



金山能源集團有限公司
KING STONE ENERGY GROUP LIMITED

(Incorporated in Hong Kong with limited liability)
(Stock Code: 00663)

2021

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT



2021 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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ABOUT THIS REPORT

King Stone Energy Group Limited (the “Company”), together with its subsidiaries (the “Group”), is pleased to present this Environmental, Social and Governance Report (the “Report”) to provide an overview of the Group’s management on significant issues affecting the operation, and the performance of the Group in terms of environmental and social aspects. This Report is prepared by the Group with the professional assistance of APAC Compliance Consultancy and Internal Control Services Limited.

Preparation Basis and Scope

This Report is prepared in accordance with Appendix 27 to the Rules (the “Listing Rules”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) – “Environmental, Social and Governance Reporting Guide” and has complied with “comply or explain” provision in the Listing Rules.

This Report summarises the performance of the Group in respect of corporate social responsibility, covering its major operating activities of the Group, namely (i) the silver mining segment engaged in the mining and sale of silver in the People’s Republic of China (“PRC”); (ii) the oil and gas segment engaged in the exploration and production of oil and gas in the United States of America (“USA”); (iii) the asset financing segment engaged in the provision of finance leasing and factoring services in the PRC; (iv) the photovoltaic segment engaged in the operation of photovoltaic power business in the PRC; (v) the tourism segment engaged in the provision of tourism agency services in the PRC; and (vi) the trading segment engaged in the trading of various commodities in Hong Kong (“HK”). With the aim to optimise and improve the disclosure requirements in the Report, the Group has taken initiative to formulate policies, record relevant data, implement and monitor measures. This Report is published in both in Chinese and English on the website of the Stock Exchange. Should there be any discrepancy between the Chinese and the English versions, the English version shall prevail.

Reporting period

This Report demonstrates our sustainability initiatives during the reporting period from 1 January 2021 to 31 December 2021.

Contact Information

The Group welcomes any feedback on this Report for our sustainability initiatives. Please contact us by email at enquiry@663hk.com.

INTRODUCTION

The Group is principally engaged in oil and gas exploration and production in the USA, mining and sale of silver, provision of financing leasing and factoring services, operation of photovoltaic power business, provision of tourism agency services in the PRC, and trading of various commodities in HK and the PRC.

The Group conducts its silver mining business through two silver mines in Ningde City, Fujian Province, the PRC, namely the “Western Section” located in Fu’an County of Ningde City (the “West Mine”) owned by Fu’an City Leixin Mining Company Limited (“Fu’an Leixin”) and the “Eastern Section” located in Zherong County of Ningde City (the “East Mine”) owned by Zherong County Leixin Mining Company Limited (“Zherong Leixin”). The asset financing business of the Group is operated by three wholly-owned subsidiaries in the PRC (the “Asset Financing Subsidiaries”). The business scope of the Asset Financing Subsidiaries as set out in their business licenses includes finance leasing and factoring business in the PRC. The Group is also engaged in trading of various commodities through certain subsidiaries of the Company. The Group continues to explore more trading opportunities for different commodities to expand the commodities trading business. The Group also operates an upstream oil and gas exploration in East Texas, the USA. The Group completed drilling of the first well and the second well (the “Operating Wells”) which have started production since July 2014 and March 2015 respectively. The Group also operates photovoltaic power generation projects in the PRC and HK.

Looking forward, the Group will continue to lead the management team under such circumstances, review the business strategy in a timely manner, and achieve satisfactory returns to the shareholders. In the meantime, the Group also recognises the importance of operating in a responsible manner for the environment and community. We strive to achieve sustainable development for affordable capital and long-term competitiveness by integrating environmental and social factors into management considerations. Sustainability strategy is based on the compliance with the legal requirements in the area where we operate and the opinions from stakeholders.

The Group has established and implemented various policies to manage and monitor the risks related to environment, employment, operating practices and community. Details of the management approaches to sustainable development of different areas are illustrated in this Report.

STAKEHOLDERS ENGAGEMENT

The Group understands the success of the Group’s business depends on the support from its key stakeholders, who (a) have invested or will invest in the Group; (b) have the ability to influence the outcomes within the Group; and (c) are interested in or affected by or have the potential to be affected by the impact of the Group’s activities, products, services and relationships. It allows the Group to understand risks and opportunities. The Group will continue to ensure effective communication and maintain good relationship with each of its key stakeholders.

Stakeholders are prioritised from time to time in view of the Group’s roles and duties, strategic plan and business initiatives. The Group engages with its stakeholders to develop mutually beneficial relationships and to seek their views on its business proposals and initiatives as well as to promote sustainability in the marketplace, workplace, community and environment.

The Group acknowledges the importance of intelligence gained from the stakeholders’ insights, inquiries and continuous interest in the Group’s business activities. The Group has identified key stakeholders that are important to our business and established various channels for communication. The following table provides an overview of the Group’s key stakeholders, and various platforms and methods of communication are used to reach, listen and respond.

Stakeholders	Issues of concern	Engagement channels
Government and Market Regulators	<ul style="list-style-type: none"> - Compliance - Proper tax payment - Promote regional economic development and employment 	<ul style="list-style-type: none"> - On-site inspections and checks - Research and discussion through work conferences, work reports preparation and submission for approval
Shareholders and Investors	<ul style="list-style-type: none"> - Return on investment - Information disclosure and transparency - Protection of interests and fair treatment of shareholders 	<ul style="list-style-type: none"> - Annual general meeting and other shareholder meetings - Annual report, announcements and website - Meeting with investors and analysts
Employees	<ul style="list-style-type: none"> - Safeguard the rights and interests of employees - Career development opportunities - Health and safety 	<ul style="list-style-type: none"> - Conferences - Trainings, seminars, briefing sessions - Cultural and sport activities - Intranet and emails
Customers	<ul style="list-style-type: none"> - Safe and high-quality products - Stable relationship - Information transparency - Business ethics 	<ul style="list-style-type: none"> - Website, brochures, annual reports - Email and customer service hotline - Feedback forms - Visits and meetings
Suppliers/Partners	<ul style="list-style-type: none"> - Long-term partnership - Honest cooperation - Fairness and openness - Risk reduction 	<ul style="list-style-type: none"> - Business meetings, supplier conferences, phone calls, interviews - Regular meeting - Review and assessment - Tendering process
Peer/Industry associations	<ul style="list-style-type: none"> - Experience sharing and cooperation - Fair competition 	<ul style="list-style-type: none"> - Industry conference - Site visit
Public and Communities	<ul style="list-style-type: none"> - Community involvement - Social responsibilities 	<ul style="list-style-type: none"> - Volunteering - Charity and social investment

Through communication with stakeholders, the Group understands the expectations and concerns from stakeholders. The feedbacks obtained allow the Group to make more informed decisions, and to better assess and manage the resulting impact.

