember the operating procedures of the equipment used on the post and understand the importance of saving energy, so that the waste of resources due to non-compliance operation could be effectively eliminated while maintaining product quality.

In order to control electricity consumption, we have implemented measures such as process optimization and elimination of equipment. The reason for not reducing electricity consumption is that the current requirements for leather are becoming more stringent and the time required for the process has also been extended. We have strengthened the improvement of equipment, so the production cycle has been extended. During the year, we purchased additional 24 stirrers and 3 recycling pump reflux devices.

During the Reporting Period, in addition to the continual sharing of energy-saving knowledge with employees and their active cooperation with our energy-saving measures, the production department formulated more efficient production plans to increase the utilization of production equipment and reduce the time required to warm up the machines upon restart, thereby reducing power consumption. However, due to the increase in production of the Group during the year, power consumption increased by approximately 943.99 MWh or 13.55% to approximately 7,911.82 MWh.





### III. ENVIRONMENTAL PROTECTION (Continued)

#### 2. Management of Resources Utilization (Continued)

##### **Energy Conservation (Continued)**

##### *Electricity Conservation (Continued)*

During the Reporting Period, the Group's electricity consumption and Scope 2 greenhouse gas emissions data are as follows:

	2021		2020	
	Energy consumption	Carbon dioxide equivalent emissions (Tonnes)	Energy consumption	Carbon dioxide equivalent emissions (Tonnes)
Electricity	7,911.82 MWh	6,266.95	6,967.83 MWh	5,606.30
Steam <sup>1</sup>	24,299.00 Tonnes	N/A	23,896.00 Tonnes	N/A
<i>Total emission of the Group</i>		6,266.95		5,606.30
<i>Emission intensity of the Group<sup>2</sup></i>		4.15		3.86

Notes:

- 1 Steam is generated from burning wood, plants, biomass fuels or other energy sources in boiler; while the fuel burning process produces exhaust air (such as sulfur dioxide, nitrogen oxides, dust, etc.) and greenhouse gases. The Group started purchasing steam from suppliers from 2018. As the suppliers were unable to provide the types and composition of the fuel used for producing the steam and such information will affect the calculation of emission factors for exhaust air and greenhouse gases. The Group does not have the necessary information to calculate the greenhouse gases and exhaust air emissions, and therefore, we do not disclose relevant data in this report.
- 2 Emission intensity is based on every 10,000 square feet of leather produced.

##### **Water Conservation**

The water used by the Group is provided by the Government, and mainly for the production of leather and daily general usage. During the Reporting Period, although we did not face any problems regarding water supply, we have actively adopted various measures to educate our staffs to save water from daily life. The Group clearly understands the importance of water resources for production, construction and living needs. Therefore, it has established a water-saving leading group and a water-saving office, with each department performing its respective duties to improve water utilization and reduce waste. The power equipment department reduces water pressure, inspects water facilities, hidden water pipes and internal water supply systems, etc., regularly, and repairs damaged water tanks, water taps and other water supply facilities in a timely manner in order to prevent water leakage and unnecessary wastage. The power equipment department also needs to keep detailed records of all inspection and repair. We also monitor the consumption of each water outlets in the entire plant area, conduct statistics and analyzes the water consumption data to identify departments or production units with higher water consumption, so that targeted remediation plans can be formulated and implemented to eliminate unnecessary water consumption. Xuzhou Tannery was recognized as a water-saving enterprise in Jiangsu Province in September 2021. In order to enhance proper attitude towards the use of water and enhance environmental awareness of employees, Xuzhou Tannery has posted water saving sign at prominent places to remind employees of controlling the water flow when washing hands, minimizing tap water flow and switching off the tap afterwards.



### III. ENVIRONMENTAL PROTECTION (Continued)

#### 2. MANAGEMENT OF RESOURCES UTILIZATION (Continued)

##### ***Water Conservation (Continued)***

Despite the increase in the production volume of Xuzhou Tannery for the year, the water consumption was reduced due to the installation of 6 filter dyeing machines, which enabled the reuse of the filtered water. In addition, the Xuzhou Tannery collected rainwater for reuse, which reduced the use of fresh water. Therefore, the Group's water consumption only slightly increased by approximately 844.07 tonnes or 0.28% as compared with the previous year, and the total water consumption was approximately 299,759.25 tonnes.

