

Environmental, Social and Governance (ESG) Report

DIWANG INDUSTRIAL HOLDINGS LIMITED

帝王實業控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1950)

Environmental, Social and Governance (ESG) Report

2022

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ABOUT DIWANG

Diwang Industrial Holdings Limited (formerly known as Sunlight Technology Holdings Limited) (“**Diwang**” or the “**Company**”; or together with its subsidiaries as the “**Group**” or “**we**”) is an established faux leather chemicals manufacturer principally engaged in the research and development, manufacturing and sale of coating agents and synthetic resins (the “**Faux Leather Chemicals Business**”). Our products are for the manufacturing of synthetic leather and widely apply in different industries, including apparel, footwear, handbags, interior automobile decoration, home furnishings and sports equipment. In 2022, we commenced the manufacturing and sale of Chinese liquor products (the “**Chinese Liquor Business**”).

CERTIFICATIONS AND ACHIEVEMENTS

During the Reporting Period, the subsidiary of Diwang – Zhejiang Sunlight Material Technology Co., Ltd. was awarded:



First batch of High-quality Development of Technologically Advanced Small and Medium-sized Enterprises in Zhejiang Province



Forth batch of technologically advanced “Little Giant” Enterprises in China

Certifications

ISO9001:2015 Quality Management System Certification



Founder member of China Synthetic Leather Green Supply Chain Industrial Innovation Strategic Alliance



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ABOUT THE REPORT

This is the fourth Environmental, Social and Governance (“**ESG**”) Report (the “**Report**”), which aims to report the ESG related policies, measures and performance of the Group in 2022, including the Group’s overall performance in environmental protection, employee protection, work safety and social responsibility. It enables stakeholders to understand the Group’s progress and development direction on sustainability issues.

Reporting Period and Scope

The Report presents the Group’s sustainable development policy and performance from 1 January 2022 to 31 December 2022 (the “**Reporting Period**” or “**2022**”). Unless otherwise specified, the Report covered the segment of research and development, manufacturing and sale of coating agents and synthetic resins, and manufacturing and sale of Chinese liquor products in the People’s Republic of China (the “**PRC**”).

Reporting Basis

The Report is prepared in accordance with the Mandatory Disclosure Requirements and “Comply or explain” Provisions in the “Environmental, Social and Governance Reporting Guide” (the “**Guide**”) set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

Reporting Principles

The preparation of the Report complies with the principles of materiality, quantitative and consistency as required by the Guide.

Principles	The Group’s Response
Materiality	<p>The Group collects opinions from stakeholders through different channels and conducts an internal materiality assessment to identify and determine the material ESG issues. Based on the actual business and industry characteristics of the Group, the Board identified and confirmed ESG issues that were most significant. The material issues are prioritized to disclose in the Report.</p> <p>The results of the material issues assessment will be used to guide the Group in formulating its future environmental, social and governance work plans and objectives, with a view to create sustainable value for stakeholders.</p>

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Principles	The Group’s Response
Quantitative	The Group collected the environmental and social key performance indicators (the “KPIs”) data. Quantifiable disclosures are made in accordance with “Appendix 2: Reporting Guidance on Environmental KPIs” and “Appendix 3: Reporting Guidance on Social KPIs” of “How to Prepare an ESG Report” to monitor and evaluate the Group’s progress in implementing environmental and social responsibility initiatives.
Consistency	The Report uses consistent methodologies for effective and meaningful comparisons of environmental and social data over time. Any methodologies and reporting scope changes are interpreted in remarks for reference.

Version of and Access to the Report

The Report was prepared in both English and Chinese and has been uploaded to the website of the Stock Exchange and official website of the Group (www.slkj.cn). In the event of any conflict or inconsistency between the Chinese and English versions, the Chinese version shall prevail.

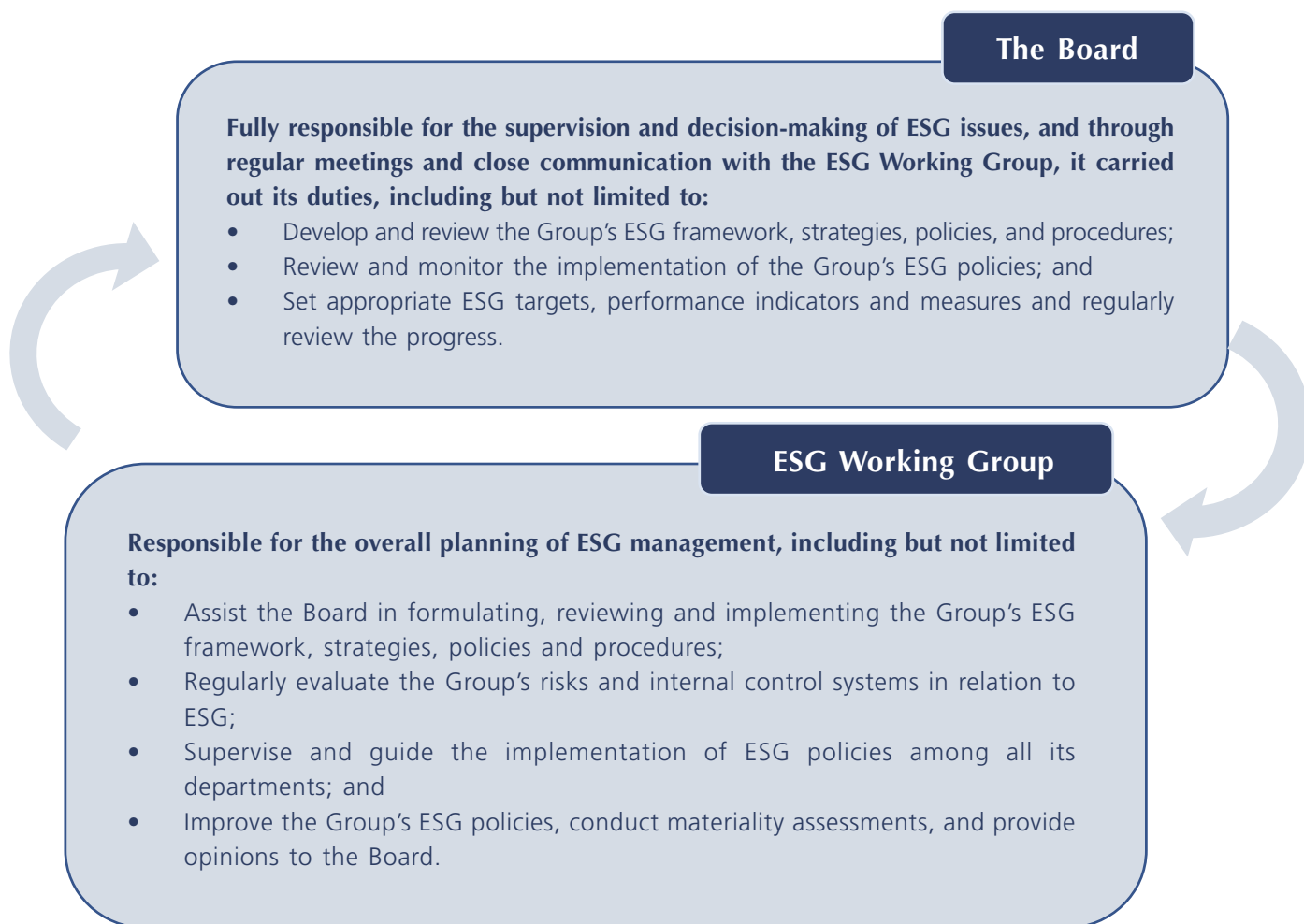
Contact and Response

The feedback from stakeholders helps deepen our understanding of stakeholders and drives our continuous improvement. If you have any comments on the Report or the Group’s sustainable development strategy and performance, please contact us at email (ir@slkj.cn).