The Group has adopted the principle of materiality in the ESG reporting by understanding the key ESG issues that are important to the business of the Group. All the key ESG issues and key performance indicators (KPIs) are reported in the Report according to recommendations of the ESG Reporting Guide (Appendix 27 of the Listing Rules) and the GRI Guidelines.

The Group has evaluated the materiality and importance in ESG aspects through the following steps:

Step 1: Identification – Industry Benchmarking

- Relevant ESG areas were identified through the review of relevant ESG reports of peers in the industry on local and international levels.
- The materiality of each ESG area was determined based on the importance of each ESG area to the Group through internal discussion of the management and the recommendation of the ESG Reporting Guide (Appendix 27 of the Listing Rules).

Step 2: Prioritization – Stakeholder Engagement

- The Group discussed with key stakeholders on the key ESG areas identified above to ensure all the key aspects to be covered.

Step 3: Validation – Determining Material Issues

- Based on the discussion with key stakeholders and internal discussion among the management, the Group's management ensured all the key and material ESG areas, which were important to the business development, were reported in compliance with the ESG Reporting Guide.

As a result of this process carried out in 2021, those important ESG areas to the Group were discussed in this Report.

ESG GOVERNANCE

Board's oversight of ESG issues

Board's overall vision and strategy in managing ESG issues

The board of directors ("Board") has a primary role in overseeing the management of the Group's sustainability issues. During the year, the Board and the ESG Working Group spent significant time in evaluating the impact of ESG-related risks on our operation and formulating relevant policy in dealing with the risks. The oversight of the Board is to ensure the management to have all the right tools and resources to oversee the ESG issues in the context of strategy and long-term value creation.

ESG Working Group

To demonstrate our commitment to transparency and accountability, our Group has established an ESG Working Group, which has clear terms of reference that set out the powers delegated to it by the Board. We highly value the opinions of each stakeholder and treat them as the cornerstone for the development of the Group. During the reporting period, the ESG Working Group consisted of Executive Directors, Chief Financial Officer, finance managers and project managers.

The ESG Working Group is primarily responsible for reviewing and supervising the ESG process, and risk management of the Group. Different ESG issues are reviewed by the Working Group at the meetings, which holds annually. During the reporting period, the ESG Working Group and the management reviewed the ESG governance and different ESG issues.

Board's ESG management approach and strategy for material ESG-related issues

In order to better understand the opinions and expectations of different stakeholders on our ESG issues, materiality assessment is conducted each year. We ensure various platforms and channels of communication are used to reach, listen and respond to our key stakeholders. Through general communication with stakeholders, the Group understands the expectations and concerns from stakeholders. The feedbacks obtained allow the Group to make more informed decisions, and to better assess and manage the resulting impact.

The Group has evaluated the materiality and importance in ESG aspects through the steps: (1) material ESG area identification by industry benchmarking; (2) key ESG area prioritization with stakeholder engagement; and (3) validation and determining material ESG issues based on results of communication among stakeholders and the management.

Hence, this can enhance understanding of their degree and change of attention to each significant ESG issue, and can enable us to more comprehensively plan our sustainable development work in the future. Those important and material ESG areas identified during our material assessment were discussed in this Report.

Board review progress against ESG-related goals and targets

The progress of target implementation and the performance of the goals and targets should be closely reviewed from time to time. Rectification may be needed if the progress falls short of expectation. Effective communication about the goals and target process with key stakeholders such as employees is essential, as this enables them to be engaged in the implementation process, and to feel they are part of the change that the company aspires to achieve.

Setting strategic goals for the coming three to five years enables the Group to develop a realistic roadmap and focus on results in achieving the visions.

Setting targets requires the ESG Working Group to carefully examine the attainability of the targets which should be weighed against the company's ambitions and goals. During the year, our Group set targets on an absolute basis.

A. ENVIRONMENTAL ASPECTS

A1. EMISSIONS

Operations of mining, oil and gas projects can affect the physical environment, including the land, air, water and other important resources. The Group recognises the importance of environmental protection and is committed to operating its business responsibly and in compliance with all environmental regulations.

The Group's objectives on environmental protection are to reduce the emissions of air pollutants, greenhouse gas, wastes and wastewater. In pursuit of these objectives, the Group has established "Environmental Facilities Operation and Management System", "Environmental Policy" and implemented corresponding mitigation measures. The Group monitors the environmental performance of its operations regularly to ensure the emissions levels meet the relevant national standards. All operations have emissions control plans in accordance with local laws, regulations and permit requirements. We believe in supporting voluntary initiatives pro-actively to innovate and advance emissions control rather than waiting for regulatory requirements to drive our actions. Our contractors are also required to follow the Group's environmental practices in performing their work.

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During the reporting period, the Group was in strict compliance with the local relevant environmental laws and regulations, including the Environmental Protection Law of the PRC and the Texas Administrative Code Title 16 in the USA. No material non-compliance regarding environmental issues was noted.

Air Pollutants Emission

Fuel combustion activities in mining, oil and gas projects result in air pollutants emission, including nitrogen oxides and sulphur dioxide. To reduce and limit the emission of pollutants to the air, the Group selects and uses equipment which is in compliance with the national emission standards and switches off equipment when it does not run for a long time so as to reduce exhaust gas emission. We also suppress dust emission from roads, crushers and conveyor belt systems through the application of water to roads and mist sprays at point sources.

