

Environmental, Social and Governance (ESG) Report

Diwang Industrial Holdings Limited

(formerly known as Sunlight Technology Holdings Limited)

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1950)

Environmental, Social and Governance (ESG) Report 2021

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1. ABOUT THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

This report is a summary of the performance of Diwang Industrial Holdings Limited (formerly known as Sunlight Technology Holdings Limited) (the “Company”) and its subsidiaries (the “Group”) in the aspect of environmental, social and governance for 2021, reporting on the Company’s overall performance in environmental protection, employee protection, work safety and social responsibility. This report is prepared in accordance with the Environmental, Social and Governance Reporting Guidelines (hereinafter referred to as the “Guidelines”) contained in Appendix 27 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

1.1 Governance Structure

Concerned about the environmental and social impact of daily operations, the Company strives to set a good example to society and contributes to its efforts to achieve the best balance while operating its business in the interests of all its stakeholders, the economy, the environment, the society and its corporate governance.

In the supervision of environmental, social and governance matters, the board of directors of the Company (the “Board”) and its members shall mainly assume the following duties:

To develop and review the Group’s environmental, social and governance framework, strategies, policies and procedures, and to implement the various environmental, social and governance policies adopted by the Board; to review and monitor the implementation of the Group’s environmental, social and governance policies to ensure compliance with legal and regulatory requirements; to implement measures to promote the Group’s environmental, social and governance policies and to set appropriate corporate objectives, performance indicators and measures to ensure that the environmental, social and governance policies are effective; and to review the annual Corporate Governance Report and Environmental, Social and Governance Report for approving the disclosure, and to review and monitor the training and continuous professional development of directors of the Company (the “Director(s)”) and senior management in respect of environmental, social and governance. The Board shall meet at least once a year for environmental, social and governance matters. Additional meetings may be convened by the Board if necessary.

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In addition, the Company has set up a working group on environment, social and governance with the following responsibilities:

To assist the Board in formulating, reviewing and implementing the Group's environmental, social and governance framework, strategies, policies and procedures; to regularly evaluate the Company's risk and internal control systems in relation to environmental, social and governance; to supervise and guide the implementation of environmental, social and governance policies among all its departments; to promote environmental, social and governance (such as emission reduction, environmental greening, community activities, etc.); to assess the importance of improving the Group's environmental, social and governance policies and make recommendations to the Board; to conduct the collection and data analysis of information required for the Environmental, Social and Governance Report; and to prepare the annual Corporate Governance Report and Environmental, Social and Governance Report, and to organize training and continuous professional development for Directors and senior management on environmental, social and governance issues. The environmental, social and governance working group shall organize meetings semi-annually to prepare and follow up reporting matters and report annually to the Board on the performance of the environmental, social and governance. The working group is required to submit annually to the Board a work plan describing the work on the environment, society and governance in the coming year, as well as recommendations on whether environmental, social and governance advisors or engineering technical advisors should be hired.

1.2 Reporting Principles

The preparation of this report complies with the principles of materiality, quantitative and consistency as required by the Guidelines.

Materiality

In 2021, the Company conducted an assessment on key issues related to environmental, social and governance. Based on the actual business and industry characteristics of the Company, the Board identified and confirmed environmental, social and governance issues that were most significant to the Company, such as emissions, employment, employee health and safety, staff development and training, product liability:

The results of the material issues assessment will be used to guide the Company in formulating its future environmental, social and governance work plans and objectives, with a view of creating sustainable value for stakeholders.

Quantitative

The criteria, methods and assumptions used in reporting on all key performance indicators ("KPIs"), such as emissions, energy consumption, are set out in the guidance document of the Stock Exchange of Hong Kong Limited on environmental, social and governance (Subject Area A: Reporting Guidance on Environmental KPIs and Subject Area B: Reporting Guidance on Social KPIs).

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Consistency

This report discloses KPIs in accordance with the revised guidelines in 2022. All new indicators are disclosed in the corresponding sections of this report in accordance with the Guidelines. The statistical methods for 2021 in this report are consistent with those of the previous year.

1.3 Reporting Scope

The Company is principally engaged in the research and development, manufacturing and sale of coating agents and synthetic resins. This report covers all of the Company's activities from 1 January 2021 to 31 December 2021 (the "Reporting Period" or "Year End 2021") and has no change in the scope of reporting as compared with the previous year.

2. ANALYSIS OF ENVIRONMENTAL PERFORMANCE OF THE COMPANY

The Company is committed to environmental protection and safety in its production. Our Directors confirm that since 1 January 2021 and up to the date of this report, we had obtained all material certificates, licences, permits and approvals in relation to environmental protection and safety production. In addition, we have obtained ISO9001:2008 quality system certification for the design, development and production of colourants and treatment agents for application on synthetic leather and successfully renewed such certificate (which has been revised to ISO9001:2015).

2.1 Overview of Environmental Laws and Policies in Regions Where We Mainly Operate

Laws and policies	Date of issue and issuing authority	Main content
The Catalog for Guiding Industrial Restructuring (2019 Version) (《產業結構調整指導目錄(2019年本)》)	August 2019, NDRC	The microfiber leather shall be listed in the restructuring catalog, the ecological synthetic leather (mostly the microfiber leather) shall be listed in the encouragement category, and the replacement of natural leather shall be encouraged. The production line of polyvinyl chloride (PVC) ordinary artificial leather shall be included in restricted leather category.

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Laws and policies	Date of issue and issuing authority	Main content
Norm of Energy Consumption Per Unit of Synthetic Leather* (《合成革單位產品能源消耗限額》)	November 2018, the Standardization Administration of the People's Republic of China	Such regulation sets out the quota on comprehensive energy consumption per unit of synthetic leather for different manufacturing processes and businesses and DMF recovery, and provides a technological foundation for eliminating outdated production capacity and controlling energy consumption.
Technical Specification for Application and Issuance of Discharge Permit for Leather and fur making industry – Leather making industry (《排污許可證申請與核發技術規範制革及毛皮加工工業-制革工業》)	September 2017, the Ministry of Ecology and Environment of the People's Republic of China	It sets out the requirements for basic information reporting in respect of the application for and grant of discharge permits for leather manufacturing industry, the determination of permitted emission limits, the calculation of actual emissions and the method of judging the compliance thereof, as well as the environmental management requirements (such as selfmonitoring, keeping ledgers on environmental management and preparation of reports on the implementation of discharge permits), and puts forward feasible technical requirements for pollution prevention and control in leather manufacturing industry.
Action Plan for Reducing Volatile Organic Compounds in Key Industries* (《重點行業揮發性有機物削減行動計劃》)	July 2016, the Ministry of Industry and Information Technology, the Ministry of Finance	For the synthetic leather industry, it sets out the objectives to focus on promoting the application of waterborne and solvent-free polyurethane, thermoplastic polyurethane elastomer and polyolefin heat shrinkable elastomer resins to replace organic solvents during the production of artificial leather, synthetic leather and microfiber leather.
Technical Roadmap for Water Saving and Emission Reduction in Leather Manufacturing Industry* (《制革行業節水減排技術路線圖》)	August 2015, China Leather Manufacturing Industry Association	It clarifies the objectives for water saving and emission reduction for the leather manufacturing industry in the forthcoming five to ten years. By 2020, through the widespread access to water saving and emission reduction technologies during the 13th five-year period and assuming that the leather production volume in the industry remaining unchanged, the annual emissions of wastewater, CODCr, ammonia nitrogen, total nitrogen and total chromium shall decrease by 9.7%, 30.5%, 39.8%, 35.5% and 27.7%, respectively, from 2014. By 2025, the annual emissions of wastewater, CODCr, ammonia nitrogen, total nitrogen and total chromium shall decrease by 19.3%, 37.9%, 59.6%, 53.9% and 48.3%, respectively, from 2014.