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SUSTAINABLE GOVERNANCE

Concerned about the environmental and social impact of daily operations, the Group strives to be a role model 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. We have established an ESG-related management system to manage environmental, social and governance issues systematically. The Board of Directors (the “**Board**”) of the Group has established a working group on environmental, social and governance to assist the Board in making decisions on issues related to sustainable development. In addition, we have engaged Riskory Consultancy Limited as an independent consultant to provide consulting services on ESG and sustainable development.

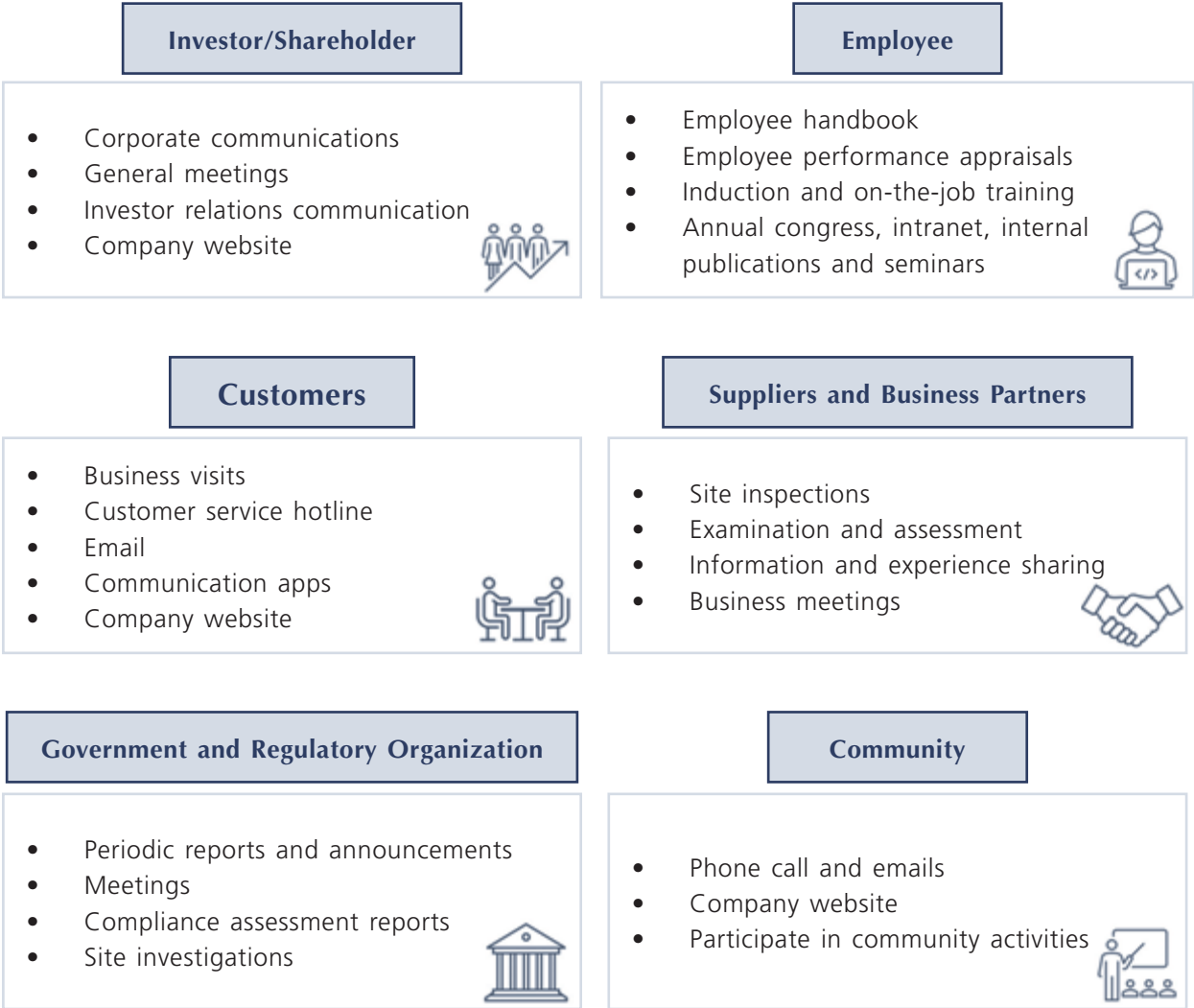


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The Report provides an overview of the Group’s governance structure and the relevant responsibility and accountability of the Board in relation to ESG. For information about the Group’s corporate governance structure and other relevant information, please refer to the Corporate Governance Report in the Company’s 2022 annual report.

STAKEHOLDER ENGAGEMENT

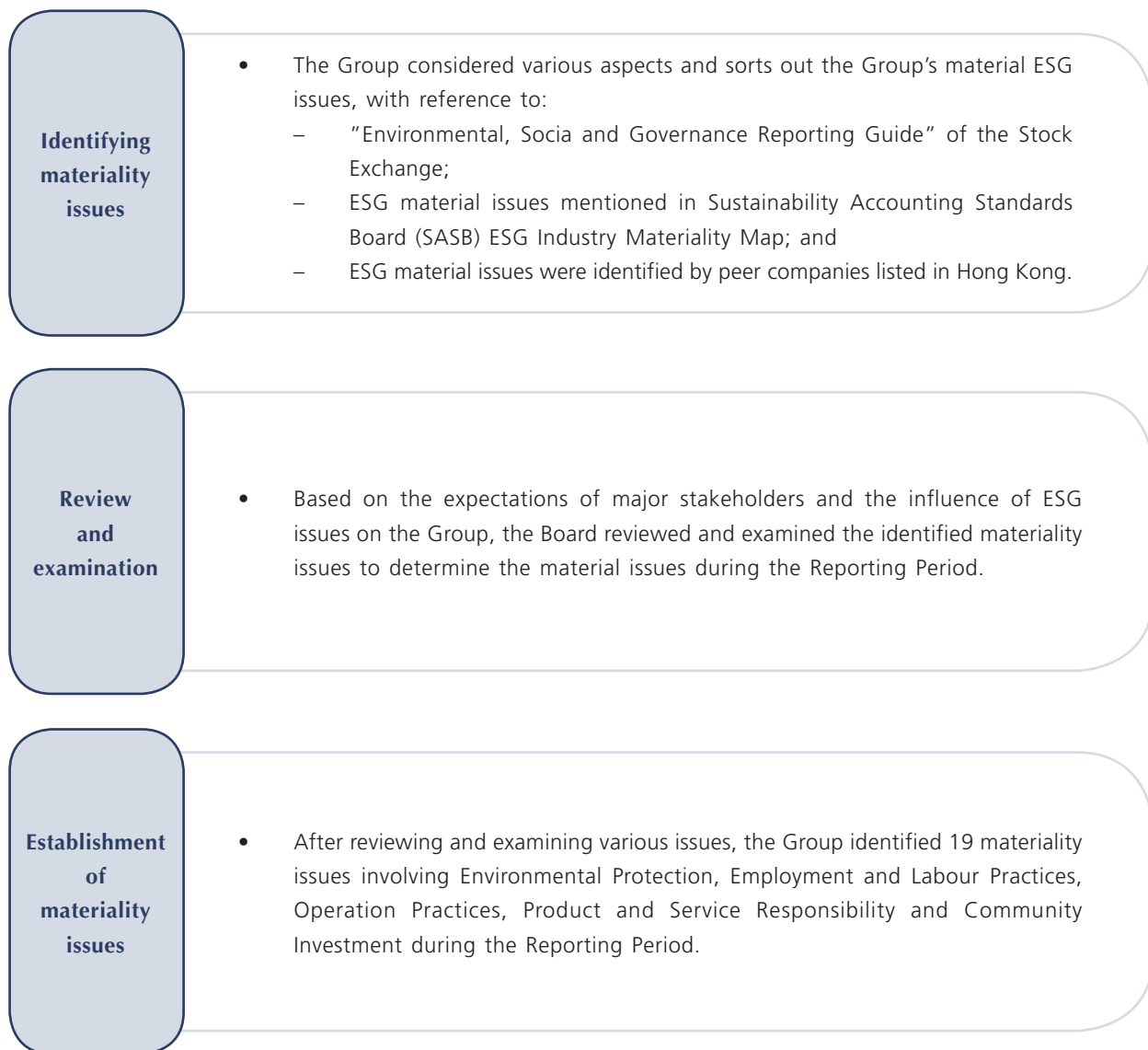
The Group is committed to maintaining its business’s sustainable development, and understanding stakeholders’ opinions has laid a solid foundation for the Group’s long-term development and success. We maintain a close relationship with various stakeholders. We are willing to understand the opinions and needs of internal and external key stakeholders through constructive communication so as to determine the direction of our sustainable development. The major communication channels between the Group and stakeholders are as follows:



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MATERIALITY ASSESSMENT

In order to effectively identify material ESG issues for the Group, the Board reviewed the issues identified in 2021 based on the opinions of various stakeholders and operating conditions to assess the applicability of the issues during the Reporting Period. The materiality assessment process is as follows:



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Materiality Issues



Environmental Protection

- 1. **Air and Greenhouse Gas Emissions**
- 2. **Waste Management**
- 3. **Effective Use of Resources**
- 4. Environmental Impact of Business Activities
- 5. **Combatting Climate Change**



Employment and Labour Practices

- 6. Equal Opportunity, Diversity and Anti-discrimination
- 7. **Employment Relationships, Employee Welfare and Benefits**
- 8. **Occupational Health and Safety**
- 9. Training and Development
- 10. Prevention of Child Labour and Forced Labour



Operation Practices

- 11. **Anti-corruption and Anti-fraud**
- 12. Crisis or Emergency Management
- 13. **Supply Chain Management**
- 14. Supplier's Environment and Social Risk Management



Products and Services Responsibility

- 15. **Quality and Safety of Products and Services**
- 16. Protection of Customer Privacy
- 17. Customer Satisfaction
- 18. Protection of Intellectual Property



Community Investment

- 19. Community Investment and Participation

Note:

The highlighted issues are the issues classified as high materiality during the Reporting Period.

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INTEGRITY AND COMPLIANCE

The Group adopts a zero-tolerance attitude towards immoral behaviours such as bribery, extortion, fraud and money laundering. It continues to promote the construction of a clean government and advocate a corporate culture of integrity. The Group strictly complies with relevant laws and regulations, including but not limited to the Anti-Money Laundering Law of the People's Republic of China (《中華人民共和國反洗錢法》) and Criminal Law of the People's Republic of China (《中華人民共和國刑法》).

During the Reporting Period, there was no corruption litigation case brought against the Company or its employees and the Group is not aware of any material non-compliance with the laws and regulations relating to bribery, extortion, fraud, and money laundering that would have a significant impact on the Group.

Code of Conduct on Integrity

We formulated various internal policies, including "Code of Conduct on Anti-corruption (《反貪污政策行為守則》)", "Conflict of Interest Declaration and Management Policy (《利益衝突申報及處理制度》)" and "Environmental, Social and Governance Policy and Procedure Manual (《環境、社會及管治政策及程序手冊》)". 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 report violations to the appropriate persons.

Meanwhile, we have made clear responsibility commitments to employees in each position to avoid behaviours that conflict with the Group's interests. When there is a conflict of interest, we require employees to report to the Company in a timely manner. 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 the job or position, the Group shall terminate the employment contract with the employee without paying financial compensation.

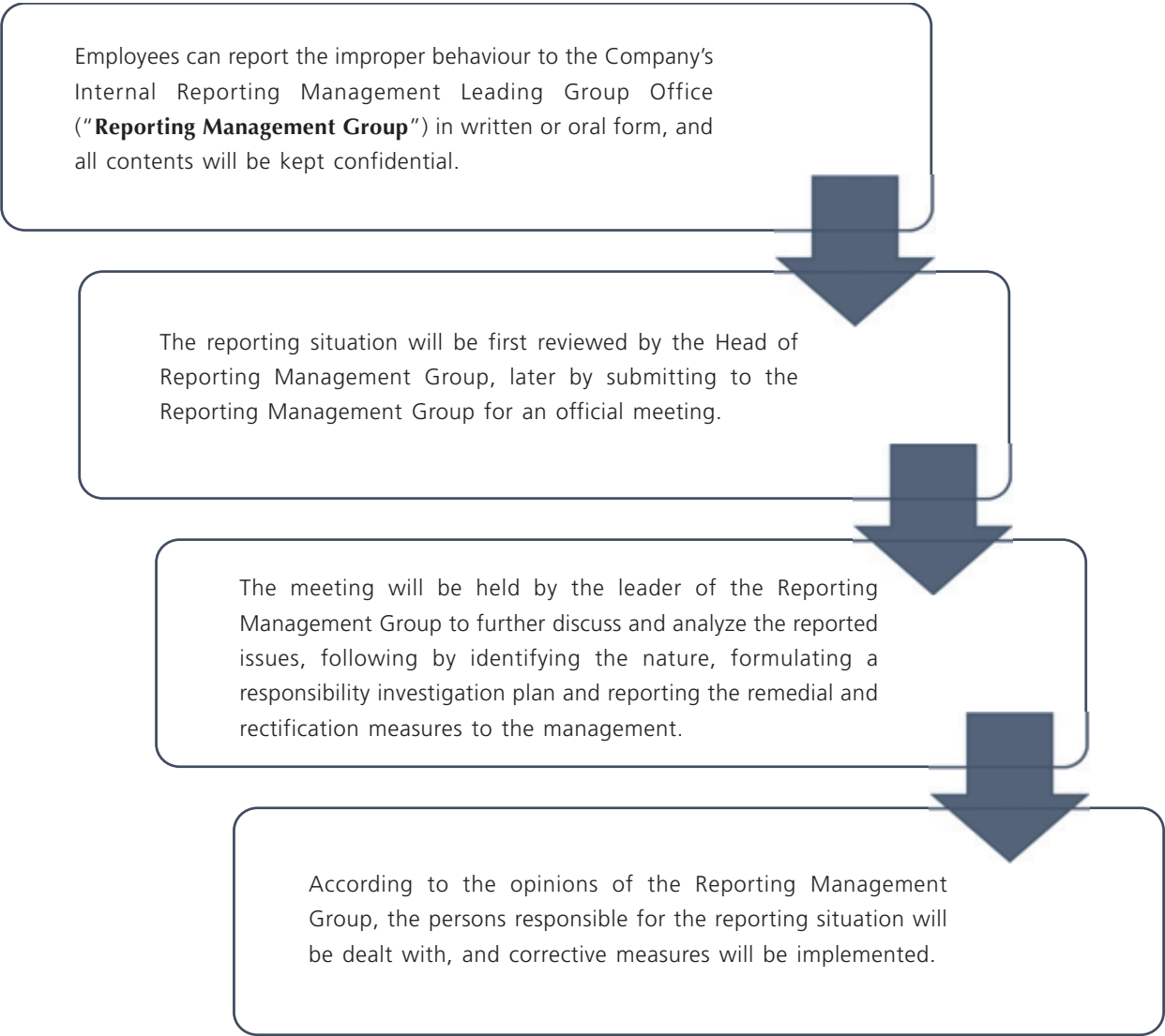
Cultivate Anti-corruption Awareness

In order to raise employees' awareness of potential corruption incidents in their daily work and operations, employees of the Group are required to participate in anti-corruption training upon entry. In addition, we provide the Directors with training on connected transactions and anti-corruption. During the Reporting Period, the Directors of the Group have completed the relevant training.