In 2018, the Group switched to use a smaller compressor in its oil and gas project in the USA. The benefit brought to the Group started from June 2017. Less natural gas was used to power the compressor and the air pollutants emission reduced correspondingly. For the silver mining segment in the PRC, there was silver mining operation in the West Mine during the reporting period.

The air pollutants of silver mining business were mainly generated from the use of vehicles, mining activities and exploration work. The slight decrease in amount of air pollutants emission in 2021 was mainly attributable to the decrease in the activities of exploration and production of oil and gas in the USA and the decrease in the mining activities of the PRC silver mining business, as well as the effective implementation of energy saving policies during the year. Furthermore, the Group targets to reduce air pollutants emission by 5% by 2025.

The air pollutants emission during the reporting period is as follows:

Air Pollutants Emission	Unit	PRC	USA	HK	2021 Total	2020 Total
Nitrogen oxides (NO_x)	kg	1,048.27	12,287.90	-	13,336.17	17,859.57
- Stationary combustion	kg	769.74	12,287.90	-	13,057.64	17,824.03
- Mobile combustion	kg	278.53	-	-	278.53	35.54
Sulfur dioxide (SO₂)	kg	18.80	3.18	-	21.98	24.77
- Stationary combustion	kg	16.31	3.18	-	19.49	23.90
- Mobile combustion	kg	2.49	-	-	2.49	0.87
Particulate matter (PM)	kg	104.62	51.43	-	156.05	189.46
- Stationary combustion	kg	97.83	51.43	-	149.26	187.67
- Mobile combustion	kg	6.79	-	-	6.79	1.79

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Greenhouse Gas (“GHG”) Emission

Communities around the world are gradually becoming more and more concerned with climate change. The Group recognises that climate change may pose a risk to its business and the Group is committed to mitigating the effects of climate change. GHG is considered as one of the major contributors of the climate change. As the majority of the GHG emission of the Group comes from energy consumption, the Group manages its carbon footprint by minimising the energy consumption in its business operation. Policies and procedures adopted on energy saving in order to reduce GHG emission are mentioned in the section “Use of Resources” below. The decrease in the GHG emission in 2021 was mainly due to the decrease in the activities of exploration and production of oil and gas in the USA and the decrease in the mining activities of the PRC silver mining business, as well as the effective implementation of energy saving policies during the year. Furthermore, the Group targets to reduce the GHG emission generated by 5% by 2025.

The GHG emission during the reporting period is as follows:

GHG Emission ¹	Unit	PRC	USA	HK	2021 Total	2020 Total
Scope 1²	tonnes of CO₂-e	96.87	637.60	–	734.47	976.58
– Stationary combustion	tonnes of CO ₂ -e	76.32	637.60	–	713.92	967.15
– Mobile combustion	tonnes of CO ₂ -e	20.55	–	–	20.55	9.43
Scope 2³	tonnes of CO₂-e	6,049.47	–	–	6,049.47	6,363.69⁴
Total GHG emission	tonnes of CO₂-e	6,146.34	637.60	–	6,783.94	7,340.27
GHG emission intensity	PRC: tonnes of CO ₂ -e/m ²	0.19				PRC: 0.18 ⁴
	USA: tonnes of CO ₂ -e/tonnes of production		0.34			USA: 0.39
	HK: tonnes of CO ₂ -e/m ²			–		HK: 0.01

¹ The calculation of the GHG emission is based on the “Corporate Accounting and Reporting Standard” from GHG Protocol.

² Scope 1: Direct emission from sources that are owned or controlled by the Group.

³ Scope 2: Indirect emissions from the purchased electricity consumed by the Group.

⁴ The data for year 2020 has been restated for comparative purpose for adoption of the latest model for electricity consumption in the PRC.

Waste Management

Wastes generated in our operations are required to be handled with comprehensive procedures to mitigate the impact on the environment. The Group has a classification system for different types of wastes. Each type of waste has specific storage location and collection procedures. We are committed to minimising the production of wastes and other discharges and handling them in a responsible manner. The use of recyclable and renewable materials is also promoted in our daily operation.

For the oil and gas project in the USA, there is no generation of hazardous waste. The major type of non-hazardous waste produced is wastewater from the production well. The water coming out of the wellbore directly goes to the storage tanks. It is stored in the tanks until a tanker truck picks up the water and takes it to a disposal well. The Group has outsourced the waste handling to a professional wastewater disposal company. The water is either treated and then returned to the environment, re-injected back into the well or disposed of through injection into the ground. During the reporting period, there was a total of 6,171.83 tonnes (2020: 5,529.04 tonnes) of wastewater (with the intensity of 3.27 tonnes/tonnes of production (2020: 2.47 tonnes/tonnes of production)) produced in the oil and gas projects in the USA. For commercial waste generated from the office in the USA, it is considered as immaterial to the Group's operation because of the small number of employees working in the office.

For the silver mining business in the PRC, wastes mainly consist of waste mining rock, tailings and commercial waste which are non-hazardous wastes. The Group will strive to reduce non-hazardous waste generated by 5% by 2025. Furthermore, non-hazardous wastes generated during photovoltaic power generation are immaterial. In addition, the provision of finance leasing and factoring services and the tourism business in the PRC and the trading business in Hong Kong involve mainly office operation. Hence, the major type of non-hazardous waste produced in the asset financing segment and the trading segment is the office commercial waste. It is considered as immaterial to the Group's operation because of the small number of employees working in the office. Meanwhile, the Group has taken initiatives to minimise the wastes produced. For example, employees are encouraged to sort wastes for recycling and use double-sided printing to reduce paper waste. We also donate waste electrical and electronic equipment, such as computers and printers to charity organisations or send them to recyclers for processing. Owing to the nature of office operation in the USA and HK, the non-hazardous waste mainly consists of office waste and paper waste.

The office waste was collected and handled by the property management company. Hence, it is not feasible to provide the waste data this year. We will cooperate with the property management company to develop an effective system for recording waste amount in the future.