The Group's water consumption during the Reporting Period are as follows:

	2021 (Tonnes)	2020 (Tonnes)
<b>Water resources</b>		
Total	299,759.25	298,915.18
Intensity <sup>1</sup>	175.82	193.73

Note:

1 Consumption intensity is based on every 10,000 square feet of leather produced.

##### ***Paper Conservation***

The Group advocates green office policy and paper conservation to reduce waste production. Employees shall follow the principle of "think before print", to carefully consider which file to print before printing, to establish an electronic filing system, to distribute and read documents in electronic format, to set double-sided printing as default, to use lighter weight paper and to recycle the single-sided used papers, old envelopes and packaging materials. Waste papers are collected in recycling bin and handled by qualified recyclers. We also regulate and improve the habits of consuming paper in each department by setting paper procurement and paper-taking procedures. During the Reporting Period, the Group consumed approximately 0.75 tonnes of paper, representing a decrease of approximately 0.23 tonnes or 23.47% as compared to the previous year.





### III. ENVIRONMENTAL PROTECTION (Continued)

#### 3. The Environment and Natural Resources

The Group has been established for more than 20 years at a leading position in the industry by persistently supporting the concept of “Compliance and Integrity Operation”, possessing rich experience in environmental protection management and continuously improving the tanning technology. The Group made investments each year in the facilities for prevention and control of pollution, new tanning technology development, and kept on improving the environment within the plant. The Group will continue to pay close attention to environmental protection related laws, regulations and measures, and strictly abide by the internal environmental protection management system to ensure compliance with laws and regulations. We take the national environmental protection development plan as our blueprint, raise the environmental awareness at all levels within the Group and let everyone to realize the deteriorating global environmental situation, and hope to have more industrial and commercial enterprises, social organizations and general public participating in environmental protection projects and working together to improve environment and build a better world, and to promote its sustainable development.

The Group will continue to increase its investment in various environmental protection projects in the future and will closely monitor and supervise the subsequent implementation of the rectification work above to ensure that the plant handles emissions and waste in compliance with regulations and the risk of causing major pollution is eliminated. We will revisit and identify the sources of wastes produced in operation, to evaluate the impact on the environment for use of resources and to enhance the environmental-friendly facilities and ancillary equipment, and continue to strengthen the control measures in the “Internal Control Manual” to deal with social responsibility risks, including the promotion of cleaner production, energy conservation and emission reduction, extensive use of energy-saving products, and the economical use of office resources. Through effective ways such as publicity and education, we constantly improve employees’ awareness of environmental protection and resource conservation, fulfill social responsibilities and obligations in the process of business development, and achieve coordinated development of the enterprise, society and environment.

The Group’s research and development center focuses on product research and development, eco-leather manufacturing and enzyme agent research and development projects. The manufacturing process of traditional leather requires the use of chromium, which can easily cause heavy metal pollution, but Eco-leather is completely free of chromium, making it suitable for the manufacturing of maternal and infant products, while reducing heavy metal pollution. This year, our eco-leather manufacturing technology became more mature, with lower aldehyde content and less irritating odors than in previous years, which are suitable for the manufacturing of maternal and infant products. In addition, we cooperated with the Research Institute of Sichuan University on the national project to develop enzyme preparations to achieve environmentally-friendly light production. The traditional unhairing process mainly uses lime and sulphide, which increases the generation of sludge and causes environmental pollution, while the use of enzyme preparations can reduce the amount of lime and sulphide by over 50%. The project has been basically completed, and has been officially put into production. Compared with 2020, the use of enzyme preparations for the year accounted for approximately 10% of the total amount. However, the process needs to be further fine-tuned before it can be used on a large scale.



### III. ENVIRONMENTAL PROTECTION (Continued)

#### 4. Climate Change

Climate change is making extreme weather events more frequent and severe, often causing catastrophic damage. Climate change is also changing seasonal and annual patterns of temperature, precipitation and other weather phenomena. The unprecedented crisis from global spread of COVID-19 has created significant challenges around the world, the risks of climate change is still imminent. Understanding these trends and the relationship with our business can help us to prepare, analyse possible risks and opportunities, help seize the opportunities of potential benefits and establish the response capacity of the Group in the long run.

