

China PengFei Group Limited 中国鹏飞集团有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 3348

**Environmental, Social And
Governance Report**

2021



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BOARD STATEMENT

Dear Stakeholders:

On behalf of the Board (the “**Board**”) of Directors (the “**Director(s)**”) of the China PengFei Group Limited (the “**Company**”) and its subsidiaries (collectively, the “**Group**” or “**we**” or “**us**”), I hereby present to you the 2021 Environmental, Social and Governance (“**ESG**”) Report (this “**Report**”), providing an overview of the Group’s management on significant matters (including ESG matters) that have impacts on our operation.

The Board has always been committed to promoting sustainable development and implementing ESG policies and measures across business segments continuously. The Board enjoins senior management and external independent consultants to identify, monitor and review ESG-related risk, and is committed to maintaining a high level of corporate governance. We lead our departments to implement related policies and measures, and continuously optimise the Group’s sustainable development strategies and performance.

Stakeholder engagement is an indispensable part of sustainable strategies. It helps us respond to existing and potential risks and opportunities (including climate-related issues) in the market, and is also the basis for strategy formulation and decision making. In addition to daily communication with stakeholders, we conducted a materiality assessment during the Reporting Period and invited major stakeholders to prioritise the identified issues in the form of survey to establish the most concerned sustainable development issues, thereby adjusting resources allocation and formulating more appropriate policies and measures to respond to the needs and expectations of stakeholders and make this Report more targeted.

The operational activities of the Group inevitably cause environmental impacts. We advocate waste reduction and improve the efficiency of use of resources in our business operations, based on the interests of stakeholders. In order to promote the sustainable development of the Group, we are committed to retaining talents to ensure the soundness of our business. We retain employees by measures like improving welfare conditions, caring for the needs of employees and regularly reviewing employee treatments, etc. We recognise the importance of managing environmental and social impacts of our supply chain, protecting the interests of the local communities in which we operate, and ensuring that all operating units comply with local laws and regulations.

Looking ahead, the Group will adhere to the pursuit of a better society, commit itself to the common prosperity of enterprises, the society and the environment, create a win-win situation for all stakeholders, and continue to be a force for social stability and upward improvement.

China PengFei Group Limited

Wang Jiaan

Chairman

Jiangsu, China

30 May 2022

ABOUT THIS REPORT

This Report summarises the Group's policies, measures and performance on the key ESG issues. The Group's Sustainable Development Committee members are responsible for communicating and collaborating with external consultants to compile this Report. In the event of any contradiction or inconsistency between the Chinese version and the English version, the Chinese version shall prevail. The English translation of Chinese names or words in this Report, where indicated, are included for information purpose only, and should not be regarded as its official English translation of such Chinese names or words.

REPORTING PERIOD

This Report covers the period from 1 January 2021 to 31 December 2021 (the "**Reporting Period**", "**2021**").

REPORTING SCOPE AND BOUNDARY

This Report discloses the policies and measures of the core and material business of the Group, i.e. the manufacturing of equipment business in HaiAn city at Jiangsu Province, the People's Republic of China (the "**PRC**"), which accounted for around 81% of the Group's total revenue in the Reporting Period. The disclosure of environmental key performance indicators (the "**KPI(s)**") mainly covers the production plant(s) in HaiAn city at Jiangsu Province, the PRC (the "**plant(s)**"). If the scopes and boundaries of the specific contents vary, they are noted in the relevant sections of this Report. Although this Report does not cover all the operations of the Group, we are committed to improving internal data collection procedures and gradually expanding the scope of the disclosure.

REPORTING BASIS AND PRINCIPAL

This Report is prepared in accordance with the "Environmental, Social and Governance Reporting Guide" (the "**Guide**") as set out in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Main Board Listing Rules**") issued by The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The Group has reported on the "comply or explain" provisions of the Guide and the following four reporting principles underpinning the preparation of this Report: materiality, quantitative, balance and consistency.

- "**Materiality**" Principle:

The Group determines relevant ESG issues through stakeholder engagement and materiality assessment. For details, please refer to "Stakeholders Engagement" and "Materiality Assessment".

- "**Quantitative**" Principle :

The Group's disclosure of KPIs related to historical data can be measured and the Group is committed to disclosing information on standards, methods, assumptions or calculation tools used in quantitative data and the source of conversion factors used when feasible.

- "**Balance**" Principle:

The Group's disclosure avoids selections, omissions or presentation formats that may inappropriately affect a decision or judgment by the Report reader.

- "**Consistency**" Principle:

The Group is committed to using consistent disclosure methodologies for meaningful comparisons of ESG data provided in previous reports, and describe any changes that may affect them.