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The decrease in the non-hazardous waste generated in 2021 was mainly due to the decrease in the mining activities of the PRC silver mining business and effective implementation of waste management strategies during the year. The detail of waste generated during the reporting period is as follows:

Non-hazardous wastes generated	Unit	PRC	USA	HK	2021 Total	2020 Total
Domestic waste	tonnes	1	N/A	N/A	1	1
Tailings	tonnes	15,000	-	-	15,000	18,000
Mining rocks	tonnes	15,000	-	-	15,000	15,000
Total waste	tonnes	30,001	N/A	N/A	30,001	33,001
Waste generated intensity	PRC: tonnes of CO ₂ -e/m ²	0.92				PRC: 0.97
	USA: tonnes of CO ₂ -e/tonnes of production		N/A			USA: N/A
	HK: tonnes of CO ₂ -e/m ²			N/A		HK: N/A

A2. USE OF RESOURCES

The Group has adopted policies, such as "Energy Resources Control Procedure", to improve the efficient use of energy, water and other materials.

Energy

Fuel and electricity are the major energy consumptions in our daily operation. With the aim to promote energy saving, the Group has implemented different energy saving measures. For example, the Group used a smaller compressor in its oil and gas project in the USA during the reporting period. Smaller compressor leads to less natural gas to power the compressor and natural gas consumption decreased accordingly. This benefit brought to the Group started from June 2017. We foresee that the natural gas consumption will further reduce in coming years.

In office operation, the Group strives to minimise energy wastage. We encourage our employees to turn off idle electric equipment. Energy conservation reminders are placed in order to increase employees' awareness of energy saving. Internal security staff also patrol the offices after employees finish their duties to ensure there is no wastage of power. The Group will consistently seek ways to increase energy efficiency and reduce energy consumption by 5% by 2025. The decrease in the energy consumption in 2021 was mainly due to the decrease in the activities of exploration and production of oil and gas in the USA and the decrease in the mining activities of the PRC silver mining business, as well as the effective implementation of energy saving policies during the reporting period.

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During the reporting period, the energy consumption is as follows:

Energy consumption	Unit				2021	2020
		PRC	USA	HK	Total	Total
Purchased electricity	MWh	6,541.48	N/A ⁵	–	6,541.48	6,870.14 ⁶
Natural gas	MWh	–	3,555.80	–	3,555.80	4,891.81
Liquified petroleum gas (LPG)	MWh	17.56	–	–	17.56	15.33
Diesel	MWh	293.17	–	–	293.17	339.12
Petrol	MWh	62.67	–	–	62.67	28.76
Total energy consumption	MWh	6914.88	3,555.80	–	10,470.68	12,145.16⁶
Energy consumption intensity	PRC: MWh/m ²	0.21				PRC: 0.21 ⁶
	USA: MWh/tonnes of production		1.89			USA: 2.18
	HK: MWh/m ²			–		HK: 0.01

Water

Water is another resource used in our daily operation. The Group actively seeks ways to conserve water. We raise the employees' awareness of water saving through different channels. For example, employees are reminded to turn off the tap after usage. Water pipes and taps are checked regularly to detect any risks of leakage. The decrease in the water consumption in 2021 was mainly due to the effective implementation of water saving policy and the decrease in the mining activities of the PRC silver mining business during the year. Furthermore, the Group targets to reduce water consumption by 5% by 2025.

The water consumption during the reporting period is as follows:

Water	Unit				2021	2020
		PRC	USA	HK	Total	Total
Water consumption	m ³	15,830.00	N/A ⁷	–	15,830.00	22,721.16
Water consumption intensity	m ³ /m ²	0.49	N/A ⁷	–		PRC: 0.63 USA: N/A ⁷ HK: 2.12

⁵ Electricity consumption in the USA is not available as the electricity supply is provided by the building management company.

⁶ The data for year 2020 has been restated for comparative purpose for adoption of the latest model for electricity consumption in the PRC.

⁷ Water consumption data in the USA is not available for the year as the water supply is provided by the building management company.

A3. THE ENVIRONMENT AND NATURAL RESOURCES

The Group understands that the operations of mining, oil and gas projects could have significant environmental impacts such as air pollution, greenhouse gas emission, waste generation and energy consumption. As a responsible operator, the Group considers the environmental impact of all its activities. We strive to operate in a safe manner to avoid spills, leak and accidental discharges of polluting materials.

The Group has implemented “Environmental Facilities Operation and Management System” to clearly outline the emergency procedures for any possible incident that will cause pollution to the environment. The Group and its subsidiaries have clarified the management responsibilities of each post. All environmental related incidents are reported to the local authorities. Thorough investigation and analysis are conducted to prevent the recurrence of similar kinds of incidents.

A4. CLIMATE CHANGE

Governance

Our Group addresses climate-related risks based on the nature of the risk to our operations. The physical impacts of climate change, including extreme weather events, or damage to facilities have immediate operational impacts and are treated as operational risks. Long-term challenges, such as emerging ESG issues and climate-related risks and opportunities, may be discussed by the Group’s ESG Working Group. Our ESG Working Group provides effective governance for integrating and addressing ESG issues, including climate change, within our business.

Supported by our ESG Working Group, our Board oversees climate-related issues and risks regularly during board meetings and ensures that they are incorporated into our strategy.

To ensure our Board to keep up with the latest trend of climate-related issues, climate competence training will be provided to ensure it has the necessary expertise and skills to oversee the management of climate-related issues. Our Board also seeks professional advice from external experts when necessary to better support the decision-making process.

The ESG Working Group is responsible for approving operational emissions targets for the Group and commissioning an ESG benchmarking, as well as gap analysis exercise to identify gaps in both disclosure and policy relative to best practice standards. Moreover, the ESG Working Group works closely with the Group’s different operation departments, with an aim to develop consistent and enhanced approaches on addressing ESG risk issues and report to the management.