In response to climate change, the Group is committed to reducing carbon emissions and waste generated by each production plant and office. The Group reduces the consumption of electricity, water, paper and gasoline used by vehicles from the source and follows the principle of Use Less, Fully Exploit, Seek Alternatives, Fix and Reuse, Rethink, through daily management and strengthens education and publicity, and actively takes technically feasible and economically reasonable measures, so as to reduce operating costs, reduce carbon emissions and waste in operation, and actively explore new models of low carbon development. At the same time, the Group has formulated scientific reasonable and realistic goals, indicating that the Company has a directional and purposeful plan for reducing greenhouse gas emissions, and is prepared in advance to respond to national-level regulatory policies of climate change. Besides, the ESG targets of the Group provide benchmarks and future directions for the annual review of progress in greenhouse gas reduction and energy transition, and motivate more efficient actions to address climate change.





## IV. EMPLOYMENT AND LABOR PRACTICES

The Group regards employees as its most core and most valuable asset, adheres to the “people-oriented” governance philosophy, and is deeply aware that talents play a key role in the sustainable and long-term development of the business. To this end, we have developed a set of comprehensive human resource management systems. The human resource policy covers aspects such as remuneration, rewards, professional ethics, training and welfare. We are committed to creating an equal, non-discriminatory, harmonious and safe working environment. With the goal of mutual respect and building good relationships with employees, we encourage employees to innovate, be flexible and value commitments, and fulfill our mission of providing customers with quality products and services. Xuzhou Tannery has set up the chairman’s mailbox, which is managed by the chairman himself. The purpose is to strengthen the communication between the Company and employees, encourage employees to actively make suggestions for the Company’s construction and development, and help employees solve problems in order to improve the Company’s management standard and promote the harmonious and healthy development of the Company. We provide commensurate salary, various benefits and training courses that are helpful for personal career development, and offer three-year additional subsidies to college students recruited, creating favorable conditions for us to attract, retain and reward talents. We also pay attention to the work, life, physical and mental health of our employees. By organizing various afterwork activities, we can enrich the lives of our employees and enhance the cohesion of the team in the Company.

### 1. Employment

#### ***Recruitment, Promotion, Dismissal, Equal Opportunities, Diversity and Anti-discrimination***

The Group has always advocated equal job opportunities and respect for personal privacy, adhered to the concept of “full utilization of talents, full usage of talents, and the matching of talents and vocations” during the recruitment process, embraced the principle of selecting talents through multiple channels and has thus formulated relevant policies. The responsibilities and requirements of a post are determined by the department head, and suitable candidates are selected by the human resources department accordingly. The candidates are selected based on factors such as work experience, professional knowledge, academic qualifications, communication skills, expression skills, morals and work attitudes. Equal opportunities are given regardless of their age, gender, ethnic group, religious affiliation, nationality or marital status. Xuzhou Tannery has been supporting the rehabilitation plan for people with disabilities, and has recruited a number of employees with physical disabilities for many years and assigned them with appropriate job duties based on their ability and skills with the hope that they could earn their own living. If there is the need for compensation owing to dismissal, we handle it in accordance with the applicable local laws and regulations.

In order to enhance quality of work and competency of employees, we conduct periodic performance appraisal and fairly assess the bonuses, salaries increment and/or promotion recommendations based on a number of criteria (including working experience, seniority, knowledge and skills, performance, contribution, etc.). Starting from the previous year, the Group quantified the assessment indicators of employees and conducted performance evaluation according to the assessment plan to provide reference for employees’ promotion and salary increase.

On the basis of work equality, the Group hopes to identify talents who are committed and dedicated to their work and willing to take responsibility. The Group also gives confidence and hope to employees who keep learning, continuously improve their capabilities and are willing to move forward with the Group.