ABOUT THIS REPORT

The information contained herein is sourced from official documents and statistics of the Group, as well as the combined control, management and operations information provided by the subsidiaries following the Group's relevant policies. A complete content index is appended to the last chapter hereof for quick reference. This Report is prepared and published in both Chinese and English and is available on the website of The Stock Exchange (www.hkexnews.hk) and the Company's website (<http://www.pengfei.com.cn/>).

REVIEW AND APPROVAL

This Report has been reviewed and approved by the Board on 30 May 2022.

INFORMATION AND FEEDBACKS

Should you have any suggestions or enquiries regarding this Report, you are welcomed to contact the Group at:

Office

Telephone no. : +86-513-88758898

E-mail address: pf@pengfei.com.cn

ESG MANAGEMENT STRUCTURE

ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE POLICY

The Group is committed to integrating ESG factors into its operations to create sustainable value for our stakeholders and to fulfil our responsibility as a corporate citizen. The Group has established an “Environmental, Social and Corporate Governance Policy”. The Group ensures that it will:

- Integrate environmental and social elements into the decision-making process in daily operations of Directors, management and supervisors;
- Satisfy or go beyond legal and regulatory requirements applicable to our business operations, including environmental and social requirements;
- Provide all staff and related parties with the required resources, including support, guidance and encouragement, to meet all relevant requirements commensurate with their roles;
- Provide services effectively and efficiently to minimise emissions and impacts on the environment and natural resources;
- Adopt “reduction, reuse and recycling” approach where economically and operationally feasible to reduce and better manage wastes;
- Establish a safe, healthy, fair and dynamic working environment where all employees are respected and are able to unleash their talents;
- Collaborate with suppliers to strengthen social and environmental elements in products and services;
- Provide products and services that fulfil our responsibilities to customers, the environment and society;
- Commit to promoting community development in the areas where our business operates, and devoting manpower and financial support for the projects that are of most concern to the Group; and
- Monitor the Group’s energy-saving performance regularly and look for continuous improvement solutions.

SUSTAINABLE DEVELOPMENT COMMITTEE

To effectively boost the sustainable development of the Group, the Group has established a Sustainable Development Committee and formulated written terms of reference. The members of the Sustainable Development Committee include a chairman, three committee members and functional department heads of subsidiaries. This committee is responsible for the formulation and supervision of the Group’s sustainable development strategy. The Sustainable Development Committee studies and makes recommendations on the Company’s policies on sustainable development, including but not limited to health and safety, community relations, the environment, human rights and anti-corruption. This is to ensure that the Company’s position and performance concerning global sustainable development issues satisfy the modern-day standards. Moreover, this committee researches and makes recommendations regarding the continuous enhancement on the Company’s access to resources, markets, investment capabilities, and sustainable risk prevention; guides, evaluates, monitors and supervises the corporate environment and social responsibility and sustainable development in the areas of culture, management framework, affairs, risk management, capability etc. for continuous optimisation.

The Sustainable Development Committee reports to the Board and is responsible for setting the Group’s sustainable development policy and clear emission reduction targets, assessing the actual and potential climate-related risks and opportunities that affect the Group’s operations, and ensuring that the Group has established appropriate and effective ESG risk management and internal control system. The management reviews these risks and the effectiveness of the internal control system and confirms to the Board.

STAKEHOLDER ENGAGEMENT

The Group values stakeholder engagement. Whether they are our employees, customers, suppliers and other stakeholders, they all have a significant impact on the success of our business or activities. The following are the relevant stakeholders of the Group. We actively communicate with various stakeholders through different channels to monitor and manage our impact on the environment and society.

Stakeholder	Engagement Platform
Government and regulatory agency	<ul style="list-style-type: none"> Annual reports, interim reports, ESG reports and other public information
Shareholder and investor	<ul style="list-style-type: none"> Annual general meetings and other general meetings of shareholders Company website Press releases/announcements Annual reports, interim reports, ESG reports and other public information
Peer industry	<ul style="list-style-type: none"> Exhibitions
Employee	<ul style="list-style-type: none"> Training Meetings Employee organisations Performance evaluation Leisure activities
Customer	<ul style="list-style-type: none"> Fax, email and customer service hotline Product and service feedback
Supplier	<ul style="list-style-type: none"> Annual audit Meetings On-site visits

MATERIALITY ASSESSMENT

PROCESS

The Group identifies issues for disclosure in this Report through internal and external materiality assessment. By considering the dependence and influence of the stakeholders on the Group and the availability of the resources of the Group, the management has identified key stakeholders and conducted surveys with them. They have expressed their opinions and recommendations on the issues related to the Group's operation via the surveys. The materiality assessment process is as follows:

Stage 1 Identification

A list of ESG issues was compiled from a variety of channels, including the Main Board Listing Rules requirements, industry trends and internal policies. We identified 28 issues and grouped them into four categories: environment, employment and labour practices, operating practices, and community.



