



SMC ELECTRIC LIMITED
蜆壳電業有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2381

**ENVIRONMENTAL, SOCIAL AND
GOVERNANCE REPORT**

2021



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

About This Report

SMC Electric Limited (“the **Company**”) and its subsidiaries (the “**Group**”) are delighted to present the Environmental, Social and Governance (“ESG”) Report (the “**Report**”), which details the Group’s management approach, related policies, activities, performance and contribution that drive sustainable business development of the Group for the year ended 31 December 2021 (the “**Year**” or “**2021**”). The Report enhances stakeholders’ understanding of the Group’s progress and development direction on sustainable development issues.

Reporting Framework and Boundary

The Report is prepared in accordance with the requirements under the Environmental, Social and Governance Reporting Guide (“**ESG Reporting Guide**”) set out in Appendix 27 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (“**SEHK**”) for the Year.

The Report covers subsidiaries and operations that contribute to the Group’s principal activities and have a significant influence on the Group’s ESG performance. This includes the production site and offices in Shunde District, Foshan, Guangdong Province, the People’s Republic of China (the “PRC”) and in Hong Kong.

Reporting Principles

According to the ESG Reporting Guide, the following reporting principles were applied in the Report:

Materiality	The Group regularly conducts materiality assessments to identify <u>its material</u> ESG issues to <u>the business</u> . By gathering the feedback <u>of stakeholders</u> , the Group can have a better understanding of their concerns and expectations of the Group’s sustainable development. <u>For further details, please refer to the sections headed “Stakeholder Engagement” and “Materiality Assessment”.</u>
Quantitative	To measure the effectiveness of ESG-related policies, the Group has adopted the SEHK’s ESG Reporting Guide, relevant guidelines published by SEHK and other international organisations, in measuring and presenting quantitative environmental and social key performance indicators (“ KPIs ”). Details of the standards used are described in the relevant sections of the Report.
Balance	The Report provides an unbiased picture of the Group’s ESG performance.
Consistency	<u>Unless otherwise stated, the Group uses consistent reporting standards and methodologies to allow for meaningful comparisons of related data over time. If there is any change in the reporting scope or calculation method, which may affect the comparison with previous reports, the Group will explain the corresponding data.</u>

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

Chairman's Statement

Dear valued stakeholders,

In compliance with the ESG Reporting Guide and the Corporate Governance Code (the "CG Code"), the board (the "Board") of directors (the "Directors") has taken up an overall responsibility for formulating the Group's ESG strategy and ensuring that appropriate and effective ESG-related risk management and internal control systems are in place. Key management personnel are responsible to execute the policies and evaluate the performance in different aspects such as environmental, occupational health and safety, labour standards and product responsibilities in the ESG aspects. Every department of the Group participates in the coordination and implementation of appropriate policies and measures in its daily operation to realise the Group's policies and strategies on environmental, social and governance issues.

The Group strives to create values for its shareholders. Therefore, the Group continuously communicates with its stakeholders to understand their concerns and fulfil their expectations. During the Year, the Group distributed questionnaires to internal and external stakeholders to collect their views on the sustainability issues of the Group. Their opinions helped the Group understand its ESG performance, assess the importance of different ESG issues and prioritise them. With reference to the stakeholders' opinions, the Board of Directors regularly reviews the Group's sustainability strategies and makes adjustments to live up to stakeholders' expectations while meeting the requirements of regulators.

During the Year, the Group took the first step in setting targets on material environmental aspects, while the Board of Directors monitors the progress through analysing the ESG data of the Group. Going forward, the Group will continue to evaluate the improvement potential of the Group and enhance its sustainability strategy. The Board of Directors believes the ESG-related targets can raise employee's awareness of ESG, drive behavioural changes and facilitate the incorporation of ESG initiatives into the Group's operational strategy.

Although the ongoing epidemic has posed a serious challenge, the Group will continue to drive collective actions on ESG issues and remain vigilant in future. On behalf of the Board of Directors, I would like to express my gratitude to my fellow Directors, the management team, all employees and stakeholders for their contributions to the Group's sustainable development.

Mr. Yung Kwok Kee, Billy
Chairman

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

Mission and Vision

The Group is committed to a better understanding of customer needs, innovating and delivering safe and environmentally friendly products of good quality, which are manufactured with the goal of conserving natural resources. While committed to the pursuit of profit, the Group also strives to reduce any negative impacts on the environment, its workforce and business partners, and the community.

There is a growing concern about sustainable operations of the market, and demands for sustainable products and services surge these days. As regulators and investors are increasingly concerned about sustainability issues and related risks, the Group will continue to review its sustainability governance strategy and refine relevant policies and measures.

Stakeholder Engagement

The Group values the importance of communication with its stakeholders and maintains open communication channels in order to build trust and long-term relationships.

The following table summarises the Group’s key stakeholders, the main channels through which the Group communicates with its stakeholders and stakeholders’ issues of concern.

Stakeholder	Communication channels	Issues of concern
Shareholders	<ul style="list-style-type: none"> Annual general meetings Financial reports Announcements and circulars Company website 	<ul style="list-style-type: none"> Investment returns Sustainable operations Corporate governance and risk control
Government and regulatory bodies	<ul style="list-style-type: none"> Regular meetings Regulatory documented information 	<ul style="list-style-type: none"> Compliance with the relevant laws and regulations Business integrity and ethics
Customers	<ul style="list-style-type: none"> Regular meetings Support service team 	<ul style="list-style-type: none"> Safety and quality of products Customer data and privacy protection
Suppliers	<ul style="list-style-type: none"> Regular meetings Procurement process Supplier on-site audit management system 	<ul style="list-style-type: none"> Supplier evaluation and management Business integrity Stable business relationships
Community and the public	<ul style="list-style-type: none"> Company website Company’s announcements 	<ul style="list-style-type: none"> Environmental issues of greenhouse gas (“GHG”) Climate change mitigation and adaptation Emission and waste management Social concern and charity events

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

Stakeholder Engagement (Continued)

Stakeholder	Communication channels	Issues of concern
The Board of Directors and senior management	<ul style="list-style-type: none">• Regular meetings• Training and seminars• Intranet	<ul style="list-style-type: none">• Emergency response plan• Business development• Compliant operation• Financial performance• Risk management
Employees	<ul style="list-style-type: none">• Employee training and meetings• Performance appraisals• Employee opinion survey• Channels for employees' feedback such as forms and suggestion boxes• Management newsletters• Intranet	<ul style="list-style-type: none">• Occupational health and safety• Training and development• Employees' benefits• Company activities• Equal opportunity

Objectives and Priorities – Sustainability

The Group highly values governance for sustainability. It takes sustainable development as one of its important tasks.