## IV. EMPLOYMENT AND LABOR PRACTICES (Continued)

### 1. Employment (Continued)

#### *Recruitment, Promotion, Dismissal, Equal Opportunities, Diversity and Anti-discrimination (Continued)*

As at 31 December 2021, the number and distribution of employees of the Group are as follows:

	2021	2020
<b>Gender</b>		
Male	261	254
Female	104	121
<b>Employment type</b>		
Full-time	361	371
People with disabilities	4	4
<b>Age group</b>		
18-30	15	13
31-45	163	148
46-60	187	214
<b>Geographical Region</b>		
Mainland China	363	372
Hong Kong	2	3





## IV. EMPLOYMENT AND LABOR PRACTICES (Continued)

### 1. Employment (Continued)

During the Reporting Period, the average monthly employee turnover rate of the Group is as follows:

	2021	2020
<b>Gender</b>		
Male	0.72%	0.40%
Female	2.39%	1.74%
<b>Age group</b>		
18-30	3.77%	3.52%
31-45	1.01%	0.94%
46-60	1.25%	0.61%
<b>Geographical Region</b>		
Mainland China	1.25%	0.78%
Hong Kong	–	5.26%

#### ***Compensation, Welfare and Other Benefits***

The Group attracts and retains quality staff with competitive remuneration packages. The Group benchmarks the up-to-date remuneration data in the industry and strives to establish a fair, reasonable and competitive remuneration system. Employee's salary is determined based on knowledge, skills, experience and education level as required by each position. The Group implements a distribution system combining position salary and performance bonus.

The basic employee benefits include salary, bonuses, etc. Other benefits include job subsidies, overtime subsidies, overtime meal allowance, festival welfare gifts, birthday gifts, staff quarters, hospital and medical care and general health checkups, etc. We also organize activities to show condolences to employees who are in difficulty. According to the local labor law and laws and regulations of social insurance, the Group provides social security benefits for all employees. We pay various social insurance fees (endowment insurance, medical insurance, unemployment insurance, work injury insurance and maternity insurance) and housing provident fund for employees in the mainland business, as well as contributions to mandatory provident fund schemes for employees in Hong Kong.



## IV. EMPLOYMENT AND LABOR PRACTICES (Continued)

### 1. Employment (Continued)

#### ***Compensation, Welfare and Other Benefits (Continued)***

In order to enhance the cohesion among employees, enhance their sense of belonging and alleviate their work pressure, we organized a number of activities and competitions, such as visiting Zhou Enlai Memorial Hall in Huai' an, parent-child reading and companionship activities, and fun sports meeting, party history and knowledge competition and basketball competition to celebrate the 100th anniversary of the founding of the Communist Party.

#### ***Working Hours and Rest Periods***

The Group attaches great importance to the health of employees, advocates work-life balance, and stipulates the working hours of employees and safeguards employees' right to take a rest and leave in accordance with local labor laws. All employees are entitled to rest days and statutory holidays, such as annual leave, sick leave, marriage leave, maternity leave, bereavement leave, work injury leave, etc.

#### ***Impact of COVID-19***

The Group did not reduce employee benefits or lay off employees due to the outbreak of COVID-19 in 2021. For employees' health and safety, the Group devised a contingency plan for epidemic prevention and adopted various epidemic prevention measures. For details, please refer to the "Health and Safety" section below.

### 2. Health and Safety

The Group always pays attention to the health of its employees and workplace safety and recognizes that the corporate itself is the body responsible for production safety. It should adhere to the philosophy of "people-oriented, safe development" and assume the responsibility to prevent and avoid occupational hazards.

#### ***Safety Production Structure***

To comply with the Production Safety Law of the People's Republic of China and relevant local laws and regulations and to manage production safety more effectively, Xuzhou Tannery has established the "Rules on Responsibility for Production Safety" and built a safety management structure by establishing the production safety committee, the production safety committee office and the environment and safety centre. A registered safety engineer and several safety officers are included under the organizational structure which improve the level of production safety management of the Company. The production safety committee formulates production safety plans and annual production safety targets. Department heads are required to sign a production safety responsibility statement every year. It is hoped that management and employees of all levels would clearly understand their own responsibility for safety and assume safety responsibility strictly in accordance with the production safety responsibility certificate. In addition, we have also formulated "Administrative Measures against "Three Violations"" to strengthen the Company's work on safety management. Employees who violate the laws and regulations in respect of production, command and labor disciplines are warned and, where required, to undergo safety retraining to avoid safety accidents and injury to employees.