Stage 2 Prioritisation

An online survey was conducted to evaluate the impact of various issues from the perspectives of stakeholders or the Group. The rating on a scale of 1 to 5 (1 being very low impact, 5 being very high impact). According to the result from the survey, a materiality matrix is compiled, threshold of the materiality matrix was set (i.e. the median of the data) and the issues are prioritised according to the rating.



Stage 3 Validation

The materiality matrix and its threshold was reviewed by the management. Out of the total of 28 issues, 14 issues were rated at or above the median of the data overall in order of the most important ESG issues for the Group to address and report on, as assessed from either a stakeholder or business perspective.

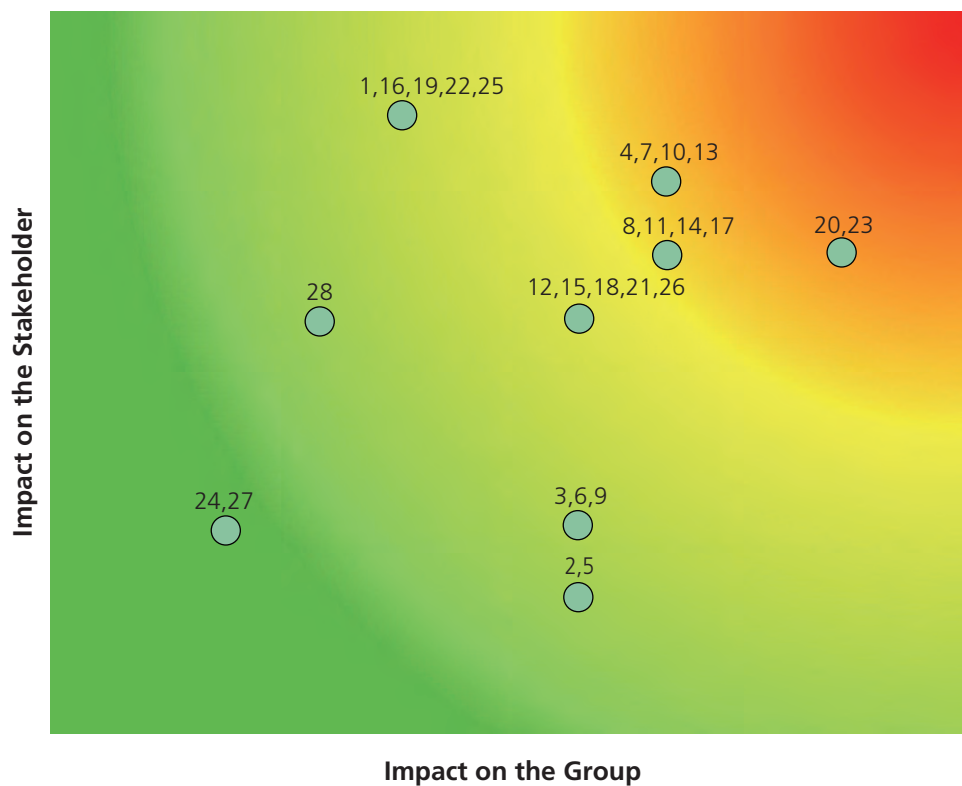
MATERIALITY ASSESSMENT

RESULTS

Consolidating the results of internal assessment and the survey, the Group has identified the most material ESG issues in this year according to the stakeholders' rating regarding the materiality of each item:



Materiality Matrix



- | | | |
|--|--|--|
| 1 Air Emissions | 11 Employment practices | 21 Customer satisfaction |
| 2 Greenhouse gas emissions | 12 Diversity and equal opportunities | 22 Intellectual property |
| 3 Effluents management | 13 Anti-discrimination | 23 Product safety |
| 4 Waste management | 14 Occupational health and safety | 24 Product quality |
| 5 Energy efficiency | 15 Development and training of staff | 25 Business ethics |
| 6 Water efficiency | 16 Prohibition of child labour and forced labour | 26 Anti-corruption training for management and employees |
| 7 Use of raw materials and packaging materials | 17 Responsible supply chain management | 27 Contributions to the society |
| 8 Environmental Regulations Compliance | 18 Environmental friendliness on products or service purchased | 28 Communication and connection with local community |
| 9 Land use, pollution and restoration | 19 Compliance with regulations on marketing, product and service labelling | |
| 10 Climate Change | 20 Customers' Privacy and Confidentiality | |