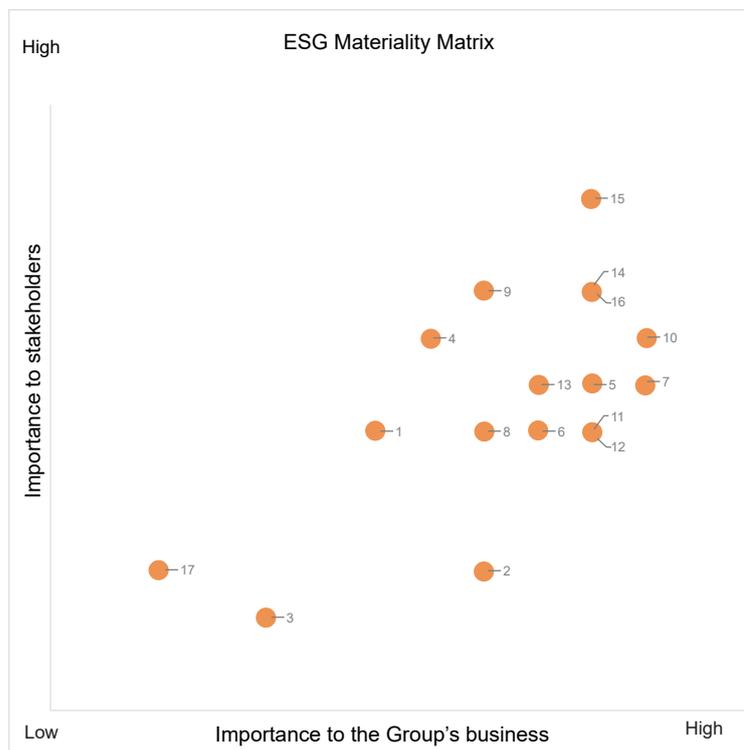
The Group believes that its sustainable development plan relies on the opinion of the stakeholders. The Group's business operation may affect its shareholders, employees, customers, suppliers, and the government, and in turn, they may have their expectations and opinions on the Group's operation and strategies. The Group actively seeks solutions to improve energy and production efficiency, continuously enhances employees' working environment and encourages employees to be part of its sustainable development. On the other hand, the Group listens to the voices of various social groups and participates in the promotion of community development.

The Group believes that the Report is one of the channels to convey its sustainability strategy, management direction and performance to the stakeholders, and promotes the integration of sustainability into the Group's business.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

Materiality Assessment

Based on the materiality of each of the ESG topics expressed by the stakeholders, the ESG topics are prioritised and shown as below:



Number	ESG issues	Number	ESG issues
1	Energy efficiency	10	Responsible supply chain management
2	Use of materials	11	Quality control of production material
3	Responding actions to climate risks	12	Customer satisfaction, customer service quality and complaint handling
4	Environmental compliance	13	Intellectual property
5	Employment policies and labour rights	14	Customer privacy and data protection
6	Diversity and equal opportunity	15	Product quality
7	Occupational health and safety	16	Anti-corruption
8	Employee training	17	Community Investment
9	Prevention of child labour and forced labour		

Contact Us

The Group values feedback from its stakeholders. If you have any questions regarding the Report or the Group's performance in sustainable development, please feel free to make enquiry by mailing to the head office and principal place of business at 1/F., Shell Industrial Building, 12 Lee Chung Street, Chai Wan, Hong Kong.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

A. Environmental

A1. Emissions

The Group recognises the importance of maintaining good environmental management and strives to protect the environment in order to fulfil its corporate social responsibilities. The Group implements its Environmental, Social and Governance Policy (“ESG Policy”), which clearly states the Group’s guiding principles and methods to manage emissions, energy consumption and waste management throughout its daily operations. All products manufactured at the Group’s production site will conform to environmental safety standards as well as meeting customers’ quality requirements. The Group’s production processes have been scrutinised to make sure full environmental compliance is met, to achieve optimal waste reduction and energy conservation workplace.

During the Year, the Group was not aware of any non-compliance with the relevant laws and regulations that has a significant impact on the Group relating to air and GHG emissions, discharges into water and land, and generation of hazardous and non-hazardous waste. The relevant laws and regulations include, but are not limited to, the Atmospheric Pollution Prevention and Control Law of the PRC, the Environmental Protection Law of the PRC, the Water Pollution Prevention and Control Law of the PRC, the Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste and the Air Pollution Control Ordinance of Hong Kong.

Air Pollutant Emissions

The Group’s operations do not generate large amount of air pollutants. The Group’s major sources of air pollutants are (1) limited amount of volatile organic compound gases released during production processes and (2) gas emissions from consumption of fuels from goods vehicles.

Regarding the emission of volatile organic compound gases, the Group takes all measures to ensure strict compliance with the national regulations on environmental protection management of construction projects, before the relevant pollutant discharge and treatment facilities are put into production or use.

The emission amount was assessed by a third-party consultant to ensure compliance with the Atmospheric Pollution Prevention and Control Law of the PRC, Integrated Emission Standard of Air Pollutants and Part 2 of the Occupational Exposure Limits for Hazardous Agents in the Workplace.

The Group has also declared to the national environmental protection administrative department the relevant pollutant discharge and treatment facilities, as well as the type, quantity and concentration of pollutants discharged and measures to prevent air pollution.

During the Year, the Group’s nitrogen oxides (“NO_x”) emissions, sulphur oxides (“SO_x”) emissions and particulate matter (“PM”) emissions were approximately 145.66 kg, approximately 0.08 kg and approximately 9.56 kg respectively (2020: approximately 239.70 kg, approximately 0.13 kg and approximately 16.36 kg respectively).

The Group strives to reduce the harmful gas generated from its operations by performing regular performance and condition check to ensure the equipment are conducted in good condition without excessive emissions. In addition, operation manual and training are provided to workers to enhance the effectiveness and efficiency of using equipment, which helps to reduce unnecessary emissions.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

A. Environmental (Continued)

A1. Emissions (Continued)

Air Pollutant Emissions (Continued)

The Group's air pollutant emissions are set out below:

<u>Indicators</u>	<u>Unit</u>	<u>2021</u>	<u>2020</u>
NO _x	kg	145.66	239.70
SO _x	kg	0.08	0.13
PM	kg	9.56	16.36

GHG Emissions

During the Year, the Group's total GHG emissions were approximately 215.50 tonnes of carbon dioxide equivalent ("tCO₂e") (2020: approximately 258.62 tCO₂e).

The Group's GHG emissions are set out below:

<u>Indicators</u>	<u>Unit</u>	<u>2021</u>	<u>2020</u>
Scope 1 – direct emissions ^{1,2} consumption of fuels (goods vehicles)	tCO ₂ e	14.09	20.94
Scope 2 – energy indirect emissions ^{1,3} electricity	tCO ₂ e	200.51	236.61
Scope 3 – other indirect emissions ^{1,4} business air travel by employees	tCO ₂ e	0.90	1.07
Total GHG emissions	tCO ₂ e	215.50	258.62
Total GHG emissions intensity ⁵ shipped	tCO ₂ e/million quantity shipped	151.45	143.86

Notes:

1. GHG emissions data is presented in terms of carbon dioxide equivalent and are based on, including but not limited to, "The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standards" issued by the World Resources Institute and the World Business Council for Sustainable Development, the national emission factor for the PRC in "How to prepare an ESG Report – Appendix 2: Reporting Guidance on Environmental KPIs" issued by SEHK and the "Sustainability Report 2020" published by the HK Electric Investments Limited. The greenhouse effect caused by emissions of different GHGs including carbon dioxide (CO₂), methane (CH₄) and nitrous oxide (N₂O) has been calculated from 2021 onwards.
2. Scope 1 refers to the direct emissions from the consumption of fuels from goods vehicles used by the Group.
3. Scope 2 refers to the indirect emissions resulting from the purchased or acquired electricity consumed within the Group.
4. Scope 3 refers to other indirect emissions including business air travel by employees.
5. During the Year, the quantity shipped by the Group was approximately 1.4 million (2020: approximately 1.8 million). These data are also used for calculating other intensity data.