* For identification purpose only

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2.2 Analysis of Emissions Generated by the Company

2.2.1 Analysis of relevant emission indicators of the Company

Exhaust gas emissions

The Company's major exhaust emissions are generated from the combustion of gasoline and diesel fuel by motor vehicles. The exhaust gas emissions from the combustion of the relevant fossil fuels include main pollutants such as nitrogen oxides (NO_x), sulphur oxides (SO_x), suspended particulate matter (PM). In 2021, the Company generated total emissions of 154.00 kg of nitrogen oxides, 0.37 kg of sulphur oxides and 14.47 kg of suspended particulate matter during its production and operating activities.

Greenhouse gas emissions

The greenhouse gas emissions generated by the Company mainly originated from the combustion of gasoline by motor vehicles, the natural gas combustion and the use of electricity in its business. Greenhouse gas emissions include two major scopes: direct greenhouse gas emissions and indirect greenhouse gas emissions. The table below shows the greenhouse gas emissions of the Company in 2021:

Direct emission	Indirect emission (Unit: tonne of carbon dioxide equivalent)	Type of greenhouse gas (Unit: tonne of carbon dioxide equivalent)
Carbon dioxide (CO ₂)	60.21	1,868.96
Methane (CH ₄)	0.08	0.41
Nitrous oxide (N ₂ O)	4.32	8.62
Total	64.61	1,877.99

In 2021, the Company generated total carbon emissions of approximately 1,942.6 tonnes of carbon dioxide equivalent, with an emission intensity of 829.50 tonnes of carbon dioxide equivalent/RMB100 million.

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Hazardous/non-hazardous waste

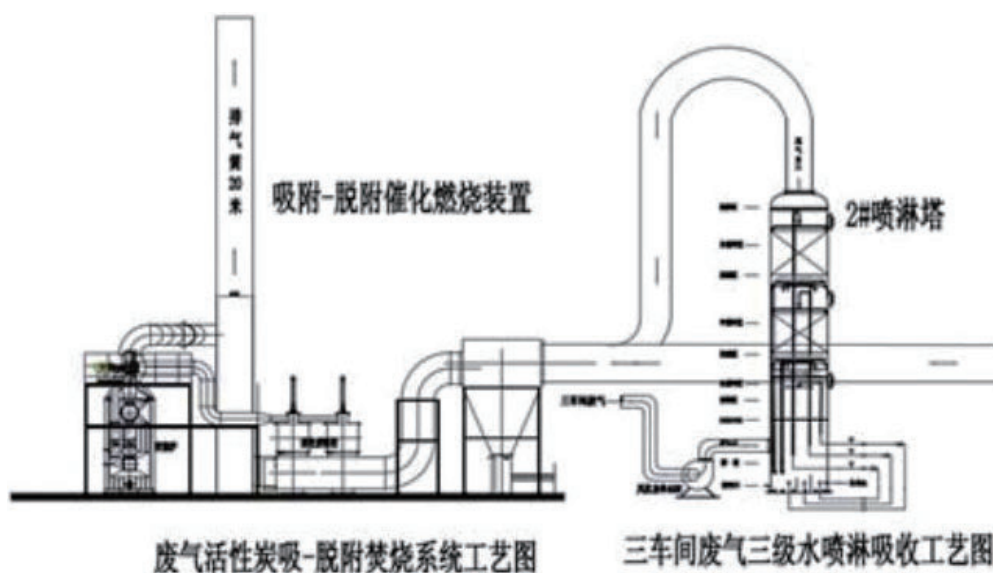
The Company has formulated clear and specific guidelines on waste management. We strictly comply with local waste separation standards for separating and storing different waste accordingly. The table below sets out the waste generated by the Company in 2021.

Type of toxic and hazardous waste	Unit	Emissions in 2021
Waste resin solutions	tonne	19.35
Filtered colourant residue	tonne	3.14
Packaging waste and cleaning debris	tonne	51.04
Sewage sludge	tonne	0.5
Type of non-hazardous waste	Unit	Emissions in 2021
Industrial wastewater	tonne	2,329.00
Solid waste	kg	22.29

Targets and measures on exhaust gas and greenhouse gas emissions

The waste gas in the factory area mainly consists of: industrial waste gas produced in the production process, waste gas produced by the waste water treatment system, and waste gas produced by the combustion of the canteen stove. For the industrial waste gas produced in the production process, the Company collects it from the suction hood to the waste gas treatment device, and uses the “three-stage water spray + activated carbon adsorption + catalytic combustion” method to remove pollutants in the gas. For the waste gas (mainly hydrogen sulfide and ammonia gas generated by microbial activities in the biochemical system) generated by the waste water treatment system (sewage station), it will be discharged through the closed oxidation absorption treatment. For the exhaust gas produced by the cooking of the canteen stove, since the total amount is relatively little, it is uniformly led from the flue to the roof of the building, and is discharged after being processed by the flue gas purification device.

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(Industrial waste gas treatment facilities)

In order to reduce the emission of exhaust gas, the Company has taken the following measures to reduce the unorganized emission of exhaust gas: installing soft curtains in the automatic batching area of the production workshop; adding gas collection covers to the packaging area; adding caps to the batching steel substrate to prevent the gas from dispersing when beaded grinding is carried out; installing the packer in a closed room; and installing exhaust gas collection facilities in hazardous waste depots and weighbridge batching areas.



(Installing soft curtains in the automatic batching area of the production workshop)



(Adding gas collection covers to the packaging areas)

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(Adding caps to the batching steel substrate for beaded grinding)



(Installing the packer in a closed room)



(Installing exhaust gas collection facilities in hazardous waste depots and weighbridge batching areas)



The Company will keep abreast of and monitor the environmental impact of our daily operations by continuously monitoring and announcing the Company's carbon footprint. At the same time, we have implemented the following energy saving and energy efficiency measures in various offices, so as to reduce the greenhouse gas emission:

Installation of high-performance electrical machinery; Requiring that the procurement department must purchase products with high energy efficiency; Automatic light control system; Requiring that all office floors shall be illuminated with LEDs; Requiring that employees must turn off lighting and unnecessary energy-consuming devices when they leave, so as to reduce energy consumption and avoid unnecessary energy waste; and Requiring that more natural light shall be used in office floors; Installation of sub-meters for supervising the use of electricity, etc.