## IV. EMPLOYMENT AND LABOR PRACTICES (Continued)

### 2. Health and Safety (Continued)

#### **Safety Training**

The Group attaches great importance to the safety training of employees. New employees must receive three-level safety education (company, department and team levels) before they can start working. During the Reporting Period, Xuzhou Tannery organized “Safe Production Month” and “Fire Safety Month” and used signboards, banners, WeChat platform, pre- and post-session meetings and other channels to promote related activities to strengthen employees’ safety awareness. The activities included fire safety training activities, fire emergency drills, accident warning education, offline lectures by professionals from fire safety institutions, and special education and training on fire safety laws and regulations, knowledge and emergency self-rescue skills by instructors from Xuzhou Fire Safety Training Institution. Employees in special lines of work (such as electricians, electric welders, boiler operators, forklift operators, etc.) must receive relevant training in safety knowledge of the profession and obtain the certificates issued by government departments before taking up the posts.



Fire Safety Publicity Month Meeting



Safety Meeting

#### **Safe Working Environment**

In order to implement the safety production policy of “Safety First, Precaution Crucial, Comprehensive Governance”, the Group identifies major hazard sources, conducts risk assessments for potential major accidents and proposes corrective measures to eliminate the risks of the occurrence of safety accidents. Safety personnel regularly inspect each production unit in accordance with company requirements and safety operating procedures, and urge employees of each production unit to conduct safety inspections of production posts, conduct regular fire inspections every day to check whether the fire protection equipment and fire safety signs are intact and eliminate remaining fires. The power equipment group is responsible for the maintenance and daily inspection of various facilities and equipment. For the hidden dangers discovered during the inspection, we will put forward rectification advices, report to the management in a timely manner, supervise the implementation of the rectification plan, and record the details of the inspection and rectification. When hidden dangers are found to be dangerous to employees and affect personal safety, we immediately take emergency measures to suspend relevant operations and evacuate employees from the operations.





## IV. EMPLOYMENT AND LABOR PRACTICES (Continued)

### 2. Health and Safety (Continued)

#### ***Safety Risk Management***

Xuzhou Tannery carried out comprehensive internal hidden hazard investigation and elimination work on an issue-oriented manner, thus achieving closed-loop management. During the year, seventy-seven hidden problems were identified from various safety inspections, and then rectification measures were formulated for the problems, which specified the responsibilities of rectification and supervision, completed the relevant rectification work, updated the list of hazard sources identification, and announced such list and preventive measures to all employees. At the same time, Xuzhou Tannery increased its efforts in safety training and publicity, normalized the related work and promoted the participation of all employees. During the year, employees participated in trainings on fire prevention, epidemic prevention and control, chemical products liable to producing narcotic drugs, special equipment, electricity safety, restricted space work, occupational health and first aid. The plant also carried out different types of emergency drills, including emergency response drills for leakage accidents of chromium-containing sewage treatment facilities, emergency drills for hydrogen sulfide poisoning during operation in limited space, and emergency rescue drills for flood prevention. The purpose is to improve employees' emergency response capabilities, ensure the effectiveness of emergency plans, find out the shortcomings in emergency management for rectification and improvement, and in the event of safety accidents, employees can correctly handle the accidents to minimize the damage.



## IV. EMPLOYMENT AND LABOR PRACTICES (Continued)

### 2. Health and Safety (Continued)

#### ***Occupational Health of Employees***

The Group sets up and comprehend the occupational health management system pursuant to the requirements of the “Law of the People’s Republic of China on Safety Production”, the “Law of the People’s Republic of China on Prevention and Control of Occupational Diseases” and relevant local laws and regulations to protect its employees’ health, rights and interests. Protective equipment (such as gas masks, earplugs, protective clothing, protective shoes, sawdust, etc.) that meets the national standards, together with the guideline for use, are provided to its employees. In order to improve the monitoring and management of hazardous factors, take appropriate measures to eliminate or control risks, and ensure that employees work in a safe environment, we entrusted professional testing companies to comply with the standards of chemical hazards and physical factors in the “Occupational Exposure Limits for Hazardous Agents in the Workplace”, and conducted inspection and evaluation of occupational disease hazards at each production position in the plant. Most of the positions are in line with the standard. However, due to the superimposed sound of sanded paper grinding, induced fan vacuum sound and motor, a small number of positions fail to meet the noise standards, we have carried out rectifications, such as installing silencers and mufflers on the machines and strengthening the education of employees’ occupational safety knowledge, and requiring all employees to wear earplugs in the workplace.