To reinforce the Group's commitment to reduce GHG emissions, it has set a target of maintaining or reducing the total GHG emission intensity in the next reporting year, using approximately 151.45 tCO₂e per million quantity shipped in 2021 as the baseline. The Group had encouraged its sales team to reduce the number of overseas trips and meet customers via video conferencing in an effort to reduce GHG emissions.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

A. Environmental (Continued)

A1. Emissions (Continued)

Waste Management

In carrying out industrial production, not only is it necessary to strictly control emissions, but also to deal properly with waste in order to avoid polluting soil and water sources with chemical pollutants. The waste management practice of the Group is compliant with laws and regulations relating to environmental protection in the PRC.

The Group adopts two main principles for its waste management – minimisation and making the best use of resources to reduce waste disposal and its environmental impacts and maximise resource efficiency.

Besides, the Group has designed various e-cards for the festive blessing to reduce the use of paper to encourage its staff to celebrate with minimal ecological footprints.

Waste produced by the Group from the production site, warehouses and offices are stored and disposed of by categories of “recyclable”, “non-recyclable” and “hazardous waste”. The waste generated by the Group mainly comes from a small number of leftovers, tin slag and staff’s domestic waste during the production process. The leftovers and tin slag are collected and sold to recyclers. The domestic waste is stacked in a centralised manner and cleaned and transported by the environmental sanitation department in time. After the above treatment, the adverse effects of waste on the environment can be eliminated.

Hazardous Waste

The Group’s business, by nature, generates a small amount of hazardous waste throughout the production process. To the best of the Group’s knowledge, no material amount of hazardous waste was generated.

The Group has implemented stringent policy to reduce the use of hazardous waste:

- Control the use of oil rags during machine operation;
- Improve the production procedures to reduce the consumption of chemicals and oil;
- All of the hazardous waste should be sorted by category to avoid mixing up with other incompatible waste and stored in designated collection points; and
- Proper chemical labels should be attached to the containers for waste identification and safety caution.

The following measures are adopted to handle the disposal of hazardous waste generated during production:

- The hazardous waste generated during production mainly contains waste wipes and waste engine oil, which are all temporarily stored in the hazardous waste workshop, and they are further processed by licensed environmental service providers in the PRC;
- The floor of the hazardous waste temporary storage site has been hardened and an anti-overflow weir is set up to meet the requirements of anti-seepage, windproof and rainproof;
- A sign of obvious hazardous waste is set up, which meets the relevant requirements of the “Hazardous Waste Storage Pollution Control Standard”; and
- The Group has set up special posts for hazardous waste management and transfer records.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

A. Environmental (Continued)

A1. Emissions (Continued)

Non-Hazardous Waste

During the Year, the Group mainly generated non-hazardous waste from its production activities and daily office operation. The major types of non-hazardous waste generated by the Group included paper, carton boxes and plastics. The non-hazardous waste generated by the Group was approximately 454 tonnes during the Year (2020: approximately 545 tonnes).

The non-hazardous waste generated by the Group is as follows:

<u>Indicators</u>	<u>Unit</u>	<u>2021</u>	<u>2020</u>
Paper and carton boxes	tonnes	447	533
Reusable plastics	tonnes	7	12
Total non-hazardous waste	tonnes	454	545
Total non-hazardous waste intensity	tonnes/million quantity shipped	319	<u>303</u>

To reinforce the Group's commitment to reduce waste, the Group has set a target of maintaining or reducing the non-hazardous waste intensity in the next reporting year, using approximately 319 tonnes per million quantity shipped in 2021 as the baseline. To pursue the waste reduction target, the Group educates its employees on the significance of sustainable development and provides relevant support in order to enhance their skills and knowledge of sustainable development.

A2. Use of Resources

Under the premise of not compromising the products' strict international quality standards, the Group strives to improve the efficiency of resource use. The Group strives to increase energy efficiency in general and reduce its dependence on direct and indirect energy. Through actively promoting various environmentally friendly measures, the Group encourages efficient use of resources, including energy, paper, water and other raw materials. Therefore, the Group conserves energy in respect of lighting, heating and indoor temperature adjustment, as follows:

- Reduce the use of air-conditioning by limiting the hours of operation and setting the temperature at 25 degrees Celsius to maintain optimal temperature;
- Organise training on saving energy regularly;
- Repair timely when there is dripping, spraying and leaky faucets;
- Keep the faucets off when they are not in use;
- Conduct regular inspections of faucets;
- Promote e-platform for internal information circulation;
- Encourage the use of recycled paper and double-sided printing;
- Encourage all employees to "think before print";
- Switch off lighting and electrical office equipment when they are not in use;
- Recycle used ink cartridges; and
- Promote green procurement practices, such as opting for refillable ball pens and energy-efficient office equipment.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

A. Environmental (Continued)

A2. Use of Resources (Continued)

Energy Efficiency

While the Group consumes energy for its daily business operations, it is committed to reducing its energy consumption. Fossil fuels to power goods vehicles and electricity are the majority of the Group's energy consumption, the Group has taken different steps to reduce the use of electricity and fuels. During the Year, the Group's total energy consumption was approximately 384.81 MWh (2020: approximately 372.81 MWh).

The energy consumption of the Group is set out below:

Indicators	Unit	2021	2020
<u>Direct energy consumption</u> ^{1,2}	<u>MWh</u>	56.15	<u>N/A</u> ³
<u>Indirect energy consumption</u> ⁴	<u>MWh</u>	328.66	<u>372.81</u>
<u>Total energy consumption</u>	<u>MWh</u>	384.81	<u>372.81</u>
<u>Total energy consumption intensity</u>	<u>MWh/million quantity shipped</u>	270.44	<u>207.38</u> ⁵

Notes:

1. Direct energy consumption represents diesel consumed by the Group for the use of goods vehicles.
2. The unit conversion calculation is based on the conversion factors in "How to prepare an ESG Report – Appendix 2: Reporting Guidance on Environmental KPIs" issued by SEHK.
3. Relevant figure has been disclosed from 2021 onwards.
4. Indirect energy consumption represents electricity purchased from external sources and consumed by the Group.
5. The figure has been restated due to the adjustment of quantity shipped.

The Group has set a target of maintaining or reducing the total energy consumption intensity in the next reporting year, using approximately 270.44 MWh per million quantity shipped in 2021 as the baseline.

The Group reviews the use of resources from time to time and implements improvement measures when necessary. From an operational perspective, the Group looks for ways in which it can further optimise its efficiency in terms of resources management. The Group will record its electricity consumption data on a monthly basis and analyse if any abnormal consumption level occurred.

Water Consumption

The Group's water use is mainly high-purify water in its manufacturing operations and domestic water used in offices and dormitory areas. During the Year, the Group's total water consumption was approximately 4,632 m³ (2020: approximately 4,731 m³).

The water consumption of the Group is set out below:

Indicators	Unit	2021	2020
Total water consumption	m ³	4,632	4,731
Water consumption intensity	m ³ /million quantity shipped	3,255	<u>2,632</u> ¹

Note:

1. The figure has been restated due to adjustment of quantity shipped.

The Group has set a target of maintaining or reducing the total water consumption intensity in the next reporting year, using approximately 3,255 m³ per million quantity shipped in 2021 as the baseline.