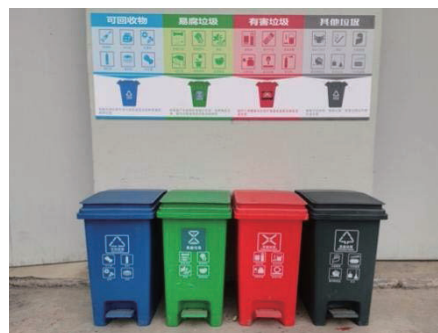
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Waste management, waste reduction targets and related measures

The Company carries on waste management in strict accordance with the Law of the PRC on the Prevention and Control of Environmental Pollution Caused by Solid Wastes* (《中華人民共和國固體廢物污染環境防治法》), thus reducing wastes from the source, carries out recycling of wastes and dispose of hazardous wastes in a responsible manner. The specific management measures include: the separation of laboratory wastes and domestic wastes and promoting the more detailed separation of hazardous wastes in production workshops; entrusting qualified entities to dispose hazardous wastes and general solid wastes, etc., and to establish an industrial solid waste management account for submitting online declaration materials.



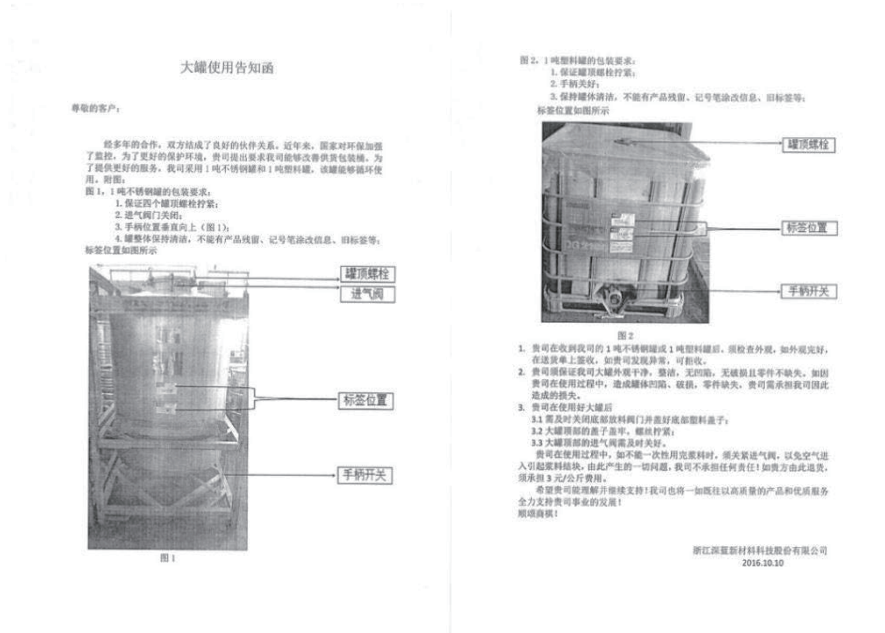
(Laboratory waste separation)



(Domestic waste separation)

In order to reduce the discharge of hazardous and non-hazardous wastes, the Company has taken the following measures: promoting paperless office, reducing paper usage, and using the Kingdee (金蝶) system to reduce paper consumption. Putting up signs in the office to encourage and guide staff to reduce waste generation; signing agreements with suppliers to recover raw material barrels, thereby reducing the production of dangerous waste barrels; avoiding secondary pollution to the environment in upholding the principle of “comprehensive utilization and recycling”, and adopting the recyclable stainless steel tank and plastic tank.

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(Notification letter for use of large tanks)



(Agreement in relation to recycling of 1,000-L stainless tanks)

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1000L 塑料罐循环使用协议

甲方：宁波市天一合成有限公司
乙方：浙江源盛新材料科技有限公司

根据国家相关法律和环境保护的相关规定，甲乙双方本着“综合利用，循环利用”的原则，避免对环境造成二次污染，现就甲方乙方购买的蓝色黑色浆产品，在甲方使用完毕后的空 1000L 塑料罐，乙方回收后循环利用。

但在 1000L 塑料罐使用一段时间后，我公司生产部门反映退回的罐存在以下问题：

1. 空罐里有较多余料且结块，余料多首先对甲方造成很大的浪费，且乙方在清洗时需要用大量的 DMF 浸泡，给乙方废水处理带来了很大麻烦。
2. 桶盖丢失，导致余料硬化结块，使乙方在清洗时需要长时间的浸泡，给生产环节带来用桶紧张，导致乙方发货延迟。

特制订如下协议：

一、协议期限：

1. 本协议起始日期：2019 年 6 月 1 日起；
2. 本协议终止日期：甲乙双方因原材料采购合同终止，本协议自动终止。

二、甲方职责：

1. 甲方将乙方使用后的空 1000L 塑料罐，：
a. 及时封盖，避免桶内余料干涸结块；
b. 保持桶体干净；
c. 进行分类放置和保管；
d. 确保乙方回收的空罐残留物<1%；
e. 桶盖齐全，无破损无漏液现象，如盖子遗失，甲方需承担 50 元/只费用（如有违反，乙方有权拒收）；
2. 放置中严格按照环保相关要求，进行管理，甲方不能私自处理空 1000L 塑料罐，如违反乙方不承担任何相关责任；
3. 退罐过程中，应有乙方司机签字确认所退罐体的情况和数量，没有签字乙方不承担任何相关责任。

三、乙方职责：

1. 乙方利用每次送原材料到甲方的机会，在车辆返回时对空 1000L 塑料罐，进行回收；
2. 乙方运输回收空 1000L 塑料罐，时，应事先采取预防措施，防止运输过程中发生泄露等污染环境；
3. 乙方承诺对空 1000L 塑料罐，回收后循环利用。

四、生效日期：

本协议经甲乙双方签字盖章确认后生效，一式两份，双方各执一份，具有同等法律效力。

甲方（盖章）：_____
代表：_____
日期：_____
乙方（盖章）：_____
代表：_____
日期：_____

(Agreement in relation to recycling of 1,000-L plastic tanks)

150L 不锈钢罐循环使用协议

甲方：杭州卡洛实业有限公司
乙方：浙江源盛新材料科技有限公司

根据国家相关法律和环境保护的相关规定，甲乙双方本着“综合利用，循环利用”的原则，避免对环境造成二次污染，现就甲方乙方购买的后续色膏 BLPLK 系列产品，在甲方使用完毕后的空 150L 不锈钢罐，乙方回收后循环利用。