#### ***Protecting Employees during COVID-19***

In view of the outbreak of COVID-19 in early 2021, the Group has taken the following precautionary measures for the health and safety of its employees:

- Implement the local government policy of “preventing inbound cases and domestic resurgence”;
- Initiated the work plan for the emergency prevention and control of the COVID-19 pandemic and set up a leading group for the emergency prevention and control of the pandemic in response to the situation that may cause the spread of the pandemic in offices, production plants and dormitories;
- Ensured sufficient reserves of epidemic prevention materials such as thermometers, disinfectant spray, disinfectant hand sanitizer, masks, goggles, protective clothing;
- Set up temperature screening room and isolation room;
- Strick control on the personnel getting in and out of the plant. All employees and visitors must wear masks, measure body temperature, declare personal health status, and confirm that there are no suspected infection symptoms before entering the production plant; The person in charge must wear gloves, masks and goggles;
- Conducted nucleic acid testing and quarantine control for imported cowhide and personnel with direct contact;
- Comprehensive disinfection is carried out every day throughout the production plant, including offices, production workshops, warehouses, dormitories, reception rooms, washrooms, etc.;
- To suspend unnecessary business trips, remote video conferences and emails are used for communication; employees are required to communicate electronically to reduce crowd gathering and to remind employees to maintain safe social distance;
- Employees are required to wear masks at work and pay attention to hands hygiene;
- Employees are required to receive COVID-19 vaccination; and
- Windows are regularly opened for ventilation and to reduce the use of air conditioners, thus maintaining air circulation in the workplace and living areas.



## IV. EMPLOYMENT AND LABOR PRACTICES (Continued)

### 2. Health and Safety (Continued)

#### ***Protecting Employees during COVID-19 (Continued)***

During the Reporting Period, the number of working days lost due to work injury of the Group's employees is as follows:

	2021 (Days)	2020 (Days)
Lost days due to work injury	133	162

The Group had no work-related fatalities in the past three years (including the Reporting Period).

### 3. Development and Training

The Group is fully aware that a high-quality team is the core competitiveness of an enterprise and plays an important role in the sustainable and long-term development of the Group. Therefore, we always regard talent training as one of the core tasks of the Group, and introduce a competition mechanism through strict recruitment systems, standards and procedures. We hope to discover and cultivate professional talents, as well as encourage employees to continue their education and lifelong learning. In addition to meeting the business development needs of the Group, we also hope to improve the quality, vocational skills and knowledge of employees through continuous training and establish a positive working attitude for employees.

New employees of Xuzhou Tannery must participate in induction training, which aims to introduce corporate culture, industry knowledge, organizational structure, rules and regulations, operational safety, and pre-job training (for details, please refer to the "Health and Safety" section below). Before employees are transferred, they must receive pre-transfer professional training, until they can meet the requirements of the post. For those with outstanding performance in the training, in addition to the recognition announcement, appropriate rewards can be given according to the situation. Those who fail to meet the standard, their training period can be extended appropriately. All employees are encouraged to receive external education and training in their spare time, without affecting their duties as a major premise. Appropriate schedules for internal training activities and external ones organized by professional organizations are prepared for Xuzhou Tannery in view of its manpower requirements. During the Reporting Period, in addition to pre-employment training for new employees, Xuzhou Tannery organized a number of safety training, training in corporate management knowledge and sessions on the basic knowledge of leather craftsmanship.