To pursue the Group's water efficiency target, the Group proactively implements water-saving measures. For example, all employees are required to turn off water faucets when they are not in use. All water facilities and equipment are well-maintained and regular inspections are conducted to prevent water leakage. Similar to the Group's energy conservation measures, the Group will record its water consumption data on a monthly basis and analyse if any abnormal consumption level occurred.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

A. Environmental (Continued)

A2. Use of Resources (Continued)

Water Sourcing

The Group attaches great importance to energy and water resource conservation. Under the water supply of municipal governments, the Group has no difficulty in obtaining water resources and the business is not water-intensive. Therefore, water consumption is not the most material environmental topic to the Group.

No wastewater was generated in the Group's production process. The Group's wastewater discharge mainly comes from domestic wastewater from canteens, dormitories and kitchens. The Group encourages all employees to develop the habit of conserving water consciously. Pantry and washrooms are posted with environmental messages to remind employees of the importance and urgency of water conservation. Apart from education, the utility facilities are maintained regularly for service, to ensure that water seepage or leaking pipelines are replaced or repaired on a timely basis.

Raw Materials

Measures are adopted in the procurement process through avoiding over-ordering to reduce waste produced.

The Group recognises the importance of waste reduction at the source and hence requires all departments to purchase an accurate amount of raw materials to avoid over-ordering and wastage due to materials deterioration and damage. Substandard materials will all be returned to suppliers.

Packaging Materials

The Group mainly utilises raw materials (copper wire, rubber and plastic) and packaging materials for production.

The Group reuses packaging materials from the suppliers as much as possible and reduces the use of packaging materials by utilising automatic transportation lines.

During the Year, the Group's total packaging materials consumption was approximately 454 tonnes (2020: approximately 545 tonnes). The Group strives to improve its sustainability practice and avoid over-packaging. Production departments are required to properly plan the use of raw materials and packaging materials, so as to optimise the use of resources, while effectively cutting down the cost of production and packaging materials.

The Group's packaging materials mainly include paper, carton paper box and packaging blister. The usage of each is set out below respectively:

<u>Indicators</u>	<u>Unit</u>	2021	2020
Paper and carton boxes	tonnes	447	533
<u>Packaging blister</u>	tonnes	7	12
Total packaging materials <u>consumption</u>	tonnes	454	545
<u>Total packaging materials consumption</u> intensity	tonnes/million quantity shipped	319	<u>303</u>

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

A. Environmental (Continued)

A3. The Environment and Natural Resources

The air pollutants, GHG and wastes generated from the business can be destructive to the ecosystem. Therefore, the Group is committed to integrating the concept of environmental protection into its production management and daily operation.

Despite that the daily operations of the Group will not have a serious impact on the environment or natural resources, the Group has formulated the ESG Policy to strive to reduce the impact of its operations on the environment. Through the above-mentioned measures elaborated in the sections headed “Emissions” and “Use of Resources”, the Group endeavours to minimise the negative environmental footprint and the potential impacts of the operation on the environment and natural resources. In the future, the Group will continue its commitment to environmental protection and strive to build a greener and healthier environment to fulfil its responsibilities as a member of the community. The Group encourages employees to reuse, reduce and recycle to minimise wastage in daily operations.

A4. Climate Change

Climate change is affecting many industries. A transition towards a low-carbon economy is essential to mitigate climate-related risks and seize opportunities. Understanding the potential risks and opportunities in this transition, the Group has identified significant climate-related issues which have impacted and may impact its operations. Therefore, the Group has formulated the Climate Change Policy to tackle these issues.

For physical risks, extreme weather has become more frequent and severe due to climate change, which might lead to flooding and damage the Group’s properties. Climate change can cause a reduction in the Group’s production and thus hamper the Group’s operations.

The Group has taken different actions to manage the abovementioned acute physical risks. For example, the Group has developed a set of arrangements for extreme weather so that loss can be reduced or avoided when extreme weather affects the Group’s operating sites. In addition, the Group has purchased insurance against risks of property loss. It is believed that the potential financial impacts can be minimised with adequate preparations for extreme weather events.

For transition risks, the Group may bear higher operating costs due to the potential regulatory change related to carbon reduction requirements. To manage the legal risks that may be brought along by the climate crisis, the Group has taken an array of actions. First, the Group constantly monitors any changes in laws or regulations. Second, the Group will seek compliance consulting services where appropriate to reduce legal risks. Third, the Group has taken comprehensive measures to protect the environment, including measures aimed at reducing GHG emissions. By going beyond current compliance requirements, the Group has a better chance to adapt swiftly to regulatory changes.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

A. Environmental (Continued)

A4. Climate Change (Continued)

Under the threat of climate change, the public is having higher environmental awareness over time. As a result, customers are shifting their preference towards environmentally friendly and high-tech products, the Group believes the positioning of its products can address the needs of customers.

The Group will continue to assess the effectiveness of its actions on climate change and enhance its resilience against climate-related issues.

B. Social

B1. Employment

Employee Profile

The Group has recorded a detailed diverse workforce portfolio. As at 31 December 2021, the total number of employees of the Group was 132 (31 December 2020: 140), all of whom were full-time employees. The Group's employees are primarily responsible for management, sales and marketing, shipping, procurement, finance and accounting, engineering and production.

The number of employees of the Group by category is as follows:

Indicators	As at 31 December 2021	As at 31 December 2020
Number of employees	<u>132</u>	140
By gender		
Female	<u>95</u>	103
Male	<u>37</u>	37
By age group		
Under 30	<u>6</u>	5
30-40	<u>29</u>	30
41-50	<u>53</u>	68
Above 50	<u>44</u>	37
By <u>geographical region</u>		
<u>PRC</u>	<u>98</u>	105
Hong Kong	<u>34</u>	35

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

B. Social (Continued)

B1. Employment (Continued)

Employee Profile (Continued)

The number and rate of employee turnover of the Group by category are as follows:

Indicators ¹	2021
Number and rate (%) of employee turnover	25 (19%)
By gender	
Female	18 (19%)
Male	7 (19%)
By age group	
Under 30	1 (17%)
30-40	10 (34%)
41-50	8 (15%)
Above 50	6 (14%)
By geographical region	
PRC	21 (21%)
Hong Kong	4 (12%)

Note:

¹ The calculation method of turnover rate: (number of employees leaving employment in the category in the year ÷ number of employees in the category at the end of the year) × 100%

Employment Practices

The Group believes attracting and retaining talents is the key to its business sustainability development; thus, employee development, employment conditions and workplace standards have always been its prime concerns. The Group seeks to maintain a stable, motivated and supportive workforce underpins the diverse, fair and respectful corporate culture. The Group strives to make sure employees comply with laws and regulations, follow ethical business practices and respect equal opportunity in employment.

The Group provides equal opportunities for all personnel in respect of recruitment, remuneration, training and development, promotion and other terms of employment. The Group's practice covers fair reward and compensation, anti-discrimination, safety of the workplace and ethical behaviour. The Group values its employees' contributions to the Group's growth and success, and believe they are the Group's most important asset.