A. ENVIRONMENTAL

As a manufacturer of rotary kiln, milling equipment and related equipment, the Group is committed to mitigating the impact on the natural environment, managing emissions and saving resources during operation. The Group strives to implement the strategy of “Technology utilisation, Green transformation, and Internationalization”, and undertakes the “First batch of Jiangsu Provincial Science and Technology Department’s Peak Carbon Neutral Technology Innovation Project” (“江蘇省科技廳首批達峰碳中和科技創新專項”) and the “Pollution Control and Energy Conservation and Carbon Reduction Project (Energy Conservation and Carbon Reduction Direction) 2021 Annual Central Budget Investment” (“污染治理和節能減碳專項(節能減碳方向)2021年度中央預算內投資”) project. Taking advantage of the implementation of major scientific and technological projects, we focus on the theme of green, low-carbon, high-efficiency and energy-saving innovation, and continue to promote basic research and industrial technology innovation. In the future, the Group will continue to enhance its innovation capabilities, foster the promotion of key innovation tasks such as key core technologies, digital and intelligent transformation and upgrading, and pursue the development goals of seeking development through innovation and enhancing core competitiveness through innovation.

A1 EMISSIONS

Policies

To strengthen the Group’s environmental protection management (e.g. soil and water conservation, ecological protection, comprehensive utilisation of resources, etc.), we establish “Emissions And Use of Resources Management Methods” based on local environmental protection laws and regulations and relevant internal company rules. In order to strengthen environmental protection management, we have established an Environmental Protection Leadership Group (the “**Leadership Group**”), which is responsible for the coordination of environmental protection works. The responsibilities and duties of the Leadership Group are as follows:

- Comply with national laws and regulations relating to environmental protection;
- Formulate environmental protection development strategy, rules and regulations and work plan;
- Supervise and evaluate the environmental protection work of the Company;
- Be responsible for preparation of the submission of Environmental Impact Assessment Reports (Form(s)) for construction projects and the supervision and management of “three simultaneous” (refers to simultaneous construction, production and uses) of environmental protection facilities; and
- Be responsible for the supervision and management of the Company’s pollutants to ensure the emissions satisfy the standards.

Compliance information for relevant laws and regulations

Being an enterprise engaged in manufacturing activities in the PRC, the Group should abide by the provisions of environmental laws and regulations of the PRC regarding noise, wastewater, air emissions and other industrial waste. The following are the laws and regulations that have a significant impact on the business of the Group:

- Major environmental laws and regulations include the Environmental Protection Law of the PRC 《中華人民共和國環境保護法》, the Law of the PRC on the Prevention and Control of Water Pollution 《中華人民共和國水污染防治法》, the Law of the PRC on the Prevention and Control of Air Pollution 《中華人民共和國大氣污染防治法》, the Law of PRC on the Prevention and Control of Solid Waste Pollution 《中華人民共和國固體廢物污染環境防治法》 and the Law of the PRC on the Prevention and Control of Noise Pollution 《中華人民共和國環境噪聲污染防治法》, (collectively known as the “**Environmental Protection Law** (環境法)”). According to the Environmental Protection Law, PRC enterprises shall build requisite environmental treatment facilities affiliating to the manufacturing facilities, where waste air, wastewater and waste solids generated can be treated properly following the relevant provisions.

A. ENVIRONMENTAL

To avoid any potential environmental issues, the Group discharges pollutants, such as sulphur dioxide, soot, and industrial solid waste, according to the standards in the production process. For detailed emission reduction measures, see the section headed “Measures to mitigate emissions and results achieved”.

- According to the Law of the PRC on Evaluation of Environment Effects 《中華人民共和國環境影響評價法》, Administrative Regulations on Environmental Protection for Construction Projects 《建設項目環境保護管理條例》 and the Interim Measures for the Acceptance Inspections of Environment Protection Facilities of Construction Projects 《建設項目竣工環境保護驗收暫行辦法》, enterprises that are planning construction projects should provide assessment reports, statements or registration forms on the environmental impacts of such projects. The assessment reports and statements must be approved by the competent environmental protection authorities before commencement of any construction work, while the registration forms shall be filed to them. Unless otherwise stipulated by laws and regulations, enterprises which are required to provide assessment reports and statements shall undertake the responsibility of acceptance inspections of the environmental protection facilities by itself upon the completion of the construction project. A construction project may be formally put into production or use only if the corresponding environmental protection facilities have passed the acceptance examination. The competent authorities may carry out spot check and supervision on the implementation of the environmental protection facilities. According to relevant regulations, the Group conducts environmental impact assessment and completes environmental protection approval procedures per regulations before production.
- According to the Environmental Protection Tax Law of the PRC 《中華人民共和國環境保護稅法》, target companies and public institutions that directly discharge certain pollutants to the environment are required to be regulated and are subject to taxes. Enterprises are required to pay taxes on air and water pollutants, noise and solid waste generated. According to this law, the Group paid a tax of RMB51,459.7 during the Reporting Period.

During the year ended 31 December 2021, the Group did not receive any fine, complaint or warning related to any material non-compliance in respect of greenhouse gas (“GHG”) emissions, harmful gas emissions, air pollution, water discharges, waste disposals and noise nuisance in the Reporting Period.