Strategy

Climate change risk forms part of our overall risk profile through its role in increasing the frequency and intensity of certain diseases, and the health and mortality impacts resulting from natural disasters. We assess the overall level of risk by taking into consideration a range of diverse risk factors across the many categories in our product or services range.

This diversity of risk is combined with our business strategy and broad geographic footprint helps us distribute risk and provide protection against the impacts of short-term climate change effects. Our products and services continue to provide protection for people in our communities against weather and heat-related disease. Besides, we continue to explore opportunities to engage our business partners and encourage them to develop climate resilience and reduce their operational carbon footprint by taking into consideration of different climate-related scenarios, including a “2° C or lower scenario” through the following steps:

Step 1: Set Future Images Assuming Climate Change Effects

As climate change measures proceed, there is a possibility that the industry will be exposed to substantial changes, such as stricter policies including the introduction of and increases in carbon pricing, as well as advances in technology and changes in customer awareness. In light of these climate change effects, based on the International Energy Agency (“IEA”) scenarios and others, we developed multiple future images as the external environment that will surround our Group.

With regard to the IEA scenarios, we put focus on the 2° C scenario (2DS) and pictured future images in case where climate change measures do not progress and where such measures progress further “Beyond 2° C scenario”.

Step 2: Consider the Impacts

We considered the impacts on our Group for each of the future images developed in Step 1. We believe that it will be possible to expedite carbon dioxide reduction effects in our society.

With regard to the effects on raw material procurement, mining exploration and processing activities, introduction of and increases in carbon pricing is anticipated in accordance with the global advance of climate change measures, leading to the possibility of higher raw material procurement and production costs.

On the other hand, in the case where climate change measures are not adequate throughout society, production interruptions and supply chain disruptions are likely to increase as a result of higher frequency and intensification of natural disasters such as flooding.

Step 3: Respond to the Strategies

Our Group will begin promoting the reduction of non-renewable energy in our daily operation. This strategy will allow for flexible and strategic responses to each demand for the regions where the emission factors of purchased electricity consumptions are high. By promoting real carbon emissions reductions throughout the world through these types of initiatives, we are working to achieve zero carbon emission in our business.

We minimize carbon emissions through comprehensive energy-saving and introduction of renewable energy. With respect to renewable energy in particular, we have set a new target, achieve a reduction rate for purchased electricity in coming few years.

With regard to the ongoing confirmation of the suitability and progress of the Group's strategies, we believe that we will have opportunities for stable funding and sustainable increase in corporate value through appropriate information disclosure, dialogue with institutional investors and other stakeholders.

Risk Management

Our Group identifies the climate change related risks or to test the existing risk management strategies under climate change with the aid of risk assessment. Hence, the areas where new strategies are needed can be identified.

The risk assessment takes a standard risk-based approach using national data, local information and expert knowledge, which can identify how climate change may compound existing risks or create new ones.

The risk assessment is conducted through the following steps:

Step 1: Establish the context

- Objective/goal
- Scale
- Time frame
- Climate change scenario for most climate variables and sea level

Step 2: Identify existing risk (past and current)

- Identify the record of occurrence of climatic hazard in the past in the area
- Risk management strategies in place to tackle future occurrence of the hazard

Step 3: Identify future risk and opportunities

- Explore climate change projections for the selected time frame(s) and emission scenario(s)
- Identify potential hazards
- Investigate whether any existing risk from Step 2 may get worse under future projected changes
- Identify new risks that can emerge under future projected changes

Step 4: Analyze and evaluate risk

- Identify a set of decision areas or systems (i.e., geographical areas, business operation, assets, ecosystems, etc.) that has the potential to be at risk in future

As outlined within the Governance section above, the Group has robust risk management and business planning processes that are overseen by the board of directors in order to identify, assess and manage climate-related risks. The Group engages with government and other appropriate organizations in order to keep abreast of expected and potential regulatory and/or fiscal changes.

We continue to raise awareness of climate change in regard to monitoring of carbon and energy footprint in our daily operation. However, there remains gaps in understanding how such climate risks and opportunities may impact our operations, assets and profits. Our Group assesses how the business addresses climate change risks and opportunities and takes the initiative to monitor and reduce their environmental footprint.

Significant Climate-related Issues

During the reporting period, the significant climate-related physical risks and transition risks, which have impacted and/or may impact our Group's business and strategy in (i) operations, products and services, (ii) supply chain and value chain, (iii) adaptation and mitigation activities, (iv) investment in research and development, and (v) financial planning, as well as the steps taken to manage these risks, are as follows:

Detailed description of risks	Financial Impact	Steps taken to manage the risks
Physical Risk		
Acute physical risks		
<ul style="list-style-type: none"> Increased severity and frequency of extreme weather events such as cyclones and floods, strong wind. Hence, staff are easily injured. In addition, under the extreme weather events, the costs of transportation, communications and living increase, which may lead to financial loss to our Group. 	<ul style="list-style-type: none"> Operating cost and repairing expenses increase Capital cost increases due to the damage of facilities 	<ul style="list-style-type: none"> Planned to establish a natural disasters emergency plan. Planned to devise an action plan to articulate the goals and targets of the reductions in GHG emission and energy consumption. Outlined the plan to achieving those targets and defined responsibilities.
<ul style="list-style-type: none"> Increased likelihood and severity of wildfire, which may hinder the operations of factories. Financial loss occurs due to the interruption of supply chain, logistics and transportation in our business operation. 		