During the Year, the Group was not aware of any non-compliance with relevant laws and regulations that have a significant impact on the Group relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare. The relevant laws and regulations include, but are not limited to, the Labour Law of the PRC, the Labour Contract Law of the PRC, the Social Insurance Law of the PRC and the Employment Ordinance of Hong Kong.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

B. Social (Continued)

B1. Employment (Continued)

Equal Opportunities, Anti-Discrimination, Diversity

The Group is committed to offering an ethical and fair workplace for its people. As the Group adheres to the principle of equal opportunity, it hires people based on merits and on no occasion accept or tolerate any form of discrimination in the workplace, and ensures that employee's employment, remuneration, training, promotion and dismissal does not differ because of age, gender, race, marital status, religion, disability, sexual orientation, political inclination, socioeconomic status or other factors.

With periodic assessments of employee performance, the employees are evaluated on contribution, skills, learning and development and work attitude to reflect the performance of the employees. The results of the appraisal form the basis for salary adjustment and promotion and the basis for improving human resource management.

To promote equality and anti-discrimination, standard interview and evaluation criteria are established, also promotion and salary increment are benchmarked against individuals' performance. The Group may also recruit disabled people with working ability based on its need, and make appropriate arrangements in terms of job allocation.

During the Year, the Group did not receive any complaints from employees regarding labour practices, discrimination and harassment.

Recruitment and Compensation

The Group abides by the Labour Law of the PRC and the Labour Contract Law of the PRC as well as other relevant regulations and takes into account practical circumstances, to serve as a framework for setting staff remuneration and benefits.

Recruitment was conducted mainly through job postings. Recruitments of employees at all levels of the Group are conducted in a fair and transparent manner that candidates are hired according to the needs of the position and solely based on their educational qualifications, abilities, attitude, knowledge, experience, integrity, physical fitness, and performance.

Meanwhile, every employee is provided with an equal opportunity in recruitment, transfer, promotion, performance appraisal, training, benefits as well as compensation. Candidates are vetted by the human resources department and reviewed by the heads of the hiring department. All recruitments are submitted to the general manager for approval to ensure the decisions are fair and reasonable.

The employee handbook, containing information including working hours, leave entitlement and reward and compensation system, are communicated to employees through its circulation upon commencement of employment and at any time during the employment period when there are updates.

The Group has entered into individual employment contracts with the employees that comply with the Employment Ordinance of Hong Kong and other applicable laws.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

B. Social (Continued)

B1. Employment (Continued)

Promotion

Employees with outstanding performance are offered promotion opportunities. Employees who meet the requirements may also make an application.

The Group endeavours to ensure that all candidates and current employees are not subject to any form of discrimination, and each employee can be treated fairly.

Termination of Employment

Either employees or the Group can propose to terminate the labour contract in accordance with the provisions of the labour contract and the specific notice period.

The human resources department conducts voluntary exit interviews with resigning employees to understand their reasons for resigning, so the Group's talent management system can be optimised.

Review of Employment Practices

The employment practices are regularly reviewed and monitored by the administrative department to ensure that the latest industry's standards and applicable laws and regulations are followed.

Staff Benefits

The Group offers competitive remuneration packages with a variety of benefits to its employees for attraction and retention. The remuneration package includes basic salary, discretionary bonus, statutory annual and sick leaves, allowances and other welfare and interests.

Employees working in the PRC enjoy welfare schemes concerning pension insurance, unemployment insurance, maternity insurance, occupational injury insurance and medical insurance in accordance with the local regulations including the Labour Law of the PRC and the Social Insurance Law of the PRC.

All the full-time employees working in the Hong Kong office enjoy medical insurance, disability and invalidity coverage, maternity leave, Mandatory Provident Fund Scheme and various paid leaves.

The Group determines and adjusts the remuneration and welfare of the employees upon regular performance appraisals which are based on job nature, qualifications and responsibilities of staff, work performance and market conditions.

The Group's standard wage for employees is not lower than the level set by the national and local minimum wage standards, and wages are adjusted according to the corporate economic and personal performance.

Employees who have worked continuously for more than one year are entitled to paid annual leave. Apart from the statutory holidays and paid annual leave, all the staff are also entitled to various paid leaves such as marriage leave, maternity leave, compassionate leave and jury duty leave.

Overtime work is not encouraged though overtime pays will be granted to employees.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

B. Social (Continued)

B2. Health and Safety

The production personnel face certain health and safety risks when they are working on the production lines. The Group is responsible for the work safety of its staff members. The Group aims to provide a healthy and safe working environment to the employees and protects employees from potential occupational hazards and health and safety risks, in order to achieve zero tolerance of accidents and injuries. The Group's management team would try their best endeavour to create a safe workplace for all employees.

The Group strictly abides by all laws and regulations that are of significance to the Group, related to workplace safety, and that help employees guard against occupational hazards.

During the Year, the Group was not aware of any non-compliance with the health and safety-related laws and regulations that would have a significant impact on the Group. The relevant laws and regulations include, but are not limited to, the Law of the PRC on the Prevention and Control of Occupational Diseases, the Work Safety Law of the PRC, the Fire Protection Law of the PRC, the Occupational Safety and Health Ordinance of Hong Kong and Employees' Compensation Ordinance of Hong Kong.

Safety Risks and their Related Measures

The identified safety risks and their related measures of the manufacturing operation are summarised below:

Fire

- Attach safety signs in conspicuous zones;
- Conduct regular inspections of firefighting equipment;
- Establish emergency plans, report on networks and evacuation routes; and
- Conduct fire drills and training regularly.

Electric Shock

- Ensure all machine operations are licensed and qualified;
- Provide personal protective equipment; and
- Ensure all machines are under regular inspections and maintenance.

Equipment Malfunction

- Install shielding layers for machines that pose great safety risks;
- Conduct regular inspections for equipment abrasion and damage; and
- Conduct training about operational safety regularly.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

B. Social (Continued)

B2. Health and Safety (Continued)

Safety Risks and their Related Measures (Continued)

Noise

- Impose sound cap in the workplace (<85dB);
- Let workers work in shifts;
- Provide protective equipment, such as earplugs, masks and protective glasses; and
- Carry out regular occupational health checks.

Workplace

- Maintain air ventilation system in the workplace regularly;
- Arrange dust prevention measures to protect the well-being of the workers;
- Prohibit smoking, abuse of alcohol and drugs in the workplace;
- Provide clean and tidy rest area such as corridors and pantry;
- Provide adjustable chairs and monitors for eye protection;
- Set up posters or warning labels for areas subject to potential hazards in the production site;
- Ensure lighting lamps are installed above aisles;
- Ensure the stacking is kept at a distance of more than 50 cm from the lighting lamp; and
- Provide first aid kits and fire extinguishers in the workplace in response to emergencies.

All of the work injury cases are required to be reported to the administrative department, by which a comprehensive accident investigation will be carried out in order to find out the root cause(s) of the accident, and rectify the existing safety conditions, management approaches and safety practices.

Apart from eliminating similar accidents, the Group enables its employees to receive appropriate medical treatment and proper compensation under the social insurance after accidents.

Safety Inspection and Factory Audit

The production department is responsible for ensuring compliance with local laws and regulations, and for conducting regular safety inspections at the Group's production site.

During the Year, the Group had worked closely with the customers to conduct safety inspections and factory audits. The Group was in compliance with relevant laws and regulations in the PRC and Hong Kong to provide and maintain a safe working environment and protect employees from occupational hazards.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

B. Social (Continued)

B2. Health and Safety (Continued)

Safety Equipment

There is sufficient safety equipment in the workplace for use when necessary, such as emergency response instructions, gas detection fire alarm, fire extinguishers, and eye washing station.