Emission types and related emission data

The major source of air pollutants of the Group is nitrogen oxides, sulphur oxides and particulate matters from the consumption of Liquefied Petroleum Gas (LPG), petrol from vehicles, diesel from forklift trucks and pipeline natural gas.

The Group’s air pollutant emission data in the Reporting Period are presented in the following table:

Air Pollutant	Unit	2021	2020
Nitrogen Oxides (NO _x)	kg	2,230.93	16,681.29
Sulphur Oxides (SO _x)	kg	41.05	349.10
Particulate Matters(PM)	kg	123.41	1,038.26

Compared with the previous year, the emission of air pollutants decreased significantly. This was mainly due to the fact that during the Reporting Period, there was a decrease in the utilisation rate of the Group’s forklift trucks and a significant decrease in the consumption of pipeline natural gas under the effect of the COVID-19 pandemic, and the conversion of the Group’s self-owned vehicle fleet to outsourced transportation services also contributed to the reduction in emissions.

During the Reporting Period, other air pollutants generated during the production process of the Group’s plants include soot from shot peening and welding processes. The Group regularly monitors the concentrations of the emissions to ensure their compliance with relevant standards.

A. ENVIRONMENTAL

Greenhouse gas emissions

The Group's GHG emissions are mainly from Liquefied Petroleum Gas (LPG), petrol from vehicles, diesel from forklift trucks, pipeline natural gas and purchased electricity consumption. During the Reporting Period, purchased electricity (Scope 2) was the main source of GHG emissions, accounting for approximately 92% of total GHG emissions. The Group's GHG emissions¹ in the Reporting Period are presented in the following table:

Scope of GHG Emission	Unit	2021	2020
Scope 1 ²	tonnes of CO ₂ equivalent	881.88	2,412.87
Scope 2 ³	tonnes of CO ₂ equivalent	9,572.70	8,427.94
Total GHG emissions	tonnes of CO ₂ equivalent	10,454.58	10,840.81
GHG emissions intensity	tonnes of CO ₂ equivalent per million RMB revenue ⁴	7.04	9.19

Compared to the previous year, the total GHG emissions decreased by approximately 4% during the Reporting Period, mainly due to a significant drop in Scope 1 emissions. Scope 1 emissions include the Group's direct GHG emissions. There was a decrease in the Group's forklift usage and a significant reduction in pipeline natural gas usage under the effect of the COVID-19 pandemic, and the Group's own fleet of vehicles has converted to outsourced transportation services, resulting in a significant reduction in related GHG emissions. Scope 2 emissions include the Group's indirect GHG emissions. The increase was resulted from the increase in electricity consumption of the equipment due to the addition of large-scale digitally controlled machine tools by the Group during the Reporting Period.

Hazardous waste

The Group did not record any hazardous waste data in the previous year. During the Reporting Period, we have improved the data collection system, and the hazardous wastes generated by the Group's plants were mainly waste paint buckets. The Group's hazardous waste data in the Reporting Period are presented in the following table:

Type of hazardous Waste	Unit	2021
Waste paint bucket	tonnes	7
Waste production intensity	tonnes per million RMB revenue ⁴	0.0047

¹ The calculation of GHG emissions is based on "How to Prepare an ESG Reports" and its annex "Appendix 2: Reporting Guidance on Environmental KPIs" issued by the Stock Exchange, "General Guideline of the Greenhouse Gas Emissions Accounting Method and Reporting of Other Industrial Enterprises (trial)"《工業其他行業企業溫室氣體排放核算方法與報告指南(試行)》 and the "Emission Reduction Project of China Regional Grid Baseline Emission Factor"《中國區域電網基準線排放因子》.

² Scope 1 refers to emissions directly generated from business operations owned or controlled by the Group.

³ Scope 2 refers to "indirect energy" emissions caused by the internal consumption (purchased or acquired) of electricity, heat, refrigeration and steam within the Group.

⁴ For the year ended 31 December 2021, the Group's revenue from manufacturing of equipment was RMB1,484.664 million.

A. ENVIRONMENTAL

Non-hazardous waste

The solid waste generated by the Group's plants include the residual materials (scraps) after cutting and trimming of steel, waste debris from the sandblasting process, ash from the dust removal equipment, and domestic waste from employees. The Group's non-hazardous waste data⁵ in the Reporting Period are presented by categories in the following table:

Type of Non-hazardous Waste	Unit	2021	2020
Waste oil	tonnes	0.93	0.86
Iron filings	tonnes	3,350.00	2,720.00
Scraps	tonnes	3,930.00	3,310.00
Office paper	tonnes	0.35	1.60
Total waste production	tonnes	7,281.28	6,032.46
Waste production intensity	tonnes per million RMB revenue ⁶	4.90	5.11

Measures to mitigate emissions and results achieved

Air pollutant control

During the Reporting Period, the dust generated by shot blasting was discharged through a 25-meter exhaust cylinder after being treated by a bag dust collector. The fume generated during the welding process is processed by the dust collector with filter bag and is then reused in the production workshop. Looking ahead, we will continue to implement air pollution control measures.