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Whistle-blowing Channels

The Group has established the “Improper Behaviour Identification and Reporting Mechanism (《不當行為的辨識及舉報機制》)” to encourage employees to take the initiative in the management, supervision and reporting of irregularities. The reporting procedure is as follows:



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GREEN OPERATION

The Group continues to improve the environmental management system. We have established a safety and environmental protection division responsible for overseeing the implementation of our environmental protection policies in our business operation to ensure strict compliance with the PRC's relevant laws and regulations, policies, and industry standards. We have complied with the laws and regulations related to environmental protection, including but not limited to:

- The Norm of Energy Consumption Per Unit Throughput for Synthetic Leather (《合成革單位產品能源消耗限額》);
- Technical Specification for Application and Issuance of Pollutant Permit Leather and Fur Making Industry – Fur 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》);
- 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》);
- Law of the People's Republic of China 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》);
- Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》);
- Atmospheric Pollution Prevention and Control Law of the People's Republic of China (《中華人民共和國大氣污染防治法》); and
- Water Pollution Prevention and Control Law of the People's Republic of China (《中華人民共和國水污染防治法》).

During the Reporting Period, the Group was not aware of other material non-compliance with laws and regulations related to air and greenhouse gas emission, discharges into water and land, and generation of hazardous and non-hazardous wastes that would have a significant impact on the Group.

Emission Management

The business of the Group involves production processes that generate exhaust gas, greenhouse gases (“GHG”), wastewater and solid waste. In order to comply with the requirements of relevant national laws and regulations, the Group actively implement measures to reduce adverse impacts on the environment. We are committed to continuously reviewing existing measures to reduce waste generation.






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Air and Greenhouse Gas (“GHG”) Emission

The Group’s major air pollutants are generated by motor vehicle gasoline, diesel, natural gas and steam combustion. Air pollutants related to fossil fuel consumption include Nitrogen Oxides (“NOx”), Sulphur Oxides (“SOx”) and Particulate Matters (“PM”). In terms of greenhouse gas emissions, the Group’s direct greenhouse gas emission comes from motor vehicle gasoline and diesel combustion, while energy indirect greenhouse gas emission comes from the use of purchased electricity, natural gas and purchased steam. During the Reporting Period, the data of air and greenhouse gas emissions of the Group is as follows:

Air and GHG Emission	Unit	2022
Air Pollutants		
Nitrogen Oxides	kg	518.99
Sulphur Oxides	kg	0.48
Particulate Matters	kg	33.19
GHG Emissions		
Direct Emission (Scope 1)	tonnes CO ₂ equivalent	104.48
Energy Indirect Emission (Scope 2)	tonnes CO ₂ equivalent	<u>1,119.49</u>
Total GHG Emissions	tonnes CO ₂ equivalent	1,223.97
Intensity	tonnes CO ₂ equivalent/ RMB100 million revenue	244.09

The Group is committed to reducing air pollutants and greenhouse gases generated in business operations through a series of measures. In order to reduce air pollutants, the Group has implemented the following measures:

- 
Install soft curtains in the automatic batching area of the production workshop
- 
Add gas collection covers to the packaging area
- 
Add caps to the batching steel substrate to prevent the gas from dispersing during beaded grinding
- 
Intall the packers in a closed room
- 
Install exhaust gas collection facilities in hazardous waste depots and weighbridge batching areas

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The air pollutants generated in the factory area are mainly sourced from production process, wastewater treatment system and combustion of canteen stoves. Therefore, we have implemented emission reduction measures targeting these three emission sources.

Production Process	<ul style="list-style-type: none"> Collect the air pollutants from the suction hood to the treatment equipment Use the “Three-stage water spray + Activated carbon absorption + Catalytic combustion” method to remove the pollutants
Wastewater Treatment System	<ul style="list-style-type: none"> Mainly hydrogen sulfide and ammonia gas generated by microbial activities in the biochemical system Discharge after the closed oxidation absorption treatment once it reaches the standard
Combustion of Canteen Stoves	<ul style="list-style-type: none"> Since the amount is relatively small, 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

Hazardous and Non-hazardous Waste

The Group has formulated clear and specific guidelines on waste management. We strictly abide by the local waste classification standards and classify waste. During the Reporting Period, the data of hazardous and non-hazardous waste are as follows:

Type of Waste	Unit	2022
Hazardous Waste		
Waste Resin Solution	tonnes	41.75
Filtered Colourant Residue	tonnes	48.00
Packaging Waste and Cleaning Debris	tonnes	70.78
Ink Cartridge	tonnes	<u>0.10</u>
Total	tonnes	160.63
Intensity	tonnes/RMB100 million revenue	32.03

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Type of Waste	Unit	2022
Non-hazardous Waste		
Solid Waste generated during the production process	tonnes	25.87
Daily and Office Waste	tonnes	<u>5.58</u>
Total	tonnes	31.45
Intensity	tonnes/RMB100 million revenue	6.27

Adhering to the principle of “Comprehensive Utilization and Recycling”, the Group is committed to reducing waste from the source and waste recycling. To achieve this, we have implemented the following waste management and treatment measures:

Waste disposal management	Reduce waste at source
<ul style="list-style-type: none"> • Separate laboratory wastes and domestic wastes; • More detailed classification on the hazardous waste in the workshop; • Entrust qualified entities to dispose of hazardous waste; and • Establish an industrial solid waste management ledger and submit online declaration materials. 	<ul style="list-style-type: none"> • Post signs in the office to encourage and guide employees to reduce waste generation; • Promote paperless office, reduce paper consumption, and use administration system to reduce paper consumption; • Sign an agreement with suppliers to recycle raw material packaging barrels to reduce the production of hazardous waste barrels; and • Use recyclable stainless steel tanks and plastic tanks.

Effective Use of Resource

The Group understands the importance of effective resource utilization, energy conservation, and emission reduction management for sustainable development. In order to achieve the goal of effectively using resources, we are committed to continuously monitoring energy consumption data and actively optimizing management to improve energy efficiency, reduce emissions and save energy.

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Energy Efficiency

During the Reporting Period, the energy consumption data of the Group is as follows:

Type of Energy	Unit	2022
Direct Energy		
Natural Gas	MWh	82.52
Diesel Oil	MWh	168.74
Unleaded Petrol	MWh	296.45
Solar Energy	MWh	<u>493.06</u>
Indirect Energy		
Purchased Electricity	MWh	1,834.93
Purchased Steam	MWh	<u>2.55</u>
Total Energy Consumption	MWh	2,878.25
Intensity	MWh/RMB100 million revenue	574.00

In order to improve energy efficiency, we have installed solar power generation equipment on the rooftop of the faux leather chemicals manufacturing factory and use the electricity generated by solar energy our business operations. In the colour chips production line, we have invested a screw-discharging kneading machine to improve the heating and kneading efficiency. Besides, we have implemented measures to promote the effective use of energy in the production management system, such as saving electricity, to raise employees' awareness in energy conservation and environmental protection in production activities.



Install solar power generation equipment on the rooftop of factory



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Water Resource Management

Due to the nature of the business, the Group consumes water resources in its production processes. During the Reporting Period, we had no issues in sourcing water resources that were fit for purpose.

Water Resource	Unit	2022
Water Consumption	m ³	<u>52,835.00</u>
Intensity	m ³ /RMB100 million revenue	10,536.72

We aim to continue reducing water usage and formulating water-saving measures, including: (1) circulate the cooling process water of production equipment; (2) use the water-based black pulp product for the recovery of the spray water treated by the spray tower; (3) timely repair of the leaking taps and pipes; (4) adopt the production method and the device which can effectively save water; (5) regular inspection of water consumption; and (6) lower the water pressure when it is possible.

Reduce Packaging Material

The Group mainly consumes packaging materials such as paper drums, paper bags, plastic drums, plastic bags, and metal drums in product manufacturing and sales. During the Reporting Period, the Group's consumption of packaging materials was as follows:

Type of Packaging Material	Unit	2022
Paper	tonnes	12.44
Plastics	tonnes	14.11
Metals	tonnes	<u>74.25</u>
Total	tonnes	100.80
Intensity	tonnes/RMB100 million revenue	20.10

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Cherish Natural Resource

To reduce the impact of corporate emissions on the environment, the Group has formulated the “Three Wastes Management Policy 《「三廢」管理制度》” (the “**Three Wastes Policy**”), to manage waste liquid (initial rainwater/ domestic wastewater, production wastewater/waste solvents), exhaust gas, waste barrels, and a scrap of materials (slags), etc. For the wastewater and waste solvents generated, the Company reuses them according to the Three Wastes Policy. In addition, the Company has installed online monitoring equipment for exhaust emission data to monitor exhaust emissions in real-time.