## IV. EMPLOYMENT AND LABOR PRACTICES (Continued)

### 4. Labor Standards

The Group complies with the requirements of the Labor Law of the People's Republic of China, the Law of the People's Republic of China on Employment Contracts, the Employment Ordinance, the Employment of Children Regulations of Hong Kong and other applicable laws and regulations. The Group values human rights and protects labor rights. Child and forced labor are strictly prohibited under applicable labor laws and regulations. The human resources department verifies applicants' identification documents during the recruitment process to prevent child labor. In addition, the Group has various measures in place to prevent any form of forced labor, including prison labor, indentured labor and bonded labor. For instance, labor contracts are entered into with employees on an equal and voluntary basis; employees are not required to bear any employment costs when joining the company; wages, benefits or property of employees are never withheld; identity cards or other identification documents are never retained; any form of corporal punishment, assault, body search or insult, or forced labor by means of violence, threats or illegal restriction on personal freedom is strictly prohibited. To avoid working overtime involuntarily, any overtime arrangement must be agreed upon by the employees, and compensation shall be given in accordance with applicable laws and regulations.

### Compliance

During the Reporting Period, the Group did not involve in other confirmed non-compliance incidents relating to employment, health and safety, and labor standards that have significant impact on the Group.



## V. OPERATING PRACTICES

### 1. Supply Chain Management

The Group conveys its concern on environmental issues to its suppliers and business partners, and expects them to support and reach the standards that meet with our expectations. We also strive to maintain long-term, stable strategic cooperative relationships with leading suppliers, and co-develop with its suppliers on the basis of equality and win-win situation. We adhere to assessing the quality and ethical standards of its business partners based on a number of criteria, including their attitudes towards environmental and social issues, prior to entering into contracts with them. We established stringent internal rules and policies in supplier evaluation and management, covering sourcing and selection of new vendors, renewal of existing suppliers, and preparing an “approved supplier list”. When selecting new suppliers, the Group assesses the supplier’s corporate background, qualifications, production scale, management system, production equipment, etc. based on the information obtained during the qualification review, and then evaluates them as a qualified or unqualified supplier. The person in charge of each material usage department conducts an annual review for suppliers based on material quality, delivery status, service quality and price level, and classifies suppliers according to the scoring criteria to determine whether we can continue to cooperate with suppliers or need to reduce or suspend purchasing from suppliers. There is proper segregation of duties from signing of contracts with suppliers to goods or service acceptance so as to ensure that the goods and service providers possess the required qualifications and professional skills, adopt good internal management system, stable quality, on-time delivery, comply with laws and regulations, etc. This is to ensure that the Group’s suppliers are competitive and are able to provide good quality products and services. We have established policies and procedures in supply chain management and provided various reporting channels for employees, suppliers, customers and other business parties to report violations of laws or regulations by taking advantages of one’s position. During the Reporting Period, the Group did not receive any reports on matters of significant relating to violations in this respect.

During the Reporting Period, the number and geographical distribution of major suppliers with whom the Group has business relationships are as follows:

	2021	2020
Mainland China	146	147
Hong Kong	1	1
Others	2	1



## V. OPERATING PRACTICES (Continued)

### 2. Product Responsibility

#### ***Management of Product Quality***

The Group commits to providing quality and safe products, not only to satisfy the customers' basic requirement, but also to meet our targets on highly efficient and effective production and quality control. Therefore, we formulate the "Internal Control System of Quality Center". The quality center is responsible for monitoring and testing the quality of raw materials, crust, blue skins and finished products. Raw material suppliers need to provide testing data to ensure that their quality meets national standards. In accordance with the "Guidelines for Quality Inspection of Finished Products", we strengthen the technical training of testing personnel and improve their technical level and sense of responsibility to ensure that they can effectively monitor the quality of products. If unqualified products are found during the testing process, the marketing center and the production center must notify the warehouse in writing that the unqualified products cannot be placed in the warehouse to avoid accidentally selling the unqualified products to the customers. The testing laboratory under the China Leather Research Institute randomly tests part of the Group's products annually, and all the products are produced and delivered with a qualified test report. During the Reporting Period, Xuzhou Tannery has obtained ISO 9001:2015 quality management system certification for the production of natural genuine leather.