By strengthening the activated carbon exhaust gas treatment system, optimizing the production process and regular maintenance of the exhaust treatment system, we aim to achieve the goal of reducing air emissions by 3% before 2026.

GHG emission

Looking ahead, the Group will continue to track and report on GHG emissions, improve the existing data collection system. We aim to achieve the goal of reducing GHG emissions by 3% before 2026 and review reduction targets in due course.

Noise Control

The main source of noise is from equipment and personnel operations. We strictly follow the (GB12348-2008) Class 1 standards in the "Environmental Noise Emission Standards for Industrial Plant Industries" 《工業企業廠界環境噪音排放標準》 (i.e. the daytime noise must not exceed 55 dB).

Overall

In addition, the Group advocates energy saving and carbon reduction, and is committed to achieving sustainable operations. To this end, we have set clear emission reduction targets, we aim to reduce all our emissions (including air pollutants, GHGs, hazardous and non-hazardous wastes), energy consumption (including electricity), consumption of resources (including water usage) by 3%, compared to corresponding emissions and consumptions of the Reporting Period, before 2026. Moreover, we are investing more resources in recycling to help the development of circular economy.

Disposal of hazardous and non-hazardous waste and waste reduction initiatives and results achieved

The Group engages vendors with corresponding qualifications to dispose of leftovers, scraps and dust. Domestic garbage is stored in bags in a centralised manner and is cleaned and transported by the environmental protection and health department. We scientifically and rationally consume raw and auxiliary materials such as steel plates and adhere to the principle of material utilisation. It is estimated that about 25 tonnes of steel can be saved each year.

⁵ There is currently no systematic statistics on domestic waste, so no relevant data can be obtained.

⁶ For the year ended 31 December 2021, the Group's revenue from manufacturing of equipment was RMB1,484.664 million.

A2 USE OF RESOURCES

Policies

The Group has established the “Administrative Measures on Emissions and the Use of Resources” (《排放物及資源使用管理辦法》), which has set out the Group’s management approaches for energy consumption, water conservation and consumption of other raw materials.

Total energy consumption by type

The energy consumption of the Group’s plants includes petrol, LPG, diesel, natural gas and purchased electricity. During the Reporting Period, the main energy consumption source of the plant was electricity, which accounted for approximately 74% of its total energy consumption. The Group’s total energy consumption by energy type in the Reporting Period are presented in the following table:

Energy Consumption by Type	Unit	2021	2020
Direct energy consumption	kWh('000)	4,141.76	10,207.23
Petrol	Litres	23,026.00	22,571.00
Diesel	litres	64,800.00	582,000.00
Natural gas	cubic meters	287,892.00	3,224,000.00
LPG	litres	23,026.00	N/A
Indirect energy consumption	kWh('000)	12,085.22	10,640.00
Electricity	kWh('000)	12,085.22	10,640.00
Total energy consumption	kWh('000)	16,226.98	20,847.23
Energy consumption intensity	kWh('000) per million RMB revenue ⁷	10.93	17.67

Compared with the previous year, the total energy consumption during the Reporting Period decreased by approximately 22%. Although the electricity consumption of equipment has increased, the usage rate of forklifts of the Group has decreased and the consumption of pipelines natural gas has significantly reduced under the effect of the COVID-19 pandemic. In addition, the Group’s own fleet has converted to outsourced transportation services, and the total energy consumption has decreased after taking into account various factors.

Total water consumption and intensity

The Group’s plants use water for various production processes. The Group’s total water consumption data in the Reporting Period are presented in the following table:

Water Consumption	Unit	2021	2020
Total water consumption	tonnes	5,648.00	4,327.00
Water consumption intensity	tonnes per million RMB revenue ⁸	3.80	3.67

Compared with the previous year, the water consumption during the Reporting Period increased by approximately 31%. This is because rainwater collection facilities were used for irrigation of green areas, and there is no specific record of the water consumption conserved.

⁷ For the year ended 31 December 2021, the Group’s revenue from manufacturing of equipment was RMB 1,484.664 million.

⁸ For the year ended 31 December 2021, the Group’s revenue from manufacturing of equipment was RMB 1,484.664 million.

A. ENVIRONMENTAL

Energy use efficiency initiatives and results achieved

In terms of production, the Group formulates and implements the energy-saving technology retrofitting plan for mobile equipment and special purpose equipment according to the Group's annual internal plan. Besides, we promote the rationalisation of energy use and implement standards for rationalisation of energy use; take effective measures to reduce fuel, power consumption and heat loss; improve energy transfer, conversion efficiency, and equipment efficiency; increase the recovery rate of residual heat, pressure, and coolness to improve the energy efficiency of the plant, aiming to reduce the energy consumption by 3% in five years.