但在 150L 不锈钢罐使用一段时间后，我公司生产部门反映退回的罐存在以下问题：

1. 桶里有较多余料且结块，余料多首先对甲方造成很大的浪费，且乙方在清洗时需要用大量的 DMF 浸泡，给乙方废水处理带来了很大麻烦。
2. 桶盖与桶身分离及部分桶身存在桶盖丢失，导致余料硬化结块，使乙方在清洗时需要长时间的浸泡，给生产环节带来用桶紧张，导致乙方发货延迟。

特制订如下协议：

一、协议期限：

1. 本协议起始日期：2019 年 6 月 1 日起；
2. 本协议终止日期：甲乙双方因原材料采购合同终止，本协议自动终止。

二、甲方职责：

1. 甲方将乙方使用后的空 150L 不锈钢罐，：
a. 及时封盖，避免桶内余料干涸结块；
b. 保持桶体干净；
c. 进行分类放置和保管；
d. 确保乙方回收的空罐残留物<1%；
e. 桶盖齐全，退回时要求重新盖严桶盖，无破损无漏液现象（如有违反，乙方有权拒收）；
2. 放置中严格按照环保相关要求，进行管理，甲方不能私自处理空 150L 不锈钢罐，如违反乙方不承担任何相关责任；
3. 退罐过程中，应有乙方司机签字确认所退罐体的情况和数量，没有签字乙方不承担任何相关责任。

三、乙方职责：

1. 乙方利用每次送原材料到甲方的机会，在车辆返回时对空 150L 不锈钢罐进行回收；
2. 乙方运输回收空 150L 不锈钢罐时，应事先采取预防措施，防止运输过程中发生泄露等污染环境；
3. 乙方承诺对空 150L 不锈钢罐回收后循环利用。

四、生效日期：

本协议经甲乙双方签字确认后生效，一式两份，双方各执一份，具有同等法律效力。

甲方（盖章）：_____
代表：_____
日期：_____
乙方（盖章）：_____
代表：_____
日期：_____

(Agreement in relation to recycling of 150-L stainless tanks)

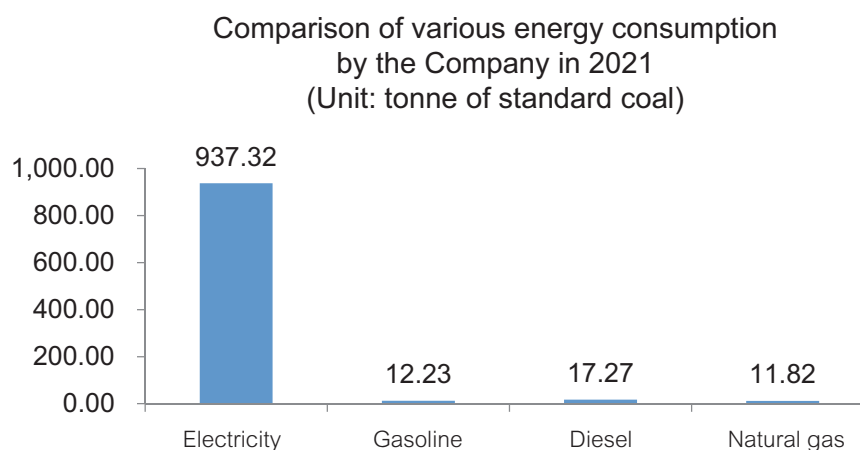
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2.3 Analysis on the Company's Use of Resources

2.3.1 Major energy consumption structure of the Company

In 2021, the Company consumed approximately 8.31 tonnes of gasoline, approximately 11.85 tonnes of diesel, and approximately 6.38 tonnes of natural gas, with an aggregate of approximately 26.54 tonnes of fossil fuels in its operation. In addition, the Company consumed approximately 2,320,000 kWh of electricity and approximately 35,200 tonnes of water resources in its operation.

In 2021, the Company's total energy consumption in operation amounted to approximately 978.64 tonnes of standard coal, of which approximately 95.78% was electricity, 1.25% gasoline, 1.76% diesel and 1.21% natural gas.



2.3.2 Analysis on relevant indicators for the Company's use of resources

Total energy consumption and energy consumption intensity

The table below shows various energy consumption of the Company in 2021:

Unit standard	Total gasoline consumption of the Company in 2021
litre (l)	11,388.88
kg	8,313.88
kg of standard coal (kgce)	12,233.05

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Unit standard	Total diesel consumption of the Company in 2021
litre (l)	13,943.32
kg	11,852.25
kg of standard coal (kgce)	17,269.91

Unit standard	Total natural gas consumption of the Company in 2021
cubic meters (m ³)	8,890.00
kg	6,377.69
kg of standard coal (kgce)	11,823.70

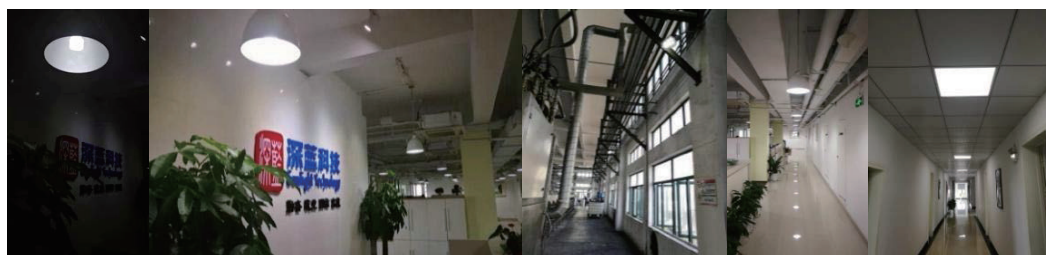
Unit standard	Total electricity consumption of the Company in 2021
kWh	2,320,095.00
kg of standard coal (kgce)	937,318.38

The Company consumed total energy of 978.64 tonnes of standard coal, with an energy consumption intensity of 41.79 kg of standard coal/RMB10,000 during the year of 2021.

The Company consumed a total of 35,200 tonnes of water, with an energy consumption intensity of 1.50 tonnes/RMB10,000 during the year of 2021.

Targets and measures for energy efficiency

In order to increase the efficiency of energy use, the Company has invested a screw discharging kneading machine in the color chips production line, so as to improve the heating efficiency and kneading efficiency. In addition, the Company has used solar energy for power generation and has vigorously promoted the effective use of energy in production management system, thus saving water and electricity, and enhancing the awareness of employees in energy conservation and environmental protection in production activities.



(Environment-friendly LED lamps adopted)

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(Invoices relating to power generation through solar energy)



(Reminder labels for saving water, electricity and paper use)

Drawing available water

The Company drew available water in accordance with the relevant national laws and regulations including the Regulation on the Administration of the Water Drawing Permit and the Water Resource Fee Collection* (《取水許可和水資源費徵收管理條例》), and had not experienced any issues in drawing available water.