#### ***Management of Customer Complaints***

If customers have product quality issue or the products fail to satisfy their requirements such as peeling off, crack of leather surface, etc., they can approach the Group's after-sales services. In order to better understand customer requirements and continuously improve our products, we regularly consult customers' opinions and suggestions through visits, questionnaires and telephone calls in accordance with the "Customer Satisfaction Survey Management System", to identify the cause of customer dissatisfaction and provide solution in time, hoping to improve the quality of products and services.

During the Reporting Period, the number of product and service-related complaints received by the Group is as follows:

	2021 (Times)	2020 (Times)
Products and service-related complaints received	8	–





## V. OPERATING PRACTICES (Continued)

### 2. Product Responsibility (Continued)

#### ***Customer Data Protection and Privacy Policy***

Confidentiality is one of the Group's core values. We have established "Customer Information Management System" to ensure our employees handle customers' information diligently and confidentially, and formulated clear guidelines to monitor the use and management of customer files to prevent leakage of customer information. For any confidential information obtained through business relationships, all employees are strictly prohibited to disclose any information to assisting vendors or third parties without proper authority unless there is a legal or professional right or duty to do so. If such information has to be accessed due to business relationships, employees must provide the purpose and reason for the inspection and inspect only after obtaining approval.

#### ***Maintenance and protection of intellectual property rights***

The Group respects intellectual property rights. Without the permission of the copyright owner, employees are not allowed to have or use copyrighted materials.

#### ***Product Recall***

During the Reporting Period, there were no products sold or shipped subject to recalls for safety and health reasons.

### Compliance

During the Reporting Period, the Group did not involve in any confirmed incidents on non-compliance of laws and regulations relating to product and service responsibilities that have significant impact on the Group, and received no complaints about breaches of customer privacy, loss of information and infringement of intellectual property rights.



## V. OPERATING PRACTICES (Continued)

### 3. Anti-corruption

As the Group's corporate cultural philosophy are "Honesty, Probity, Effectiveness", maintaining a working environment with high ethical standard is one of the Group's core works. We have adopted a zero-tolerance approach for all kinds of corruption, bribery and extortion situation. For complying with the "Criminal Law of the People's Republic of China", "Prevention of Bribery Ordinance" and relevant laws and regulations implemented by the Hong Kong Independent Commission Against Corruption, the Group established "Human Resources Management Policy" and "Staff Manual". We restrict the behavior of all employees and set strict penalty towards the collection of and accepting bribes or other illegal interests, and all employees are required to build up a habit of complying with policies and procedures in order to preclude any bribery or bribery accepting behaviour. Employees who are in breach of the company's code of conduct are disciplined or dismissed. During the Reporting Period, we provided a number of anti-corruption training activities for directors and employees, such as learning and implementing the spirit of the fifth general meeting of the 19th Central Commission for Discipline Inspection, integrity education, learning the theory and regulation of building a clean and honest Party, centralized integrity talks for management cadres above the middle level, integrity training for key personnel at key positions, training on Party regulations and Party discipline, and watching anti-corruption warning education films. We set up a comprehensive disciplinary monitoring system to cover the operation and production processes. Therefore, the "Rules for Discipline Inspection and Supervision Reporting" was formulated and we have established channels, including mailbox and hotline, for whistleblowers to submit reports of suspected personal interests in carrying out one's job duties, briberies, extortion, frauds, money laundering and other illegal acts in an absolute confidential manner. The Group handles such reports in absolute confidence and is determinant in combating corruption and contributes in building an uncorrupted society. During the Reporting Period, there was no litigation of corruption involving the Group or its employees.



## VI. COMMUNITY INVESTMENT

The Group is a responsible tax payer and spares no effort in easing local employment pressure. The Group pays the “five insurance and housing provident fund” for mainland employees, contributes to the mandatory provident fund scheme for Hong Kong staffs, and assists its staff to make good plans for their retirement life. The Group has operated its factory in mainland China for over 20 years and is one of the pillar industries in that area, exercising good practices in its business operation, protecting the environment and building a good development order. Besides we have been regarded as a role model for the industry, contributing to social stability.





粤海制革

GUANGDONG TANNERY LIMITED  
粤海制革有限公司