In daily operations, the Group encourages employees to save energy and reminds them to turn off the lighting and machinery in time when off from work.

Issues in sourcing water, water efficiency initiatives and results achieved

The Group's water supply is provided by third-party suppliers, and there are no issues in sourcing applicable water sources. We encourage employees to "cherish, love and save water resources", vigorously carry out water conservation work, and strengthen water consumption and water quality management. During the Reporting Period, the Group is committed to improving the efficiency of water resources utilisation and carrying out water conservation activities. The plant implements "rainwater and wastewater diversion", sewage is discharged into the domestic sewage pipe network after being treated by septic tanks. It is estimated that 14 tonnes of water can be saved each year.

Packaging materials for finished goods

The Group endeavours to purchase more environmentally friendly products and prioritises the use of low-carbon and environmentally friendly raw and auxiliary materials to achieve the principle of material utilisation. Leftovers and scraps of steel produced during production are handed over to third-party recyclers for disposal. Besides, we are committed to promoting the importance of sustainable development to our suppliers and customers through business interactions. We implement green packaging and advocate simple packaging or packaging-free, use renewable packaging materials whenever possible. The Group mainly uses wood and metal packaging materials (including angle steel and edge bars). The Group's consumption data of packaging materials by categories in the Reporting Period are presented in the following table:

Packaging Materials Consumption	Unit	2021	2020
Wood	tonnes	N/A	20.35
Metal	tonnes	1.25	38.60
Total packaging materials consumption	tonnes	1.25	58.95
Packaging materials consumption intensity	tonnes per million RMB revenue ⁹	0.008	0.05

Compared with the previous year, the consumption of packaging materials during the Reporting Period decreased significantly, due to the decrease in number of overseas contracting projects and basically no packaging is required in the domestic cargo transportation, no wooden boxes were needed.

⁹ For the year ended 31 December 2021, the Group's revenue from manufacturing of equipment was RMB 1,484.664 million.

A3 THE ENVIRONMENT AND NATURAL RESOURCES

Significant impacts on the environment and natural resources

In general, the impact of the Group's daily operations on the environment includes air, land and natural resources. The table below summarises the potential impact of the Group's activities on the environment and natural resources.

Company operating activities	The potential impact on the environment and natural resources
Use of fossil fuels and production process	Air pollutants generated during the process have adverse effects on people and the surrounding environment
Use of fossil fuels and use of electricity	The process, directly and indirectly, generates GHGs and aggravate global warming
Waste	Soil and water pollution caused by improper waste treatment
Packaging materials	Consumption of natural resources creates additional waste
Noise	Excessive noise has adverse effects on people and the surrounding environment

In order to mitigate the potential impact of the Group's activities on the environment and natural resources, the Group has established "Administrative Measures on Emissions and the Use of Resources" (《排放物及資源使用管理辦法》) to outline the management approach for reduction of related impacts and implementation of the measures stated in the section headed "Environment". Besides, the plants have set a certain proportion of green areas.

A4 CLIMATE CHANGE

Significant climate-related issues

Climate change is one of the biggest global challenges faced by the society nowadays, and we must act now for our climate and our communities. In recent years, extreme weather, such as strong winds and heavy rainfall, as well as tides and floods, have become the focus of news. Logistics and supply chains are particularly vulnerable. Heavy rainfall, rising tides, and floods can cause serious damage to assets such as resorts, buildings, warehouses, and goods in storage, resulting in financial losses. Although such incidents are beyond everyone's control, the Group believes that all stakeholders should work together to address climate change, which will also be regarded as one of the most significant risks to the world in the next five years.

The COVID-19 pandemic has presented many new challenges this year, but it has not changed our commitment to climate action. The pace of change has expedited around the world, underscoring the importance for us to accelerate its transition to a low-carbon economy.

The Group business have strengthened analyses on the risk and opportunities from climate change specific to their markets. In response to the Paris Agreement, the Hong Kong Government issued the "Hong Kong's Climate Action Plan", and formulated various plans and actions, setting out the vision of "Zero-carbon Emissions, Liveable City, Sustainable Development". The government has determined to set medium-term goal as halving Hong Kong's total carbon emissions from 2005 levels before 2035. The Group understand that climate change may have significant impacts on our operations.

A. ENVIRONMENTAL

Based on the Group business nature, we have identified below parameters that are most relevant to our operations.