Detailed description of risks	Financial Impact	Steps taken to manage the risks
<p>Chronic physical risks</p> <ul style="list-style-type: none"> Changes in precipitation patterns and extreme variability in weather patterns. Frequent extreme weather events and rising in sea levels are likely to pose disruptions to communities across the region over the long term, affecting economic output and business productivity. Governments that have been pushing for new regulation to reduce GHG emission will pose a threat to financial performance of a business and increase regulatory risk. 	<ul style="list-style-type: none"> Revenue reduces Operating cost increases 	<ul style="list-style-type: none"> Planned improvements, retrofits, relocations, or other changes to facilities that may reduce their vulnerability to climate impacts, and increases climate resilience in long term. Record the energy consumption to identify peaks in usage, thus significant savings could be determined. Engaged with local or national governments and local stakeholders on local resilience.
Transitional Risk		
Policy risk		
<ul style="list-style-type: none"> As a result of energy efficiency requirements, carbon-pricing mechanisms increase the price of fossil fuels, or policies to encourage sustainable land use, hindering the area of expansion, which increase the operation cost. Mandates on and regulation of existing products and services as of the tightened environmental and safety laws and standards of oil. We have to spend much compliance cost to update or maintain the equipment to fulfil the new regulations. 	<ul style="list-style-type: none"> Operating cost increases due to increased insurance premiums for the factories. Risk of trade increases 	<ul style="list-style-type: none"> Planned to conduct a carbon footprint survey, in order to work out the company's footprint, to prioritize energy and waste reductions. Monitor the updates of the relevant environmental laws and regulations against existing products and services, to avoid the unnecessary increase in cost and expenditure due to non-compliance.

Detailed description of risks	Financial Impact	Steps taken to manage the risks
<p>Legal risk</p> <ul style="list-style-type: none"> • Exposure to litigation risk. We have to adapt the tightened law and regulations imposed by the government due to climate change, as well as bear the risk of potential litigation once we fail to obligate the new regulations. • Enhanced air pollutant emissions-reporting obligations for local government, and we may have to spend more time on fulfilling the ESG reporting standards to comply with the Hong Kong Listing Rules. 	<ul style="list-style-type: none"> • Operating cost increases 	<ul style="list-style-type: none"> • Monitored the updates of environmental laws and regulations and implemented GHG emissions calculations in advance. • Continued monitoring of the ESG reporting standards of the Hong Kong Listing Rules.
<p>Technology risk</p> <ul style="list-style-type: none"> • Developing the low carbon energy saving technologies, the capital investment and R&D expense increase consequently. • More green building strategies with low-carbon, energy-saving technologies are adopted by industry peers. Lagging behind may weaken our competitive edges. 	<ul style="list-style-type: none"> • Capital investment increases • Research and Development (R&D) expense increases 	<ul style="list-style-type: none"> • Planned to invest in the innovations of energy saving technologies. • Examined the feasibility and benefits of applying the latest low-carbon and energy-saving technologies into our operation.

Detailed description of risks	Financial Impact	Steps taken to manage the risks
<p>Market risk</p> <ul style="list-style-type: none"> • More customers are concerned about climate-related risks and opportunities, which may lead to changes in customer preference. • Inability to attract co-financiers and/or investors due to uncertain risks related to the climate. 	<ul style="list-style-type: none"> • Revenue decreases • Operating cost increases • Production cost increases 	<ul style="list-style-type: none"> • Fulfilled the climate-related regulations by the government. • Prioritize the climate change as a high concern in the market decisions to show to the clients that the company is concerned about the problem of climate change.
<p>Reputational risk</p> <ul style="list-style-type: none"> • Unable to fulfil the expectations of the customers, damage the Group's reputation and image. • Stigmatization of our business sector, such as more stakeholder concern or negative stakeholder feedback on the product designed in a less environmentally-friendly way. 	<ul style="list-style-type: none"> • Revenue decreases from decreased demand for goods and the decrease in production capacity. • Operating costs increases from negative impacts on workforce management and planning. 	<ul style="list-style-type: none"> • Supported the green productions. • Fulfilled the social responsibility by organizing more activities or executing actions to demonstrate how we place importance on climate change.

During the reporting period, the primary climate-related opportunities and the corresponding financial impacts were as follows:

Detailed description of climate-related opportunities	Financial Impact
Resource efficiency	
<ul style="list-style-type: none"> • Use of more efficient modes of transport • Use of more efficient production and distribution processes • Use of recycling • Reduce water consumption 	<ul style="list-style-type: none"> • Operating cost reduces through efficiency gains and cost reductions
Energy source	
<ul style="list-style-type: none"> • Use of lower-emission sources of energy • Use of supportive policy incentives • Use of new technologies • Shift toward decentralized energy generation 	<ul style="list-style-type: none"> • Operating cost reduces through use of lowest cost abatement • Returns on investment in low-emission technology increases
Products and services	
<ul style="list-style-type: none"> • Development of climate adaptation and insurance risk solutions • Ability to diversify business activities • Development of new products or services through R&D and innovation 	<ul style="list-style-type: none"> • Revenue increases through new solutions to adaptation needs, such as insurance risk transfer of products and services
Markets	
<ul style="list-style-type: none"> • Access to new markets 	<ul style="list-style-type: none"> • Revenue increases through access to new and emerging markets
Resilience	
<ul style="list-style-type: none"> • Participation in renewable energy programs and adoption of energy-efficiency measures • Resource substitution or diversification 	<ul style="list-style-type: none"> • Market valuation increases through resilience planning, such as planning of the research in the use of electric vehicles • Reliability of supply chain and ability to operate under various condition increases • Revenue increases through new products and services related to ensuring resiliency

Metrics and Targets

Our Group adopts the key metrics to assess and manage climate-related risks and opportunities. The energy consumption and greenhouse gas (GHG) emissions indicators are the key metrics used to assess and manage relevant climate-related risks where we consider such information is material and crucial for evaluating the impact of our operation on global climate change during the year. Our Group strives to track our energy consumption and greenhouse gas emissions indicators regularly to assess the effectiveness of emission reduction initiatives, as well as set targets to contribute our effort to have minimal impact on global warming.

The details are described in the sections A1: "Emissions" and A2: "Use of Resources" of this Report. Our Group has adopted absolute target to manage climate-related risks and opportunities and performance.

B. SOCIAL ASPECTS

B1. EMPLOYMENT

The Group believes that our employees are important assets and are crucial to the business success of the Group. We are committed to providing a good and safe working environment where our employees can thrive. A set of human resources management policies and procedures are in place which set out standards for compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunities, diversity, anti-discrimination, and other benefits and welfare. During the reporting period, the Group complied with relevant local employment laws and regulations, including but not limited to the Labour Law of the PRC, the Employment Ordinance in Hong Kong and the Fair Labour Standard Act in the USA. No non-compliance regarding employment was noted during the year.