The Group conducts regular inspection to ensure all safety equipment meets the local fire department's requirement and to avoid malfunctioning and obsolescence.

In order to resolve the identified potential safety risks, including air and noise pollution, chemical hazard and machinery accident, workers who are exposed to such risks are provided with protective equipment and the machines that pose safety risks have been installed with safety protection measures.

Safety Training and Guidelines

The Group has established various policies and manuals on occupational safety in the workplace, including fire safety, office safety, warehouse safety, canteen safety and hygiene, etc., to provide sufficient health and safety guidance on essential procedures of production and other daily operations.

To ensure all employees understand the safety requirement, all new employees are required to attend induction programs and safety training programs in relation to health and safety matters, and internal safety tests must be passed before jobs were assigned in the production.

The Group conducts regular training in relation to the use of personal protective equipment, inherent risks in the workplace, emergency procedures and chemical handling, to raise employees' awareness on workplace safety. In addition, the Group provides emergency training exercises and drills regularly to enhance employees' safety awareness and incident handling capabilities and communicates important safety issues to employees through bulletin boards.

Zero Workplace Accidents

The Group's commitment to workplace safety is exemplified by zero reported cases of work-related injuries, which is equivalent to zero lost days due to work injury during the Year. In the past three years, including the Year, the Group had zero work-related fatalities.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

B. Social (Continued)

B2. Health and Safety (Continued)

Improvements for the Work-related Injury

The Group holds regular meetings to review the incidents for the current period and follow up on any improvements from previous incidents if any. Furthermore, relevant rectification and improvement will be made with a view to reducing reoccurrence.

Preventive Measures for COVID-19

The COVID-19 epidemic creates special challenges in the ESG domains, in particular the health, safety considerations. The Group implemented precautionary measures such as temperature screening before entering the office and provide its employees with surgical masks and disinfectants. The Group also implemented a flexible work arrangement and encouraged its staff to attend virtual meetings instead of face-to-face meetings.

B3. Development and Training

The Group acknowledges the importance of vocational skills training of its employees and provides various training opportunities according to the needs of the Group and its employees to enhance their competitiveness in the market.

The Group in addition believes it is of predominant importance for employees to maintain and advance their skills and knowledge, to adapt to the industry's current regulations and practices, business environment, and the Group's business direction and strategy in order to enhance the work efficiency.

The Group offers internal training opportunities to its employees. Performance-based appraisals were conducted regularly for employees to receive constructive feedback from their supervisors.

In-house Training

The Group sees each position to be of unique professional and technical needs. Thus, comprehensive trainings are in place to provide support and coaching to the employees.

The Group provides in-house training for its employees, with topics ranging from work-related skills and techniques and operational procedures to workplace safety in accordance with their job duties. Product trainings will be given to salespersons when new products are launched to help them to acquire product knowledge. Each department provides training for employees based on its training needs, so that employees can further develop their talents, meet department requirements and overcome their challenges. The effectiveness of the training programs will be assessed and the work performance of trainees will be evaluated regularly for continuous improvement.

To facilitate new employees to understand the corporate background and culture, staff remuneration and benefits, code of conducts and operational practices, rules and regulations, job positions, product identification, quality policy, restriction of hazardous substances and occupational safety, all new hires are required to receive induction training. These training programs aim to assist the new hires in adapting to the Group's working environment efficiently. Mentoring and guidance in relation to the operating procedures and technical production requirements will be provided by senior staff or supervisor in each production unit.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

B. Social (Continued)

B3. Development and Training (Continued)

In-house Training (Continued)

Types of training included:

1)	Induction training	Company profile, company policies and objectives, basic knowledge of fire protection, safety and hygiene, and knowledge of management system
2)	On-board training and transfer training	Skills training, job-specific requirements and safety operating procedures
3)	On-the-job training	Manufacturing procedures and operational procedures of equipment

The percentage of trained employees and average training hours completed per employee of the Group by category are as follows:

Indicators	2021	2020
Total training hours	1,818	4,839
Average training hours per employee ¹	13.8	34.6
By gender ²		
Female	16.7	36.7
Male	6.4	28.6

During the Year, the training rate³ of female employees, male employees, senior management, middle management and general staff were 85%, 15%, 6%, 20% and 74% respectively. During the Year, the average training hours² of senior management, middle management and general staff were 2.8 hours, 7.3 hours and 18.8 hours respectively.

Notes:

¹ The calculation method of average training hours per employee: total training hours ÷ total number of employees.

² The calculation method of average training hours per employee by category: total training hours of employees in that category ÷ number of employees in that category

³ The calculation method of training rate by category: (number of employees trained in that category ÷ total number of employees trained) × 100%.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

B. Social (Continued)

B4. Labour Standards

The Group prohibits any form of child labour and forced labour at the production site and requests its suppliers to adhere to the same principles.

During the Year, the Group was not aware of any non-compliance with the relevant laws and regulations relating to preventing child and forced labour. The relevant laws and regulations include, but are not limited to, the Labour Law of the PRC, the Labour Contract Law of the PRC, the Provisions on the Prohibition of Using Child Labour of the PRC and the Employment Ordinance of Hong Kong.

Voluntary and Fair Employment

All employees are required to enter into labour contracts on a voluntary and fair basis and are free to leave their position with proper notifications.

Measures to Avoid Child and Forced Labour

All candidates qualified for employment must have reached the statutory required age and have been in possession of valid identification documents which are examined by the human resources department during the recruitment and upon employment.

The Group has formulated the recruitment process to ensure adequate background check is performed on candidates.

Prior to official appointment, the human resources department is responsible to verify the identities of the candidates to prevent the employment of child and forced labour.

According to the Group's recruitment process, recruiters should strictly review the entry documents including medical examination certificates, academic certificates and identity cards. If child labour or forced labour is found to be employed as a result of a breach of the recruitment process, the Group will immediately stop the work of the child labour or forced labour and conduct an investigation.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

B. Social (Continued)

B5. Supply Chain Management

The Group's procurement team evaluates suppliers' reliability based on their quality, reputation, delivery punctuality, experience and scale of operation through on-site visits.

In addition, the Group also evaluated ethics and social compliance, such as evaluating the suppliers' track records relating to legal and regulatory compliance which include safeguarding workers' health and safety and mitigating environmental impacts. Before the engagement of suppliers, a series of assessments would be carried out to examine their quality, environmental and safety performance comprehensively.

The Group has developed a supplier selection mechanism which requires potential suppliers to comply with all applicable laws and regulations. If any supplier falls short of the Group's expectations, the Group will try to channel it to correct the situation.

All suppliers for the Group must comply fully with all applicable national and local laws and regulations, including, but not limited to laws and regulations relating to:

- Labour
- Health and safety
- Environment
- Fair trade
- Anti-corruption and anti-bribery
- Modern slavery and human trafficking
- Manufacturing environment

The Group conducts regular assessments for its existing suppliers through constant communications. The records of the suppliers and products will be updated according to the assessment results. If the suppliers' performance does not meet the requirement and with no signs of improvement, the Group's general manager will consider terminating the cooperation.

During the Year, the number of suppliers was 198 (2020: 165) and all of them were qualified suppliers that met the standard in the Group's regular assessment.