“Three Wastes” Management Principles

Distinguish pollution sources and pollutants according to environmental laws and regulations;

Internally based on recycling, externally entrusted with qualified processing institutions; and

Handling expenses are subdivided into responsible departments, combined with unified assessment of production and packaging consumption.

Combatting Climate Change

The global community is showing increasing concern about climate change. As a responsible enterprise, the Group is fully aware of its business’s transitional risks associated with climate change. With the nation’s long-term climate targets of emission peak by 2030 and carbon neutrality by 2060, the concept of carbon reduction is also regarded as the main direction in the “14th Five Year Plan” for the protection of the ecological environment for ecological and environmental protection. Energy saving, consumption reduction and carbon reduction will inevitably become the new direction of corporate development.

To this end, the Group has responded to the national environmental protection call and provided customers with water-based colour paste. Compared with oil-based colourants, water-based colourants use water as the medium and contain fewer volatile harmful substances. This reduces the overall consumption of energy and water resources in production and minimizes environmental pollution. In addition, we actively use renewable energy to reduce the impact of energy consumption on the environment. A solar power generation system has been installed on the rooftop of the faux leather chemicals production facility, and solar panels are erected to generate electricity. We store the generated electricity in batteries for subsequent production.

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Regarding physical risks, we are aware of the potential risks associated with our business. The Hangzhou Municipal People’s Government established the “Hangzhou City Heavily Polluted Weather Emergency Plan” (《杭州市重污染天氣應急預案》) with the aim to mitigating the impact of heavy pollution weather, establishing and improving Hangzhou’s heavily polluted weather emergency response mechanism, and enhancing early warning and emergency response capabilities. Therefore, we have set up the “One factory, One policy” Notice Board for Emergency Response Measures to Heavily Polluted Weather of Industrial Enterprises in Hangzhou (杭州市工業企業重污染天氣應急響應措施「一廠一策」公示牌) in accordance with “Hangzhou City Heavily Polluted Weather Emergency Plan” (《杭州市重污染天氣應急預案》) which enables our Group to take different emergency measures for different climate response levels.

Emergency Response Measures for Heavily Polluted Weather Warning

- Liquid Colourant Process**
 - Stop 1 liquid colourant process production line

- PU Resin Process**
 - Stop 1 PU resin process production line

- Surface Treatment Agent Process**
 - Stop 1 surface treatment agent process production line

- Solid Colourant Process**
 - Stop 1 solid colourant process production line

- Transportation**
 - Stop using heavy-duty trucks with National IV or below standard for transportation

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SUSTAINABLE SUPPLY CHAIN

The Group is committed to operating with integrity and abiding by business ethics. We understand procurement and supply chain management are crucial to our business operations and strive to ensure product quality by selecting high-quality suppliers across the PRC. As at 31 December 2022, the Group had a total of 284 suppliers which all of them are Mainland China.

Supplier Screening and Evaluation

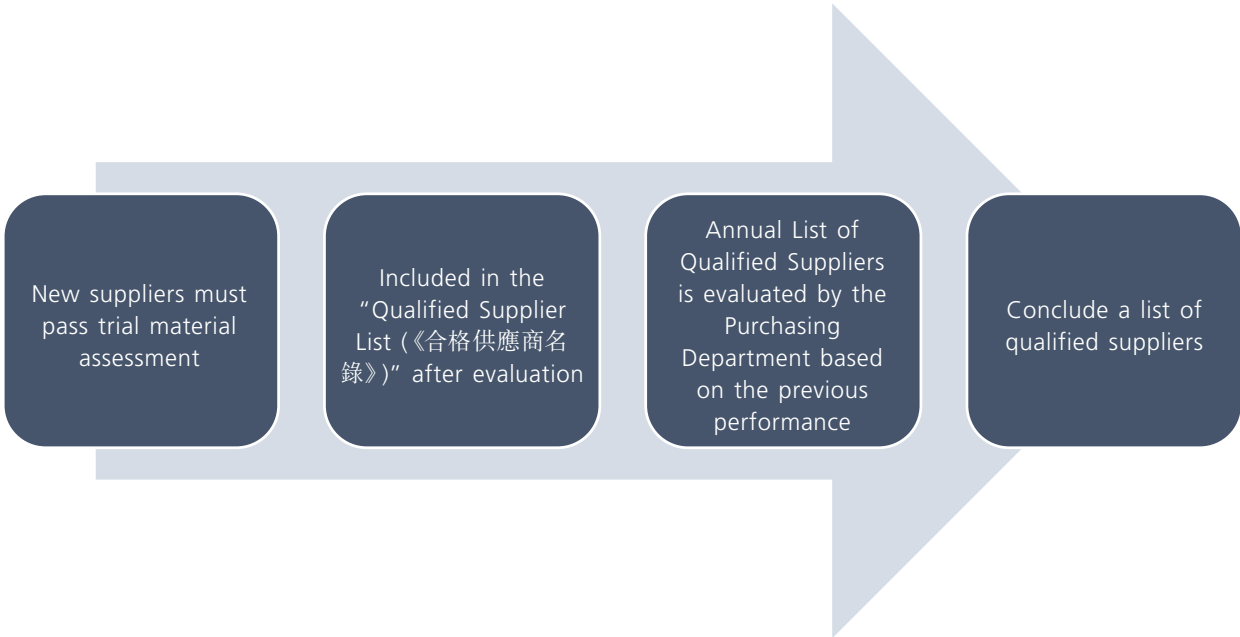
The Group has established a comprehensive supplier assessment mechanism to review suppliers' qualifications, identify suppliers' environmental and social risks, and conduct audits by third-party organizations when necessary. When a supplier is inconsistent with the Group's policies or contract requirements, the Group will terminate future cooperation until the situation improves. We outlined seven requirements for the selection of suppliers:

1. An independent legal entities, which are able to provide relevant legal and financial documents (including business licence and bank information), as well as any required qualifications and certificates (if special qualifications are required);
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. Having adequate capital strengths and supply capacities to meet the Group's supply sizes and the ability to deliver on schedule;
4. Acknowledged the procurement needs of the Group and was capable of providing corresponding technical indicators and safety and environment certificates when supplying materials;
5. Capable of arranging business personnel who are familiar with the material supplied thereof to contact us so as to ensure that their material supplied meets our requirements;
6. Operating with processes that meet the management requirements of the Group, as well as comply with the relevant regulations and rules; and
7. Abiding by business ethics and therefore shall not disclose any business or technical information of the Group to any entity or individual without the consent of the Group.

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We organize supplier evaluations every year in January, and the Procurement Department is responsible for checking whether the qualification certificates of suppliers are valid and meet the requirements of the supplier. The Purchasing Department evaluates the supplier’s annual situation based on the data registered daily in the database. During the Reporting Period, we have evaluated all of the major suppliers.

Supplier Evaluation Procedure



Regarding the Chinese Liquor Business, the production area is crucial to brewing Chinese liquor. Therefore, we attach great importance to whether the conditions of suppliers for brewing liquor meet the requirements of the Group. When selecting liquor suppliers, we will consider the following conditions, including but not limited to climatic conditions, water quality, special microorganisms and pure grain raw materials required for liquor distillation to maintain the unique and pure taste of Diwangchi (帝王池) brand liquor.

Besides, the Group adheres to eco-friendly, environmental protection and sustainable development. Regarding the Faux Leather Chemicals Business, we are 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). We integrate green environmental protection concepts into supply chain management and procurement. During the procurement process, we actively consider the impact of products or raw materials on the environment and prefer suppliers with closer geographical locations to reduce carbon emissions during transportation. Moreover, we carefully select suppliers that strictly prohibit unethical labor practices, including child labor and forced labor.