Targets and measures for water use efficiency

The Company's overall water consumption is not significant and the following water saving measures are mainly adopted: circulating the cooling process water of production equipment; using the water-based black pulp product for the recovery of the spray water treated by the spray tower; timely repairing the leaking taps and pipes; adopting the production method and the device which can effectively save water; regular inspection of water consumption; trying to lower the water pressure.

Total volume of packaging materials consumed for finished products

The packaging materials for the products of the Company are mainly plastic, paper and metal. In 2021, total volume of packaging materials consumed by the Company for finished products amounted to approximately 9.58 tonnes of plastic, 10.86 tonnes of paper, and 57.17 tonnes of metal. The density of packaging materials (based on the weight of packaging materials divided by the total revenue) was 0.33 tonnes/RMB million.

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2.4 Analysis Related to the Company's Impact on Environment and Natural Resources

2.4.1 Analysis of significant impacts on environment and natural resources caused by the Company's business activities, and relevant measures thereof

The impact of the Company's operating activities on the environment and natural resources mainly comes from the emissions of exhaust gas, greenhouse gas, waste water and wastes. In 2021, the Company did not encounter any related matters that have significant impact on the environment and natural resources due to exhaust gas, greenhouse gas emissions, waste water and wastes.

With the aim of minimize the environmental impacts of corporate emissions, the Company has codified the Management System for Three Types of Waste* (《“三废”管理制度》). The three types of waste include waste liquid (initial rainwater/domestic wastewater, production waste water/waste solvents), exhaust gas, waste barrels, and scrap of materials (slags), etc. The Company's management principles for the three types of waste include: (i) determination of pollution sources and pollutants in accordance with environmental laws and regulations; (ii) establishment of internal recycling system and appointment of qualified external disposal agencies; and (iii) sub-allocating disposal expenses to responsible departments for centralized assessment with its production and consumption of packaging materials. The Company recycles the waste water and the waste solvents it generates in accordance with the system.

To facilitate the monitoring of exhaust gas emission in real time, the Company has additionally installed an on-line monitoring equipment for exhaust gas emissions data.



(On-line monitoring equipment for exhaust gas emissions data)

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(On-line monitoring equipment for exhaust gas emissions data)

2.4.2 Major climate-related issues affecting the Company and countermeasures

In order to effectively cope with the heavy air pollution, establish and improve the emergency response mechanism of heavy air pollution in Hangzhou, and improve the early warning and emergency response capability of heavy air pollution in Hangzhou, the Hangzhou Municipal Government has formulated the Heavy Air Pollution Contingency Plan of Hangzhou Municipality* (《杭州市重污染天气应急预案》). The Company has, in accordance with the requirements of the government, produced the “Industrial Enterprise Emergency Response Measures for Heavy Air Pollution of Hangzhou Municipality – One Factory, One Policy Billboard”* (“杭州市工业企业重污染天气应急响应措施一厂一策公示牌”) and taken different production suspension measures for different climate response levels.

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(“Industrial Enterprise Emergency Response Measures for Heavy Air Pollution of Hangzhou Municipality – One Factory, One Policy Billboard” of the Company)

The specific responsive measures for the heavy pollution weather in autumn and winter include: discontinuing 1 production line in colorant operation production line; discontinuing 1 production line in the PU resin production line; discontinuing 1 production line in the surface treatment agent procedure production line; discontinuing 1 production line in solid colorant procedure production line; prohibiting the use of heavy cargos of national 4 qualification or below for transportation.

3. ANALYSIS OF CORPORATE SOCIAL RESPONSIBILITY

3.1 Analysis on the Company's Employment and Labour Practices

3.1.1 Overview of staff employment and labour standards

Employment principle

The Company strictly complies with the Labour Law of the People's Republic of China* (《中華人民共和國勞動法》), and has therefore codified refined staff employment regulations and rules, with a view of adopting the principle of equality and non-coercive on recruitment.

Information on employees

As at 31 December 2021, the Company had a total of 180 employees, of which 180 were full-time employees and no part time employees.

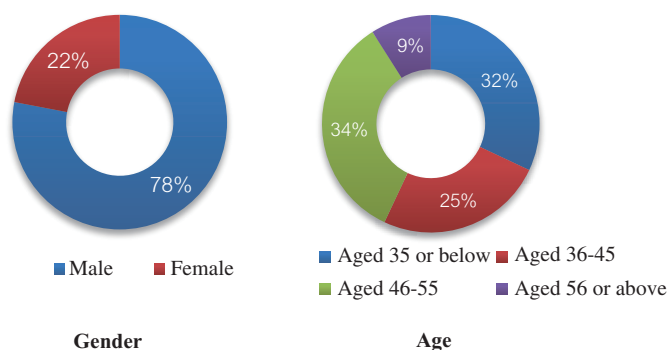
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According to the distribution by gender, the Company had a higher percentage of male employees, with 141 male employees, accounting for approximately 78%, and 39 female employees, accounting for approximately 22%. To create a good working environment for female employees, the Company strives to ensure that female employees are entitled to all statutory holidays and insurances. The Company's staff handbook provides that, female employees who have been pregnant for over seven months and do not have sufficient physical strengths for work may apply for pregnancy leave, and subject to the approval of department heads, are entitled to salaries of no less than 80% of local minimum salary for guaranteed living during the period of leave. During the period of pregnancy, the hours of female employees taking antenatal checkups shall be treated as working hours. For female employees who give birth legally in accordance with the requirements of laws and regulations shall obtain certifications issued by healthcare institutions at county (district) level or above. For those who need to rest for their pregnancies, their salaries during the rest period shall be calculated in accordance with the rules of the Company for sick leave. Female employees are entitled to normal maternity leave of 98 days (and can apply for leave of 15 days before the due date) and bonus leave of 30 days. Additional maternity leave of 15 days is available to those with dystocia. For female employees who have born more than one child, they are entitled to additional maternity leave of 15 days for each additional child. Female employees who have experienced spontaneous and induced abortion within three months of pregnancy are entitled to a maternity leave of 20 days, and those who have experienced spontaneous and induced abortion over three months but within seven months of pregnancy are entitled to a maternity leave of 50 days. Those having preterm birth over seven months of pregnancy are entitled to normal maternity leaves.

By age, the Company also has a relatively balanced and reasonable distribution of employees in all age groups, with 58 employees under the age of 35, 45 employees aged 36-45, 61 employees aged 46-55 and 16 employees over the age of 56. The low average age of our employees indicates that the Company is focusing on adding energetic manpower into workforce while cherishing experienced employees.

By geographical location, the Company's employees are mainly from Zhejiang province, accounting for 74% of the total number of employees, while the remaining 26% are from Anhui, Guizhou and Hunan provinces etc., and 4 are from Hong Kong, China.