The Group provides equal opportunities to all employees and applicants for employment without regard to race, colour, religion, gender, nationality, age, disability and other factors. Employees are offered a competitive remuneration, which is in line with the market trends, according to their performance and experience to retain and motivate them.

The Group recognises that a proper balance between work and rest can help employees to realise their full potential. We provide different activities for employees to relax and improve their physical and mental health. We also strictly comply with the standard working hours and statutory holidays. Personal leave, sick leave, marriage leave, etc. are provided to employees to balance their work life and personal life.

As at 31 December 2021, the employee compositions (in percentage of employees) by gender, age group, geographical region, employment category and employment mode were as follows:

Employee compositions	2021
By gender	
• Male	82%
• Female	18%
By age group	
• Age 30 or below	5%
• Age 31-40	34%
• Age 41-50	27%
• Age 51 or above	34%
By geographical region	
• The PRC (including Hong Kong)	90%
• USA	7%
• Others	3%
By employment category	
• Senior management	13%
• Middle management	42%
• General	45%
By employment mode	
• Full-time	97%
• Part-time	3%

The employee turnover rate during the reporting period by gender, age group and geographical region are as follows:

Employee turnover rate	2021
By gender	
• Male	3%
• Female	25%
By age group	
• Age 30 or below	–
• Age 31-40	14%
• Age 41-50	10%
• Age 51 or above	–
By geographical region	
• The PRC (including Hong Kong)	8%
• USA	–
• Others	–
Overall	8%

B2. HEALTH AND SAFETY

The Group believes that workplace safety is fundamental to the success of the business. The Group's business nature – mining, oil and gas drilling activities, can be dangerous. Operation of different types of equipment, exposure to chemicals and working in confined spaces can all potentially contribute to workplace injuries. Therefore, we attach great importance to occupational health and safety of our employees. All accidents and injuries are unacceptable and we strive to eliminate all such occurrences.

The Group has implemented different policies and procedures, including "Safety, Health and Environment Policy Statement" and "Commitment to Health, Safety, and Environment" in order to create a safe working environment for employees. Based on the policies, safety and occupational health evaluation, planning and design are required to be integrated into the Group's business development strategies. All employees are reminded to conduct all activities with the utmost care and prudence for safety and health.

To strive for zero incident in workplace, the Group has implemented different health and safety training programmes, performance measurement and recognition programmes for safety achievement to increase the employees' awareness on safety issues. Regular corporate assurance reviews at operations can help identify the safety and occupational health hazards. Effective control and monitoring are in place for continuous improvement. If any deficiency is identified, we will investigate the root causes so that effective corrective actions can be implemented to prevent incidents from happening.

During the reporting period, the Group fully complied with the applicable laws and regulations relating to health and safety, including Mine Safety Law of the PRC, Law of the PRC on Prevention and Control of Occupational Diseases Occupational Safety and Health Ordinance in Hong Kong and Occupational Safety and Health Act in the USA. No material non-compliance relating health and safety issues was noted during the year.

During the year, there was no work injury case (2021: nil, 2020: nil) and no lost day (2021: nil, 2020: nil) due to the minor injuries during our business operation. There was no work-related fatality case (2021: nil, 2020: nil) during the reporting period. Employees were given paid sick leave for their recovery. Overall, no employees had serious accident during the reporting period.

B3. DEVELOPMENT AND TRAINING

The Group values continuous development and training of employees because the employees' skill and the Group's competitiveness can be both enhanced for sustainable growth of the business as a result. The Group has established "Training System" and other related internal policies with the aim to promote a learning culture for improvement. Every employee has equal opportunities for training. The Group provides diversified training programmes to employees, in particular safety training, which is our top priority to establish a corporate safety culture.

Generally, there are both internal and external trainings for employees. Orientation training is provided to new employees to allow them to be familiarised with the corporate culture and background of the Group. The Group also offers on-the-job training to existing employees based on the operation needs and their job positions. Continuous assessment is conducted to keep track of the performance of the employees. External training mainly includes certification training for specialists, such as safety management personnel. It covers a wide variety of topics, from safety management system to global energy market trends. The Group invites institutions to deliver training to ensure employees can perform duties with relevant qualifications. Subsidies and supports are given to employees to encourage them to participate in the training.

The Group believes that the professional and personal development of employees are crucial to its sustainable development. We will continue to enhance the training system in order to improve the development of employees.

During the reporting period, the percentage of employees received training by gender and employment category was as follows:

Percentage of employees received training	2021
By gender	
• Male	48%
• Female	-
By employment category	
• Senior management	18%
• Middle management	63%
• General	22%
• Contract/short term	-
Overall	38%

During the reporting period, the composition of employees received training by gender and employment category was as follows:

Composition of employees received training	2021
By gender	
• Male	100%
• Female	-
By employment category	
• Senior management	6%
• Middle management	67%
• General	27%
• Contract/short term	-

Furthermore, the average training hours by gender and employment category during the reporting period was as follows:

Average training hours received per employee	2021
By gender	
• Male	32.3
• Female	
By employment category	
• Senior management	14.4
• Middle management	41.0
• General	16.9
• Contract/short term	-
Overall	25.7

B4. LABOUR STANDARDS

The Group upholds human rights and is committed to preventing child and forced labour in its business operations. The Group has implemented policies, including “Prohibition of Child Labour Recruitment and Remedies Procedures” and “Employee Policies” to strictly prohibit the recruitment of child labour and the use of forced labour. Our recruitment guideline also clearly states that person under 16 is not allowed to work in the Group and we have zero tolerance to such practice. If any cases of child labour are discovered, the following measures are implemented to protect the person and prevent the reoccurrence of such practice:

1. Prohibit the child employee from working for the Group immediately.
2. Report to the local labour authority and provide medical check for him/her. If any disease is discovered, medical treatment should be arranged and the expense is covered by the Group.
3. Contact the parents or guardian of the employee immediately and bring him/her back to his/her family. Travel expense is covered by the Group.
4. An investigation will be carried out to identify the parties who refer the child employee to the Group.