The number of suppliers of the Group by geographical region is as follows:

Indicators	2021	2020
<u>Number of suppliers</u>	198	165
By geographical region		
Hong Kong	11	13
<u>PRC</u>	166	148
Overseas	21	4

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

B. Social (Continued)

B5. Supply Chain Management (Continued)

Selection of Suppliers

The materials purchased by the Group mainly include motors, electronic materials, hardware, packaging materials, rubber and plastics.

The Group regulates the procurement process and ensures that all selected suppliers can meet its demands on materials and production.

The guidelines and procedures for engaging suppliers are as follows:

- Suppliers who have been accredited by the Quality Management System (ISO9001), the Environmental Management System (ISO14001) and with good reputation or monopoly in the industry.
- Suppliers designated by customers or suggested by Directors.
- When new suppliers are introduced, they are required to fill in a supplier information form and return it with supporting documents, such as catalogue, declaration of conformity, company profile to the business development team for assessment.
- When selecting suppliers, the Group makes assessments in terms of their background, product price, their compliance and quality of materials and services.
- Suppliers submit quality data on their products to the Group, or submit samples for testing.
- Materials procured must comply with the requirements of hazardous substances free. Qualified suppliers are required to submit agreements and third-party test reports on the strict use of hazardous substances.
- The purchasing department should make a trial run order for the products in small quantity.
- Suppliers who meet the criterion of quality and safety can be included in the list of approved suppliers.

Green Procurement

The Group's supply chain structure consists of direct materials suppliers. In the qualification process, suppliers are subject to assessment, on-site audits on product quality and capabilities as well as quality consistency tests made by the Group. The Group only makes purchases from the list of approved suppliers. Key suppliers are subject to review to ensure their capability to provide quality products while protecting the environment and the interests of the Group's customers.

The environmental and social performances of suppliers are also considered in the Group's procurement process. Suppliers are expected demonstrate their commitment to labour and human rights, health and safety, environmental protection and business ethics. The Group also gives priority to suppliers who have established a sound environmental management system such as suppliers who have obtained the ISO 14001 certification. The Group continuously evaluates the environmental and social performance of its suppliers, it may terminate contracts if the suppliers refuse to address situations that seriously harm the environment.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

B. Social (Continued)

B6. Product Responsibility

Customer satisfaction is one of the top priorities of the Group, it is important to focus on quality products and services. Understanding that customers demand on product quality, the Group endeavours to uphold the highest requirements of quality from engaging suppliers along its production chain.

The Group sets standards for raw materials, plant, equipment, hygiene and personnel training, and gradually improves the quality management of the manufacturing process and products to meet the requirements relating to safety and quality standards. Meanwhile, the Group has formulated product inspection and certification management procedures to ensure that the products meet quality standards in the process of research and development, manufacturing and sales.

The Group's products are required to be tested to ensure that they pass the national safety and quality standards. In order to reduce the probability of product failure during use, the Group has established relevant standards on product defects and takes corrective and preventive measures to prevent any recurring problem.

During the Year, the Group was not aware of any material non-compliance with laws and regulations that have a significant impact on the Group, concerning product health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress. The relevant laws and regulations include, but are not limited to, the Product Quality Law of the PRC, the Advertising Law of the PRC, the Law of the PRC on the Protection of Consumer Rights and Interests, the Patent Law of the PRC, the Personal Data (Privacy) Ordinance of Hong Kong and the Trade Descriptions Ordinance of Hong Kong.

Recalls

There are no sold or shipped products of the Group subject to recalls for safety and health reasons in the Year.

Products-related Complaints

Understanding the needs and concerns of customers enables the Group to deliver high quality and safe products. The Group maintains constant communication with customers. If any complaint is received, the Group will conduct an investigation, follow up with the customer to ensure that the complaint is being handled in a timely manner. During the Year, the Group received and recorded a total of 4 product-related complaints. All complaints have been resolved by relevant departments and reviewed thoroughly. The Group has established procedures for handling customers' complaints to strive to prevent similar situations in the future.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

B. Social (Continued)

B6. Product Responsibility (Continued)

Intellectual Property Rights

To protect the Group's intellectual properties, the Group has applied trademarks and patents for all the inventions, creations, technical innovations, products or formulas.

On the other hand, the Group does not infringe other companies' intellectual properties. If any infringement is discovered, the relevant personnel would be subjected to disciplinary actions.

Quality Assurance

Product defect analysis is conducted, in case of product defects, to understand causes and identify solutions to eliminate defects in the future.

The Group also regularly carries out sampling inspections for products to ensure that the products meet the requirements of safety manufacturing standards.

If certain raw materials or products do not meet the relevant requirements, the Group needs to identify problematic raw materials, auxiliary materials, parts and products, and evaluate, control and isolate them and keep relevant records.

Relevant departments of the Group also formulate corresponding solutions for the substandard products to avoid any misuse.

If a product does not meet customer requirements and expectations, the Group will process and recall relevant substandard products.

After receiving the returned goods, the manufacturing department sets up a team with the quality control department to analyse and evaluate the returned goods, and repair the batch of products as required.

Meanwhile, the manufacturing department also needs to conduct reviews to prevent the occurrence of similar incidents.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

B. Social (Continued)

B6. Product Responsibility (Continued)

Consumer Data Protection and Privacy Policies

Employees are required to follow and comply with the general provision of confidential information protection stipulated in the Group's employee handbook.

Employees are prohibited from copying, transferring and disclosing the restricted information, such as clients' information and intellectual property information without prior consent from the management or customers.

Employees are restricted from disclosing sensitive information to external parties. In case of breaching confidentiality, the Group will take corrective actions promptly and the employees involved may be subject to dismissal or legal actions.

The Group has separated the customer data from other ordinary information to protect their privacy. Meanwhile, the Group regulates that only authorised personnel can access the personal data collected from the Group's customers. Through the internal training and confidential agreements with employees, the Group emphasises confidentiality obligations and the legal consequences of the breaches of relevant rules.

Advertising and Labelling

The Group strictly complies with laws and regulations including the Advertising Law of the PRC and continues to strengthen fair marketing practices. The Group has regulated the conduct of marketing personnel in the process of advertising release, marketing and contract signing. To protect customers' interests, the Group strictly prohibits misleading product labelling and excessive commitment during sales of process.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

B. Social (Continued)

B7. Anti-corruption

The Group follows the Hong Kong's Independent Commission Against Corruption Code of Conducts to avoid conflicts of interest, bribery and corruption in the workplace, and work with local authorities in PRC to eliminate any types of bribery, corruption, fraud and misconducts that are socially unacceptable behaviour.

Employees are strictly prohibited from offering or accepting any forms of advantages such as gifts, entertainment, rewards or commission under any circumstances from customers, suppliers or any other business partners as stipulated in the employee handbook. Employees must declare if such offering and acceptance are irresistible.

During the Year, the Group was not aware of any incidents of non-compliance with the relevant laws and regulations in relation to bribery, extortion, fraud and money laundering. The relevant laws and regulations include, but are not limited to, the PRC Criminal Law, the Anti-Unfair Competition Law of the PRC and the Prevention of Bribery Ordinance of Hong Kong.

There was no concluded legal case regarding corrupt practices brought against the Group or its employees during the Year.