Percentage of employees of the Company by gender and age in 2021



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Proportion of our active employees by geographical locations in 2021

By region	Number of active employees	Proportion of active employees
Zhejiang Province	133	73.9%
Anhui Province	6	3.3%
Guangxi Zhuang Autonomous Region	3	1.7%
Guizhou Province	13	7.2%
Henan Province	3	1.7%
Heilongjiang Province	3	1.7%
Hubei Province	2	1.1%
Hunan Province	3	1.7%
Jiangsu Province	2	1.1%
Jiangxi Province	1	0.6%
Shanxi Province	1	0.6%
Sichuan Province	2	1.1%
Yunnan Province	4	2.2%
Hong Kong	4	2.2%

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Employee turnover

In 2021, the Company's total employee turnover was 52, accounting for 29.5% of the total number of employees in service.

By gender, 43 of whom were male employees, with a male employees turnover rate of 30.5%. 9 of whom were female employees and the female turnover rate was 23.1%.

By age, 17 of whom were aged 35 or under with a turnover rate of 29.3%; 13 of whom were aged 36-45 with a turnover rate of 28.9%; while 19 of whom were aged 46-55 with a turnover rate of 31.1%.

By geographical location, 45 of whom were from Zhejiang Province with a turnover rate of 33.8%; 1 of whom were from Jiangsu Province with a turnover rate of 50%; while 2 of whom were from Guizhou Province with a turnover rate of 15.4%.

Employees' rights and benefits

The Company protects the rights and benefits of all its employees by providing clear provisions on the rights and benefits of its employees in its employee manual and labour contracts. Under the standard working hour system implemented by the Company in accordance with the law, employees shall work for not more than 8 hours a day and not more than 40 hours a week with a day of rest every week. In accordance with the relevant laws and regulations, the Company arranges employees to work overtime in view of business needs, as well as protects employees' legitimate right to rest. The Company provides employees with basic salary, bonus and various allowances including vehicle allowance, meal compensation, high temperature weather subsidies, travel, accommodation and other allowances, as well as benefits including staff meals, social activities, tourism and free physical examinations. In addition, the Company makes contribution in full and on time for employees in respect of housing funds and social insurance including pension insurance, medical insurance, unemployment insurance in accordance with the relevant requirements of the Labour Law of the People's Republic of China* (《中華人民共和國勞動法》). Employees are also entitled to remuneration, benefits and leaves required by laws and regulations, such as work-related injury leave, sick leave and marriage leave.

Employee incentives

The Company carries out annual appraisal of employee performance, including (i) sales appraisal: one sales champion and one sales star are selected; (ii) technical appraisal: one technical champion and one technical star are selected; and (iii) production appraisal: one production champion, three advanced production workers, as well as certain advanced safety and environmental protection workers are selected. The appraisal criteria is expressly set out in the Administrative and Human Resources Management System* (《行政人事管理制度》) of the Company, and the appraisals are conducted based on actual situations. Promotion priority shall be given to employees with earlier commencement of employment.

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3.1.2 Overview of protection for employee health and safety

To ensure the health and safety of employees, the Company has taken the initiative to formulate the Occupational Health Management Systems (《職業衛生管理制度》), thus setting out a series of responsibilities and safety measures relating to occupational health, which includes, among others, the responsibility system for prevention and control of occupational hazards, the occupational health hazard warning and notification system, the occupational health publicity, education and training system, the occupational hazard declaration system, the system for daily monitoring and management of occupational hazards, the occupational health monitoring file management system, the system for maintenance and repair of occupational hazard protection facilities, the occupational hazard accident handling and reporting system, the rules and regulations for prevention and control of occupational hazards, the “three simultaneousness” management system for occupational health of construction projects, the emergency rescue and management system for occupational hazards, and other occupational disease prevention and control systems stipulated by laws, regulations and rules. In addition, the Company provides one annual occupational health examination to technicians and producers, provides non-occupational health check-ups to other employees, and organizes employees to participate in online and offline safety training.

During the past three years, the Company has no deceased employees due to his/her work. In 2021, the total number of working days for employees of the Company who suffered from work-related injury was 6 working days.

Measures on occupational health and safety

– Labour protection, working conditions and protection against occupational hazards

The Company attaches great importance to the safety protection of employees, as well as the prevention against occupational diseases, thus setting out the provisions regarding labour protection, working conditions and protection against occupational hazards clearly in the employment contracts. Such provisions include, among others, that the Company shall establish production safety systems in accordance with the relevant laws and regulations in the PRC, and that employees shall strictly comply with the labour safety system of the Company established thereof. Operation against the rules is strictly prohibited for both parties, aiming to prevent accidents during the employment and therefore reduce occupational hazards. In accordance with the regulations in the PRC relating to labour safety and health, the Company arranges and improves necessary safety protection measures, as well as distributes necessary supplies for employees as their positions required. The Company keeps employees informed of potential occupational hazards and the associated consequences during their the work processes. It has established a refined responsibility system for the prevention and control of occupational diseases, and has developed and implemented measures to prevent occupational diseases. Under the high temperature in summer, the Company shall adjust the work intensity appropriately and grant subsidies.

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– Safety training and fire drills

In 2021, the Company proactively held safety training and fire drills, including training and drills on fire safety knowledge, training on typical accidents and emergency rescue cases, training on national security laws and regulations, training on restricted space in special operations, training on safety knowledge on summer heat prevention and heat protection.

In addition, the Company has formulated and implemented the following policies: establishing safety execution procedures for work identified as dangerous; providing regular inspections to ensure the safety of office and work sanitation, machinery and equipment; establishing contingency measures for emergencies such as in the event of a fire or explosion; establishing mechanisms to record and analyze the occurrence and causes of work-related injuries; providing and maintaining an environmentally friendly, healthy and safe workplace; prohibiting its employees from using and buying alcoholic drinks and banned drugs in the workplace unless pre-approved; actively promoting employees' awareness of environmental protection, health and safety, and support the development of environmental protection, health and safety in the industry; and providing all employees with the required work information, guidance, training and supervision.

3.1.3 Overview of staff development and training

In order to support the personal growth of employees, the Company provides various forms of on-the-job training and off-the-job training for employees. In 2021, the Company held various special training courses including induction training for new employees, fire drills, three-level safety education and training for new employees, training on work safety management and production knowledge, on-job knowledge training, safety education for management personnel. The Company held a total of 16 training sessions in the year, with a total of approximately 233 training hours and over 1100 participants. The average number of hours per employee of the employee to be trained is as follows.

By gender	Trained employees	Average hours
	Percentage (%)	per employee completed training (hours)
Male	84	40
Female	16	40

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By type of employees	Trained employees Percentage (%)	Average number of hours per employee completed training
Senior management	2.2	35
Middle management	6.1	35
Others	91.7	40

The training information of the Company for 2021 is shown in the table below.