Our commitment to human rights extends to supply chain management. Suppliers are expected to follow the same standard of labour practices when working with us. The Group is in strict compliance with the Labour Law of PRC, the Provisions on the Prohibition of Using Child Labour in the PRC, the Employment Ordinance in Hong Kong, the Fair Labour Standards Act in the USA and other relevant laws and regulations. During the reporting period, no material non-compliance regarding child and forced labour was noted.

B5. SUPPLY CHAIN MANAGEMENT

The Group recognises suppliers, vendors and contractors as valuable stakeholders within the supply chain management as their responsible business behaviours are important in contributing to operational effectiveness and good reputation of the Group. Our supply chain partners are expected to follow the same principles as the Group and we strive to conduct businesses only with those suppliers who share the same principles with us. During the Reporting Period, the Group had 16 suppliers in the PRC and Hong Kong and 4 main service providers in the USA.

The Group has formulated "Suppliers/Distributors Social Responsibilities Control Procedure" to monitor a wide range of aspects of the suppliers, from product and service quality to business ethical standards. We strive to cooperate with local suppliers whenever possible to promote local economy and strengthen the control of environmental risks related to supply chain management. The procurement department is responsible for monitoring and evaluating the performance of suppliers. Suppliers are required to sign a social responsibility agreement to undertake to comply with all local laws and regulations before working with us. If any serious cases of non-compliance are covered, we will terminate our cooperation promptly. Long-term and stable relationship with our supply chain partners is maintained based on the result of supplier assessment.

B6. PRODUCT RESPONSIBILITY

The Group attaches great importance to product quality and safety. The Group has implemented related policies and procedures to manage the quality and safety of the products and services provided. During the reporting period, the Group was in strict compliance with all the applicable laws and regulations relating to products responsibility issues, including Product Quality Law of the PRC and Law of the PRC on the Protection of Consumer Rights and Interests. No material non-compliance relating to product responsibility was noted during the year.

Quality Control

In order to strengthen quality control and stabilise product quality, the Group has established a comprehensive quality management system to monitor the production process. The Group closely monitors every process in the production to ensure the quality of products meets the standards by customers. All products sold to customers by the Group is subject to quality inspection upon taking initial samples from blasting, during processing, and before loading materials for transportation. The quality of products is recorded and analysed to ensure the quality meets the required target.

Customer Information Protection

The Group takes privacy issues very seriously and protects the privacy of its customers, business partners and staff to the utmost. "Confidentiality Regulation" of the Group is in place to ensure compliance with applicable data protection regulations. The Group has implemented corresponding technical measures to protect personal data against unauthorised use or access. Employees are prohibited from disclosing confidential information, such as the data of customers and business partners, to third parties. Documents containing confidential information are required to be stored securely with access restricted only to authorised personnel.

B7. ANTI-CORRUPTION

The Group is committed to conducting business in an ethical and honest manner. Our commitment to preventing any forms of corruption is stipulated in the "Anti-Bribery and Anti-Corruption Policy". We have zero tolerance for bribery and corrupt activities. We are committed to acting professionally, fairly, and with integrity in all business dealings and relationships. Our business partners, such as suppliers and customers, are required to comply with the standards and procedures in our anti-corruption policy. The Group has assigned a specific department to handle and manage all the issues related to bribery and corruption. Acceptance of any payments or kickbacks is strictly prohibited, and employees are required to declare any conflicts of interest. Besides, we open up communication channels for employees to report suspected cases by phone. All reported cases are promptly investigated and all information is kept confidential. The Group has the right to terminate contractual relationship with any party who breaches our anti-corruption policies. All these practical measures not only win the trust of our suppliers and customers, but also enhance the sense of belonging and fair play among our employees.

The Group constantly upholds all applicable laws relating to anti-bribery and anti-corruption in all jurisdictions in which we operate, including Anti-Money Laundering Law of the PRC, the Prevention of Bribery Ordinance in Hong Kong and Foreign Corrupt Practices Act in the USA. During the reporting period, no non-compliance regarding corrupt practices was brought against the Group or its employees.

In addition to our Anti-Bribery and Anti-Corruption Policy, the Group has offered anti-corruption training to our employees, by encouraging staff to attend online seminars in relation to the latest update on the laws and regulations in relation to anti-bribery and anti-corruption. The number of employees received anti-corruption training and the training hours by employment category during the reporting period were as follows:

Anti-corruption training	2021
Number of employees received training	
• Board of directors	–
• Senior management	–
• Middle management	2
• General staff	–
Total number of employees trained	2
Number of training hours	
• Board of directors	–
• Senior management	–
• Middle management	8
• General staff	–
Total training hours	8

B8. COMMUNITY INVESTMENT

As a socially responsible company, the Group is committed to understanding the needs of the communities by implementing related policies and measures. When we undertake new projects, we work to understand the environmental and cultural considerations of the surrounding areas and communities. We take time to communicate with stakeholders and identify risks and opportunities from our development that may not be readily apparent. We implement balanced plans that couple new energy development with innovative technologies that are tailored to protect the communities where we operate. Throughout all stages of exploration and development, we work to ensure regulatory compliance and protection of our local communities. The Group focuses on four areas including living standard of community, culture, education and development, and labour cooperation for contribution.

1. Living Standard of Community

We serve the underprivileged locals to improve their living standard. For instance, we provide them with development opportunities, health care and sport activities.

2. Culture

The Group recognises that culture is a key part of our heritage and history. We support high quality cultural projects, which can enhance the living standards of the members in the communities and encourage creativity.

3. Education and Development

The Group believes that education can help equip future leaders with skills and knowledge for sustainable development. We support all the training opportunities and skills development related to the Group's business.

4. Labour Cooperation

The Group respects the freedom of labour union and the right of collective bargaining of employees. We encourage communication between the management and employees through establishing effective communication channels.

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“Community Investment”

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–

–

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area

–

–