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EMPLOYMENT RELATIONSHIP

The Group's success relies on the joint efforts of all employees. We value our relationship with our employees and are committed to growing together while fostering a comfortable and inclusive working environment that promotes their strengths in the industry. The Group strictly abided by the Labour Law of the People's Republic of China (《中華人民共和國勞動法》), formulated a comprehensive system including the "Employee Employment Regulations (《員工僱傭規章制度》)", "Employee Handbook (《員工手冊》)" and "Administrative and Human Resources Management System (《行政人事管理制度》)", and implemented the principle of equal and voluntary employment of both parties.

During the Reporting Period, the Group is not aware of any material non-compliance with laws and regulations relating to compensation and dismissal, recruitment, and promotion, working hours, rest periods, equal opportunities, diversity, anti-discrimination, and other benefits and welfare that have a significant impact on the Group.

Employee Overview

As at 31 December 2022, the Group had a total of 203 full-time employee who all are from Mainland China. The data of employees by gender, age group and employment type is as follows:

Employee Distribution	Unit	2022
By Gender		
Male	person(s)	159
Female	person(s)	44
By Age Group		
35 or below	person(s)	54
36 – 45	person(s)	68
46 – 55	person(s)	58
56 or above	person(s)	23

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During the Reporting Period, the turnover rate of the Group by gender, age group and geographical region is as follows:

Turnover Rate	Unit	2022
By Gender		
Male	percentage	22.6
Female	percentage	20.5
By Age Group		
35 or below	percentage	27.8
36 – 45	percentage	13.2
46 – 55	percentage	25.9
56 or above	percentage	26.1
By Geographical Region		
Mainland China	percentage	<u>22.2</u>
Employee Turnover Rate	percentage	22.2

Employment Management Policy

The Group has established a comprehensive employment management system and a high-quality talent team. Our employment management system focuses on the following:

Rights and Benefits

The Group guarantees that all employees enjoy the rights and benefits stipulated in the “Employee Handbook (《員工手冊》)” and labour contract.

We provide employees with basic salary, bonuses and various allowances, including cars, business travel, dormitories, etc., and provide employees with benefits such as working meals, social activities, travel, and free medical examinations.

In accordance with the Labour Law of the People’s Republic of China (《中華人民共和國勞動法》), the Group ensures timely payment of social insurance fees such as housing provident fund, endowment insurance, medical insurance and unemployment insurance for our employees, who are also entitled to any legal provisions such as salary, benefits, and holidays, such as industrial injury leave, sick leave, marriage leave, etc.

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Recruitment and Remuneration

We recruit employees through, among other things, posting recruitment notices on our recruitment website. We will do our best to recruit and retain the right people. We continuously evaluate our available human resources and will determine whether we need to recruit additional staff to match our business development.

We determine the remuneration of our employees based on factors such as qualifications, responsibilities, contributions, and work experience. The key principle of the remuneration policy is to remunerate employees in a market-competitive manner.

Female Employee Pregnancy Protection

In order to create a good working environment for female employees, the Group makes every effort to ensure that female employees are entitled to various holidays and insurance according to relevant laws. During pregnancy, the time spent on prenatal check-ups by female employees will be treated as work. If a female employee needs to take a rest during the pregnancy protection period, the treatment during the pregnancy protection period shall be handled in accordance with the company's relevant regulations on sick leave.

Promotion Management

The Group conducts annual appraisals based on the performance of employees. We have listed the evaluation criteria in the "Administrative and Human Resources Management System (《行政人事管理制度》)", and the evaluation is carried out according to the actual situation. For outstanding employees, priority is given to promotion.

We promise that all employees have equal opportunities for work and promotion and will not be discriminated against due to age, gender, physical health, marital status, family status, race, colour, nationality, religion, political affiliation and other factors.

Working Hours and Holiday

We implement a standard working hour system in accordance with the law. The relevant regulations on working hours and holidays are outlined in the "Employee Handbook (《員工手冊》)". We arrange for employees to work overtime according to work needs and relevant laws and regulations and protect employees' right to rest in accordance with the law.

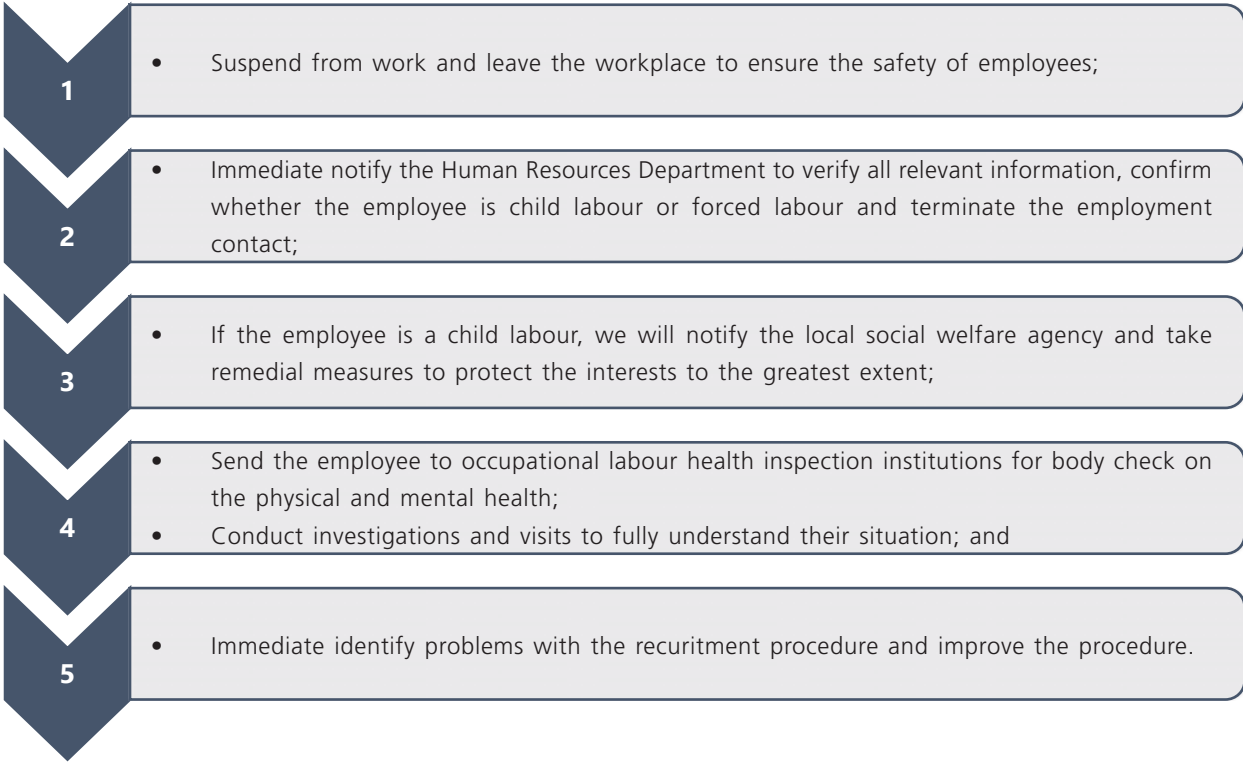
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Labour Practices

The Group strictly adheres to legal requirements to prevent the use of child or forced labour in our business operations. We maintain a zero-tolerance attitude and stance against child and forced labour. We strictly complied with the relevant laws and regulations, including but not limited to the Provisions on the Prohibition of Using Child Labour (《禁止使用童工規定》) and Labour Contract Law of the People’s Republic of China (《中華人民共和國勞動合同法》).

Our Human Resources Department has effective procedures in place to verify the age of any candidate before hiring. The human resources department check documents that can prove the applicant’s age, including government-issued photo ID, birth certificate, driver’s license, household registration booklet, academic certificate or any other valid documents that can prove the date of birth and ensure the photo on the ID card matches the applicant’s appearance. The Group provides child labour and forced labour prevention training to the human resources department, especially those responsible for recruiting.