Main topics	Number of staff participated in	Training hours
Training for new employees	10	8
Three-level safety education for new employees	30	72
Promotion of national security laws and regulations	Personnel in charge for various departments	3
COVID-19 epidemic prevention	180	2
Pre-resumption safety training	180	3
Training on the knowledge in dealing with toxic and explosives substances	All personnel involved in toxic and explosive work	1.5
Safety training for factory team leaders	All team leaders	1.5
Training for production safety management and production technology knowledge	Heads of departments, team leaders, etc.	2
On-job knowledge	48	3
Safety education for management	Managers of departments and sections	4
fire safety knowledge, fire drills	180	2
Emergency rescue and health knowledge	21	4
Summer heat prevention, Heat Protection, lightning protection	180	1.5
Analysis of typical accidents and emergency rescue cases	112	15.5
Training of knowledge in dealing with special operations in restricted space	All staff in equipment section	2
Million employees' safety training	93	24

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3.1.4 Standards and measures for preventing of child or forced labour

In strict compliance with the requirements of the relevant legal requirements, the Company avoids any hiring of child or forced labour in its business operation, and firmly insist on a zero tolerance approach to child or forced labour in any form. We also require our suppliers to avoid any hiring of child or forced labour during the assessment on them. The following are the policies prohibiting the use of child labor or forced labor:

The human resources department shall take effective procedures to verify the age of any candidate before he/she is employed. The human resources department shall examine documents that can prove the age of the applicant, including photo-bearing identity cards, birth certificates, driving licenses, household registration books, educational certificates or any other valid documents issued by the government that can prove the date of birth, and shall make sure the photos on the identity card match the appearance of the applicant.

Training on child labour and forced labour prevention was conducted for the human resources department, in particular for the hiring staff.

In the case of child labour found in the Group under the statutory minimum age for employment, we will always take the following measures in accordance with the requirements of the relevant laws, from the point of view of being most in the interest of the child labour: immediately remove the child from the workplace to ensure the safety of the child himself; immediately inform the head of the human resources department, verify all relevant information, confirm whether the child is a child worker, terminate the labor relationship with the child worker, inform local social welfare institutions and take remedial measures to protect the interests to the greatest extent possible; send the child to a specialized occupational health examination institution for physical examination, which will require the identification of the child's physical and mental health and to conduct an investigation and visit to fully understand his situation; when the child reaches the statutory minimum age for employment, the child will be provided with opportunities for re-employment and immediately identified problems in the recruitment process for the business site of the problem, and improved measures shall be taken within 90 working days.

If forced labour is found in the Group, we will take the following measures as required by relevant laws: immediately remove the worker from the workplace to ensure his own safety; immediately notify the person in charge of the human resources department to verify all relevant materials to verify whether the party is a compulsory labor force; send the labour to a specialized occupational health examination institution for physical and mental health verification, which required a full understanding of his or her condition and an immediate identification of the problems in the recruitment process at the business site of the problem, and measures to improve the situation shall be taken within 90 working days.

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3.2 Analysis of Operation and Management

3.2.1 Overview of supply chain management

In 2021, the Company had a total of 274 suppliers, including 254 raw material suppliers and 3 goods transportation suppliers and 17 suppliers of packaging materials. The number of suppliers by geographical location is shown in the table below.

By geographical location	Number of vendors
Anhui Province	8
Beijing Municipality	1
Fujian Province	13
Guangdong Province	13
Hebei Province	0
Henan Province	2
Hunan Province	3
Jiangsu Province	55
Jiangxi Province	2
Liaoning Province	2
Shandong Province	11
Shanxi Province	2
Shanghai Municipality	69
Sichuan Province	0
Zhejiang Province	90
Other (please specify)	3 (1 in Xinjiang, 1 in Ningxia, 1 in Yunnan)

Supplier selection criteria

The Company has established a comprehensive supplier evaluation mechanism for reviewing the qualification of suppliers, identifying the environmental and social risks of suppliers and reviewing them by third parties where necessary. When suppliers are found to be inconsistent with the Company's policies or contractual requirements, the Company will terminate the cooperation in future until the situation improves.

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The Company has imposed seven requirements for the selection of suppliers, pursuant to which, the suppliers shall be: (1) eligible as independent legal entities, which are able to provide business licences and bank information, and (if special qualifications are required) relevant qualifications and certificates; (2) abiding by the laws and regulations in the PRC and the relevant social responsibilities and ethics, in particular those relating to the protection of labour rights, health and safety, environmental protection and business ethics; (3) adequate in capital strengths and supply capacities which are in line with their supply sizes and the ability to deliver on schedule; (4) acknowledged on the procurement needs of the Company and capable to provide corresponding technical indicators and safety and environment certificates when supplying materials; (5) capable to arrange business personnel, who are familiar with the material supplied thereof, for contacting us, so as to ensure that their material supplied meet our requirements. (6) operating with processes that meet the management requirements of the Company, as well as comply with the relevant regulations and rules of the Company; and (7) abiding by business ethics and therefore shall not disclose any business or technical information of the Company to any entity or individual without the consent of the Company.

New suppliers must undergo supply trials and pass assessment before inclusion in the List of Qualified Suppliers* (《合格供應商名錄》), which will then be reported to the procurement department manager and chief engineer for review and general manager for approval, thus filing by the procurement department. For the annual confirmation of list of qualified suppliers, the procurement department will prepare a list of proposed qualified suppliers based on the assessment results of suppliers for the previous year, and afterwards report it to the procurement department manager and chief engineer for their review and confirmation, and finally implemented by the procurement department.

The Company arranges a supplier assessment in every January, during which the procurement department examines whether the qualification certificates of suppliers are valid and capable to meet supplier requirements. The procurement department scores the annual performance of suppliers based on the data recorded in the database: 60 points for the supplier's quality, covering product quality, packaging quality and weight deficiency, etc. The score is based on the qualified rate, which is calculated based on the number of batches of supplies and the number of qualified batches; 20 points for transaction conditions, covering the comparison of prices, credit term and payment method, etc. The score is based on the credit term, payment condition and number of days for monthly payment, etc; 20 points for the supplier's services. The score is based on the credit term, payment condition and number of days for monthly payment, etc; 20 points for the supplier's services. Suppliers' services are assessed in terms of delivery ability, service response and cooperation in development, etc. The annual assessment score of each supplier is calculated by combining the three items above. The supplier assessment results shall be to the procurement department manager and chief engineer for review and confirmation. The outstanding suppliers, which are rated as 85 or above in the evaluation, shall be given priority in the procurement process in a normal time. For those rated 60-85 in the evaluation shall be qualified suppliers. For those rated lower than 60 (or the score on quality is lower than 48), the qualification of the supplier shall be cancelled. If it is necessary to retain it under any special circumstance, it shall be subject to the discussion and consent of the procurement department and the technology department, and be subject to the approval of the general manager or authorized representative. The suppliers that have disputes but have not been effectively resolved shall not be listed in the catalog of suppliers without comprehensive evaluation. Evaluation records are filed by the procurement department.