Employees are expected to avoid taking and offering any interests in any form, including direct or indirect involvement in or maintaining a relationship with another business concern or organisation when such involvement or relationship may affect or influence the business conduct of the Group and is in conflict with the best interests of the Group.

Anti-corruption and ethics training is essential for creating a healthy corporate culture. One of the ways to provide anti-corruption training is by providing anti-corruption materials to employees and Directors. During the Year, reading materials produced by the Independent Commission Against Corruption were distributed to the Group's employees and Directors. The reading materials allowed them to understand the anti-corruption laws and promote business ethics. The Group's Directors regularly attend corporate governance training, which covers knowledge on anti-corruption legislation as well as necessary skills to handle ethical dilemmas at the workplace.

Guidelines have been established on situations and behaviours employees should be aware of. Employees who do not declare their conflict of interests promptly may be subject to dismissal or other disciplinary actions.

The Group enacts zero tolerance to any anti-competitive practices such as cartels and market power abuse in its business dealings.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

B. Social (Continued)

B7. Anti-corruption (Continued)

Whistle-blowing Mechanism

In order to achieve and maintain the highest standards of openness, probity and accountability, the Group has established a policy for employees to raise concerns about possible improprieties in financial reporting or internal control matters, under which all units or individuals have the right to report any violations of the Group. All information concerning the informer is kept in strict confidence. The audit committee ("Audit Committee") is responsible for monitoring the reporting system, conducting investigations as well as reporting to the Board of Directors. Whistle-blowers can report in writing to the chairman of the Board of Directors or the Audit Committee chairman with regard to any suspected misconduct with full details and supporting evidence. Once a relevant complaint is received, an investigation procedure will be taken place to identify the reason for the complaint. Employees who breach the anti-corruption policy will face disciplinary action, which could result in dismissal for serious misconduct.

B8. Community Investment

The Group follows its ESG Policy to encourage employees to actively participate in volunteer activities to strengthen the relationship with local communities in an effort to build a sustainable and harmonious society.

As stated in the ESG Policy, the Group's community initiatives focus on areas including education, medical, health and elderly care. The Group did not use resources for community investment during the Year, as the Group adhered to the social distancing measures under epidemic prevention and control. However, the Group has actively considered investing money or time in the future to give back to the community.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

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Mandatory Disclosure Requirements	Sections
Governance Structure	Chairman’s Statement
Reporting Principles	Reporting Principles
Reporting Boundary	Reporting <u>Framework and Boundary</u>

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“Comply or explain” Provision		
Subject Areas, Aspects, General Disclosures and KPIs	Description	Sections/Remarks
A. Environmental		
Aspect A1: Emissions		
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 air and GHG emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	A1. Emissions
KPI A1.1	The types of emissions and respective emissions data.	A1. Emissions – Air Pollutant Emissions
KPI A1.2	Direct (Scope 1) and energy indirect (Scope 2) GHG emissions (in tonnes) and intensity.	A1. Emissions – GHG Emissions
KPI A1.3	Total hazardous waste produced (in tonnes) and intensity.	A1. Emissions – Waste <u>Management</u> – Hazardous Waste
KPI A1.4	Total non-hazardous waste produced (in tonnes) and intensity.	A1. Emissions – Waste <u>Management</u> – Non-Hazardous Waste
KPI A1.5	Description of emission target(s) set and steps taken to achieve them.	A1. Emissions – GHG Emissions
KPI A1.6	Description of how hazardous and non-hazardous waste are handled, and a description of reduction target(s) set and steps taken to achieve them.	A1. Emissions – Waste <u>Management</u> – Non-Hazardous Waste

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

Index Table of ESG Reporting Guide of SEHK (II) (Continued)

“Comply or explain” Provision		
Subject Areas, Aspects, General Disclosures and KPIs	Description	Sections/Remarks
Aspect A2: Use of Resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	A2. Use of Resources
KPI A2.1	Direct and/or indirect energy consumption by type in total and intensity.	A2. Use of Resources – Energy <u>Efficiency</u>
KPI A2.2	Water consumption in total and intensity.	A2. Use of Resources – Water Consumption
KPI A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	A2. Use of Resources – Energy <u>Efficiency</u>
KPI 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. Use of Resources – Water Consumption A2. Use of Resources – Water Sourcing
KPI A2.5	Total packaging material used for finished products (in tonnes) and with reference to per unit produced.	A2. Use of Resources – Packaging Materials
Aspect A3: The Environment and Natural Resources		
General Disclosure	Policies on minimising the issuer’s significant impacts on the environment and natural resources.	A3. The Environment and Natural Resources
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	A3. The Environment and Natural Resources
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.	A4. Climate Change
KPI 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.	A4. Climate Change
B. Social		
Employment and Labour Practices		
Aspect B1: Employment		
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 compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	B1. Employment
KPI B1.1	Total workforce by gender, employment type (for example, full- or part-time), age group and geographical region.	B1. Employment – Employee Profile
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	B1. Employment – Employee Profile

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

Index Table of ESG Reporting Guide of SEHK (II) (Continued)

“Comply or explain” Provision		
Subject Areas, Aspects, General Disclosures and KPIs	Description	Sections/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.	B2. Health and Safety
KPI B2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.	B2. Health and Safety – Zero Workplace Accidents
KPI B2.2	Lost days due to work injury.	B2. Health and Safety – Zero Workplace Accidents
KPI B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.	B2. Health and Safety
Aspect B3: Development and Training		
General Disclosure	Policies on improving employees’ knowledge and skills for discharging duties at work. Description of training activities.	B3. Development and Training
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	B3. Development and Training
KPI B3.2	The average training hours completed per employee by gender and employee category.	B3. Development and Training
Aspect B4: Labour Standards		
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 preventing child and forced labour.	B4. Labour Standards
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	B4. Labour Standards – Measures to Avoid Child and Forced Labour
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	B4. Labour Standards

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

Index Table of ESG Reporting Guide of SEHK (II) (Continued)

“Comply or explain” Provision		
Subject Areas, Aspects, General Disclosures and KPIs	Description	Sections/Remarks
Operating Practices		
Aspect B5: Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	B5. Supply Chain Management
KPI B5.1	Number of suppliers by geographical region.	B5. Supply Chain Management
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored.	B5. Supply Chain Management
KPI B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	B5. Supply Chain Management – Selection of Suppliers
KPI B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	B5. Supply Chain Management – Green Procurement
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.	B6. Product Responsibility
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	B6. Product Responsibility – Recalls
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	B6. Product Responsibility – Products-related Complaints
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	B6. Product Responsibility – Intellectual Property Rights
KPI B6.4	Description of quality assurance process and recall procedures.	B6. Product Responsibility – Quality Assurance
KPI B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	B6. Product Responsibility – Consumer Data Protection and Privacy Policies

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

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“Comply or explain” Provision		
Subject Areas, Aspects, General Disclosures and KPIs	Description	Sections/Remarks
Aspect B7: Anti-corruption		
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 bribery, extortion, fraud and money laundering.	B7. Anti-corruption
KPI 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. Anti-corruption
KPI B7.2	Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored.	B7. Anti-corruption – Whistle-blowing Policy
KPI B7.3	Description of anti-corruption training provided to directors and staff.	B7. Anti-corruption
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 take into consideration the communities' interests.	B8. Community Investment
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	B8. Community Investment
KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	B8. Community Investment