If any child labour or forced labour under the legal minimum age of employment is found in the Group, we will always proceed from the perspective that best suits their interests and take the following measures in accordance with the requirements of relevant laws:



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OCCUPATIONAL HEALTH AND SAFETY

The Group actively promotes employees' awareness of environmental protection, health, and safety and supports the development of these principles in the industry. In order to ensure the health and safety of employees, the Group strictly abided by the Law of the People's Republic of China on the Prevention and Control of Occupational Diseases (《中華人民共和國職業病防治法》), and has formulated the "Occupational Health Management Policy (《職業衛生管理制度》)", which stipulates a series of occupational health-related responsibilities and safety measures, including occupational hazard prevention and control responsibilities system, occupational health hazard warning and notification system, occupational health publicity, education and training system, occupational hazard reporting system, occupational hazard daily monitoring and management system, occupational hazard accident handling and reporting system, etc.

During the Reporting Period, the Group was not aware of any material non-compliance of laws and regulations relating to providing a safe working environment and protecting employees from occupational hazards that would have a significant impact on the Group.

Occupational Protection

We are committed to providing and maintaining an environmentally friendly, healthy, and safe workplace. The Group attaches great importance to employee safety and occupational disease protection and stipulates labour protection, working conditions and occupational hazard protection clauses in the labour contract. To comply with relevant national laws and regulations, we have established a safety production system and require employees to abide by the Group's labour safety system strictly. We strictly prohibit illegal operations and prevent accidents in the labour process by reducing occupational hazards.

Depending on the needs of production positions, we will provide employees with necessary safety protection measures and distribute necessary labour supplies in accordance with national regulations on labour safety and health. Before starting work, employees will be informed of the possible occupational hazards and their consequences during the work process. Under the high-temperature conditions in summer, we will moderately adjust the work intensity and issue subsidies. In addition, the Company provides annual occupational health examinations to technicians and production personnel, provides non-occupational health examinations to other employees, and organizes employees to participate in online and offline safety training.

During the Reporting Period, the work injury rate and work-related fatalities rate of the Group remained at zero. No work-related fatalities were reported in the past three years (including the Reporting Period). There are no lost days due to work injury reported during the Reporting Period.

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Safety Training and Fire Drill

The Group organizes safety training and fire drills, including fire safety training and drills, typical accident and emergency rescue case training, national safety laws and regulations training, confined space knowledge training in special operations, summer heatstroke prevention safety knowledge training, etc.



Regularly conduct emergency drills

In addition, we have established and implemented the following policies to safeguard the safety of our employees:

- Establish procedures for the safe performance of work that has been identified as hazardous;
- Provide and ensure a hygienic and safe office and working environment, machinery and equipment are regularly inspected;
- Establish emergency procedures in case of an emergency such as a fire or explosion; and
- Establish a mechanism to record and analyze the occurrence and causes of work-related accidents.

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TALENT DEVELOPMENT AND TRAINING

In order to enhance the growth of employees, we provide various forms of on-the-job and off-job training. During the Reporting Period, we conducted several special trainings, including induction training for new employees, fire drills, three-level safety education and training for new employees, safety production management and production technology knowledge training, post-knowledge training, and safety education for management staff. During the Reporting Period, the training data by gender and employee category is as follows:

Employee Training Data	Unit	2022
Total number of employees participating in training	person(s)	198
Total percentage of employees participating in training	percentage	97.5
Percentage of Employee Trained		
By Gender		
Male	percentage	96.9
Female	percentage	100
By Employee Category		
Senior Management	percentage	61.5
Middle Management	percentage	100
Other	percentage	100
Average Training Hours Per Employee		
By Gender		
Male	hour(s)	20
Female	hour(s)	13
By Employee Category		
Senior Management	hour(s)	12
Middle Management	hour(s)	10
Other	hour(s)	22

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PRODUCT RESPONSIBILITY

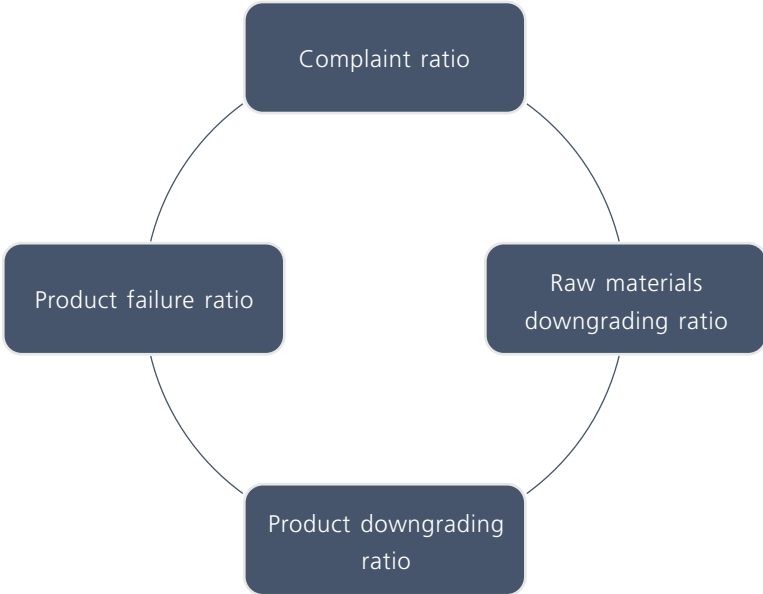
The Group places great importance to product quality and continues to improve the quality management system in order to make quality management one of the core competitive advantages of our Group. We also actively listen to the opinions of our customers, adopt their suggestions, and make improvements to enhance the quality of our products and services. The Group strictly complied with the relevant laws and regulations, including but not limited to the Law of the People’s Republic of China on the Protection of Consumer Rights and Interests (《中華人民共和國消費者權益保護法》) and Patent Law of the People’s Republic of China (《中華人民共和國專利法》).

During the Reporting Period, the Group was not aware of any material non-compliance with laws and regulations concerning health and safety, advertising, labelling, and privacy matters relating to products and services and methods of redress that would have a significant impact on the Group.

Product Quality Management

The Group has emphasized on quality control in all aspects of its business, with a view of protecting its brand value and image. We have obtained ISO9001:2008 quality system certification for the design, development and production of colourants and treatment agents for application on synthetic leather. To comply with different quality control laws, regulations, and standards, we have developed a quality management system, which sets out three principles for quality management, including (1) determining work objectives and sorting out management process; (2) 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 (3) the management shall be engaged in monitoring, giving feedback and continuous improvement. At the beginning of each year the Group will determine the quality goals for the year and conduct assessments based on the following goals at the end of each year.

Quality Goals



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Additionally, we 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 is responsible for the quality management of the relevant business department. The technical team of the business department is 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, and packaging products.

For all the new materials or the same type of raw materials provided by different suppliers (except for the products originating from the same manufacturer provided by different suppliers), samples will first be obtained for testing to determine the suitability of such materials. Before the bulk procurement for mass production, all new materials, products, and formulas must undergo pilot tests. In addition, the number of batches for the pilot test is controlled where we commence production with the smallest amount of materials to prevent a large number 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 and sample retention principles.

Regarding the Chinese Liquor Business, we have implemented a series of inspection procedures. We prohibit using expired raw materials and require liquor maker to brew according to the recipe to ensure that the quality of all finished products is consistent. During the brewing period, the Quality Control team will take inspections at different steps, such as inspecting the quality of hops to ensure that the quality of Chinese liquor remains high at every step. In addition, we actively research and development process quality management. Products from factories, distributors and terminals must meet the quality requirements of the Group to prevent food safety risks.

To handle product return, the Company has developed a standard product-returning procedure, covering the workflows of product inspection, registration and cost accounting. During the Reporting Period, the Group did not have any sold products that required a recall due to safety and health concerns.