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3.2.2 Overview of product responsibility

Product quality management

In 2021, the Company had no products required to be recalled due to safety and health issues and 16 effective complaints.

In upholding its operation concept of “market-centred and customer-oriented strategies”, the Company has formulated a complaint management system for strengthening its aftersales services for products, as well as fulfilling customers’ everchanging needs and improving their satisfaction. In case of any complaint, the Company shall deal with it immediately in accordance with the system. The complaints and unusual situations of the Company are all managed by the chairman of the board. A complainant may submit any complaint by filling up the complaint and unusual situation report, which shall be subject to the review and approval of the chairman of the board, and thus passing to the chief engineer. If a customer’s complaint involves product quality, of which the production batch number has been generated for one month or below, the sales department shall examine the inventory and sales of the whole batch of products, and shall fill up the record thereof. In connection with the complaint, the chairman of the board shall determine the loss of the Company, while the responsible department shall carry out analysis and make improvement, as well as conduct assessment on responsible persons. If it is determined that the complaint on product is attributable to the deficiency of raw materials, a raw material report shall also be completed separately. In the process of handling, the administrative department shall track the progress, register it in the monthly quality complaint report and upload it to the server of the Company for the use among the Company.

The Group has put emphasis on quality control in all aspects of its business, with a view of protecting its brand value and image. The Company has developed a quality management system, which sets out three principles for quality management: (i) determining work objectives and sorting out management process; (ii) a practical and realistic attitude shall be adopted for day-to-day work, which shall be carried out based on facts and well-documented; and (iii) the management shall be engaged in monitoring, giving feedback and continuous improvement. The Company sets annual quality objectives at the beginning of each year, and afterwards carries out assessment at the end of each year. The assessment covers (i) complaint ratio; (ii) crazy-horse compensation ratio; (iii) raw materials downgrading ratio; (iv) product downgrading ratio; and (v) product failure ratio. The Company has set up a quality management section in the manufacturing department which is mainly responsible for managing the quality work of the manufacturing department, as well as sorting out the relevant quality management process of the Company. The chief engineer of a business department shall be responsible for the quality management of the relevant business department. The technical team of the business department shall be responsible for formulating testing methods, testing standards and samples. The production section of the business department is responsible for monitoring the process of daily raw materials, intermediates, products, packaging products.

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For all of the new materials or the same type of raw materials provided by different suppliers (except for the products originated from the same manufacturer provided by different suppliers), samples shall first be obtained for testing and determining for whether such materials shall be adopted. Before the bulk procurement for mass production, all new materials, new products and new formulas must undergo pilot tests. In addition, the number of batches for pilot test shall be controlled by the means of commencing its production with the smallest amount, and thus preventing large amount of experimental defects during the test. To maintain strict control over the product quality appraisal process, the Company has formulated a complete set of sampling, as well as the sample retention principles thereof. With regard to product returning, the Company has developed a standard product-returning procedure, covering the workflows of product inspection, registration and cost accounting.

Intellectual property rights management

In accordance with the Patent Law of the People's Republic of China* (《中華人民共和國專利法》), the Detailed Rules for the Implementation of the Patent Law of the People's Republic of China* (《中華人民共和國專利法實施細則》) and other relevant regulations, the Company has formulated a detailed patent management system, which covers areas including, among others, general principles for patent management, patent application, patent awards, responsibilities and penalties, as well as patent transfer, so as to effectively standardize the Company's mechanism for use and protection of patents.

Consumer data security and privacy policy

The Company strictly complies with the relevant laws and regulations to protect customer information and privacy. In order to strengthen the safeguarding of consumer data, the Company uses ERP system to set the user's authority. At the same time, the Company uses the encryption system to encrypt all electronic documents, only through the approval and decryption by the superior authority can the documents be issued.

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Product concept

The Company adheres to the concept of eco-green, environmental protection and sustainable development and is a founding member of China Synthetic Leather Green Supply Chain Industrial Innovation Strategic Alliance* (中國合成革綠色供應鏈產業創新戰略聯盟). At the same time, the Company responds to the PRC government's call for environmental protection by providing customers with water-based colour paste.



(Certificate of China Synthetic Leather Green Supply Chain Industrial Innovation Strategic Alliance)

3.2.3 Brief analysis of anti-corruption measures of the Company

During the reporting period, no corruption case has been filed against the Company.

The Company has established a system for the reporting and handling of conflicts of interest, has provided clear commitment to responsibilities for each post, thus avoiding acts that conflict with the Company's interests, and requiring employees to report such conflicts of interest to the Company in a timely manner. In addition, the Company has established a misconduct reporting mechanism to encourage employees to take the initiative in the management, supervision and reporting of irregularities.

Employees of the Company are required to participate in anti-corruption training when they join the Company. Its staff handbook sets out clear regulations on the punishment of violations: if any employee is found to have accepted bribery by taking advantage of his/her job or position, the Company shall terminate the employment contract with him/her without paying financial compensation.

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The Company has established environmental, social and governance policies and procedures manual which include policies on prevention of bribery, extortion, fraud and money laundering. All Directors, management and employees are subject to all national and local government laws and regulations in relation to the prevention of bribery, extortion, fraud and money laundering in their daily work. It is the responsibility of all the employees to understand and comply with the above policies to prevent bribery, extortion, fraud and money laundering and to report violations to the appropriate persons. Any person who violates the code will be subject to disciplinary action.

3.2.4 Overview of community engagement of the Company

During the reporting period, the Company has demonstrated its commitment to perform corporate social responsibility and provided capital to support public undertakings such as medical, educational and poverty alleviation.

In 2021, the Company donated 1 million to Jiande Meihao Education Fund (建德美好教育基金). Adhering to the purpose of “promoting education development and creating a better education”, Jiande Meihao Education Fund vigorously expands its charitable donation income for solidly promoting public welfare education projects, giving full play to the role of its platform, effectively fostering the its own growth, and making new contributions to creating a better education.

浙江省公益事业捐赠票据 (电子)

票据号码: 0125413606
校验码: GPDWUP
开票日期: 2021-11-23

项目名称	单位	数量	标准	金额 (元)	备注
其他公益捐赠/公益金捐赠发票	元	1	1000000.00	1000000.00	

金额合计 (大写): 壹佰万元整 (小写): 1000000.00

收款方式: 转账

收款单位: 建德市美好教育基金会
收款人: 饶卫玲

复核人: 饶卫玲

收款单位: 建德市美好教育基金会
收款人: 饶卫玲

浙江财政电子票据系统 (含明码): <https://zjzfzw.gov.cn>

(2021 “Jiande Meihao Education Fund” Donation Note)