Customer Complaint Management

We believe in the “Market-centred, Customer-oriented” business philosophy. To meet the ever-changing needs of our customers, we strengthen product after-sales service to improve customer satisfaction. We have a systematic policy in place to deal with customer complaints.

In case of any complaint, the Group is committed to promptly addressing the complaint in accordance with the “Complain Management Policy (《投訴管理制度》)”. The complaints and unusual situations of the Group are all managed by the chairman of the Board. Complainants may submit any complaint by filling up the complaint and unusual situation report, which shall be subject to the review and approval of the chairperson 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 fill out the record accordingly. In connection with the complaint, the chairperson of the Board determines the loss of the Group, while the responsible department conducts an analysis and makes improvements, as well as conducts an assessment of responsible persons. If it is determined that the complaint on the product is attributable to the deficiency of raw materials, a raw material report is to be completed separately. In the process of handling, the Administrative Department tracks the progress, registers it in the monthly quality complaint report and uploads it to the server of the Group for use among employees.

During the Reporting Period, the Group was not aware of any significant complaints related to products and services.

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Customer Privacy Protection

The Group strictly abides by relevant laws and regulations to protect customer information and privacy. In order to strengthen the protection, we use the ERP system and set permissions for the users. At the same time, we have set up an encryption system to encrypt all electronic documents. The materials can only be obtained or sent after approval and decryption by the superior supervisor.

Advertisement, Labelling and Intellectual Property Right

The Group established detailed patent management policies in accordance with the Patent Law of the People's Republic of China (《中華人民共和國專利法》), including 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.

Policy on Intellectual Property Right



- Labour contract contains confidentiality clause and provides the rights to all of the inventions, designs, technologies, and any other intellectual property that the employees develop or obtain during their employment belong to the Group;
- Install encryption software on the computers of all the employees, and the approval of its department head is required if encrypted documents need to be decrypted and sent to external parties;
- Passwords encrypt the key research and development records, and only a limited number of key personnel have access to such information; and
- Certain key chemical formulas, manufacturing procedures and technical knowledge are stored on password-protected computer hard drives, which are only accessible by the relevant key employees and personnel of the Research and Development Department.

Regarding the Chinese Liquor Business, we will release our product information through different publicity channels. When promoting products and services, the Group strictly abides by relevant laws and regulations such as the Advertising Law of the People's Republic of China (《中華人民共和國廣告法》) and Law of the People's Republic of China on the Protection of Consumer Rights and Interests (《中華人民共和國消費者權益保護法》) to ensure the authenticity of all promotional content so as not to mislead consumers. In terms of product labelling, we ensure that the products we sell have complete and detailed product information for consumers to check.

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COMMUNITY INVESTMENT

The Group recognizes the importance of giving back to the community. We actively fulfil our corporate social responsibilities donate funds to support public services such as medical care, education, and poverty alleviation. We hope to provide support for the development of the communities where the Group's business operations are located.

During the Reporting Period, the Group donated RMB418,000 to selected charitable beneficiaries including but not limited to Jiande City Charity Federation (建德市慈善總會) and Jiande Meihao Education Fund (建德市美好教育基金會). 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 its own growth, and making new contributions to creating a better education.



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INDEX TO THE ESG REPORTING GUIDELINES

Aspect	Content	Section/Remarks
Mandatory Disclosure Requirements		
Governance Structure	A statement from the board containing the following elements: <ul style="list-style-type: none"> i. a disclosure of the board’s oversight of ESG issues; ii. the board’s ESG management approach and strategy, including the process used to evaluate, prioritize, and manage material ESG-related issues (including risks to the issuer’s businesses); and i. how the board reviews progress made against ESG-related goals and targets with an explanation of how they relate to the issuer’s businesses. 	Sustainable Governance
Reporting Principles	A description of, or an explanation on, the application of the Reporting Principles (Materiality, Quantitative and Consistency) in the preparation of the ESG report.	About the Report – Reporting Principles
Reporting Boundary	A narrative explaining the reporting boundaries of the ESG report and describing the process used to identify which entities or operations are included in the ESG report.	About the Report – Reporting Period and Scope
“Comply or explain” Provisions		
A. Environment		
Aspect A1: Emissions		
General Disclosure	Information on: <ul style="list-style-type: none"> (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste. 	Green Operation

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Aspect	Content	Section/Remarks
A1.1	The types of emissions and respective emissions data.	Green Operation – Emission Management
A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions and, where appropriate, intensity.	
A1.3	Total hazardous waste produced and, where appropriate, intensity.	
A1.4	Total non-hazardous waste produced and, where appropriate, intensity.	
A1.5	Description of emission target(s) set and steps taken to achieve them.	
A1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them	
Aspect A2: Use of Resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Green Operation – Effective Use of Resource
A2.1	Direct and/or indirect energy consumption by type in total and intensity.	
A2.2	Water consumption in total and intensity.	
A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them.	
A2.5	Total packaging material used for finished products, and if applicable, with reference to per unit produced.	

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Aspect	Content	Section/Remarks
Aspect A3: The Environment and Natural Resources		
General Disclosure	Policies on minimising the issuer’s significant impact on the environment and natural resources.	Green Operation – Cherish Natural Resource
A3.1	Description of the significant impacts of activities on the environment and natural resources and actions taken to manage them.	
Aspect A4: Climate Change		
General Disclosure	Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.	Green Operation – Combatting Climate Change
A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer and the actions taken to manage them.	
B. Social		
Employment and Labour Practices		
Aspect B1: Employment		
General Disclosure	Information on: <ul style="list-style-type: none"> (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare. 	Employment Relationship
B1.1	Total workforce by gender, employment type, age group and geographical region.	Employment Relationship – Employee Overview
B1.2	Employee turnover rate by gender, age group and geographical region.	

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Aspect	Content	Section/Remarks
Aspect B2: Health and Safety		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Occupational Health and Safety
B2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.	Occupational Health and Safety – Occupational Protection
B2.2	Lost days due to work injury.	
B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Occupational Health and Safety – Occupational Protection; Safety Training and Fire Drill
Aspect B3: Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Talent Development and Training
B3.1	The percentage of employees trained by gender and employee category.	
B3.2	The average training hours completed per employee by gender and employee category.	

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Aspect	Content	Section/Remarks
Aspect B4: Labour Standards		
General Disclosure	Information on: <ul style="list-style-type: none"> (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour. 	Employment Relationship – Labour Practices
B4.1	Description of measures to review employment practices to avoid child and forced labour.	
B4.2	Description of steps taken to eliminate child and forced labour practices when discovered.	
Operating Practices		
Aspect B5: Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Sustainable Supply Chain
B5.1	Number of suppliers by geographical region.	
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Sustainable Supply Chain – Supplier Screening and Evaluation
B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	
B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	

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Aspect	Content	Section/Remarks
Aspect B6: Product Responsibility General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Product Responsibility
B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Product Responsibility – Product Quality Management
B6.2	Number of products and service related complaints received and how they are dealt with.	Product Responsibility – Customer Complaint Management
B6.3	Description of practices relating to observing and protecting intellectual property rights.	Product Responsibility – Advertisement, Labelling and Intellectual Property Right
B6.4	Description of quality assurance process and recall procedures.	Product Responsibility – Product Quality Management
B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Product Responsibility – Customer Privacy Protection

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Aspect	Content	Section/Remarks
Aspect B7: Anti-corruption		
General Disclosure	Information on: <ul style="list-style-type: none"> (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering. 	Integrity and Compliance
B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	
B7.2	Description of preventive measures and whistleblowing procedures, how they are implemented and monitored.	Integrity and Compliance – Code of Conduct on Integrity; Whistle-blowing Channels
B7.3	Description of anti-corruption training provided to directors and staff.	Integrity and Compliance – Cultivate Anti-corruption Awareness
Community		
Aspect B8: Community Investment		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities takes into consideration communities’ interests.	Community Investment
B8.1	Focus areas of contribution.	
B8.2	Resources contributed to the focus areas.	