- a) Renewable energy – The proportion of renewable energy used by our Company affects the amount of carbon offset required and GHGs emissions.
- b) Electric vehicles (EV) – The cost required for replacing existing fleets with EVs and the cost-savings brought by EVs.
- c) Sea level rise – Some of our properties may be prone to flooding because of their location and design.
- d) Extreme weather – The increase in the frequency of extreme weather (e.g. Heavy rainstorm signal and typhoon) may affect our business operations and income.

The Group essentially plans to respond to local government initiatives and follow local governments' emission reduction requirements. We aim to reduce emissions by around 3% by 2026 and ensure the Group's GHG emissions will comply with the local requirements on or before 2030. Our target is to achieve carbon neutrality by 2050 in Hong Kong region and by 2060 in PRC. We are committed to continuously improving our energy efficiency, applying professional knowledge to improve on-site efficiency and maintain efficient management support, in order to safeguard the Group's reputation.

Over the years, we have been grasping different opportunities to expand our business, accelerate the transformation and make the Group smarter, more environmentally friendly, and safer for employees and users (such as automation, and utilising digital platforms for online conference to reduce carbon footprint in transportation during the pandemic). These measures have made our facilities becoming more sustainable and fulfil our commitment to resource management and environmental protection.

A. ENVIRONMENTAL

Action on climate change

Action on climate change is embedded in the Group business strategy and reflected in the governance and management processes of the Company.

When developing these scenarios, the Group has identified a series of climate-related risks and opportunities relevant to our assets and services which are significant to us. These transition and physical risks are discussed in the sections below.

	Risks	Opportunities
Short term (0 – 1 year)	<ul style="list-style-type: none"> Physical risks from extreme weather events Securing the skills and capability required to implement climate strategy 	<ul style="list-style-type: none"> New services to help communities decarbonize Technologies to enhance the performance of operation and energy efficiency
Medium term (5 years)	<ul style="list-style-type: none"> Transition risks – Implementation of low-carbon policies for the operation Transition risks – Supply and demand for certain commodities, products and services may change as climate related risks and opportunities are increasingly taken into account 	<ul style="list-style-type: none"> Transitioning to low carbon economy market to meet government decarbonisation targets Opportunities arising from transition enablers
Medium to long term (5+ years)	<ul style="list-style-type: none"> Transition risks – Potential new regulation and policies Transition risks – Development and use of emerging technologies may increase the operational costs, and reduce the Groups' competitiveness Transition risks – the Group reputation may be impacted due to changing customer or community perceptions of said the Group's contribution to or detraction from the transition to a lower-carbon economy 	<ul style="list-style-type: none"> Transitioning to low carbon economy market to meet government decarbonisation targets Opportunities arising from transition enablers To work as a pioneer in the industry and build up the relevant reputations

A. ENVIRONMENTAL

Physical climate risks have the potential to damage the integrity of the Group's assets or interrupt our service delivery and customers directly. The Group already has setup a range of measures in place to enhance the reliance of its operations, including contingency plan for extreme weather or emergency.

Transition Risks have the potential to increase the operational cost and legal risk due to change of policy, technology development, digitalisation, relevant risk affected to supply and demand, and reputation due to public perceptions. The Group already has identified the relevant risks and keep monitoring the market and policy updates. The Group has also planned to invest according to the market needs and take this as an opportunity for long term development.

With social progress and economic development, the global energy transformation trend is obvious. In view of solar energy, which is "clean, pollution-free, emission-free and inexhaustible", the Group has installed photovoltaic projects on the roof of production plants. The Group integrates renewable energy into the power grid in the production facility area, which can play a significant role in energy conservation and emission reduction. At the same time, the laying of photovoltaic facilities on the production facilities can effectively protect the roof from the sun and rain, prolong the service life of the roof of the production facilities, and reduce the operating and maintenance costs of the production facilities; the photovoltaic power generation period is consistent with the peak power consumption period, which can effectively relieve the power supply pressure of production facilities when electricity is in short supply, and ensure the normal production activities of production facilities. Since the photovoltaic facilities absorbs solar radiation, it can effectively reduce the indoor temperature by 3-5 degrees, thereby improving the indoor working environment and reducing the cost of cooling in summer. The construction of the Group's photovoltaic projects can effectively utilise solar energy, reduce environmental pollution, improve the ecological environment, and promote sustainable economic and environmental development.

EMPLOYMENT AND LABOUR PRACTICES

B1 Employment

Policies

The Group has adopted the principle of meritocracy and looks forward to working with talents who possess of professional knowledge, high ethical standards, well-experienced and a strive for excellence. The Group is committed to providing comfortable working conditions and environments. As at 31 December 2021, the Group had a total of 1,036 employees, most of whom were professional engineers and technicians.

As at 31 December 2021, the data of Group's number of employees and turnover by type are listed as below:

		2021
Employee Number	Total	1,036
	By Gender	
	Male	684
	Female	352
	By Age Group	
	Below 30	56
	30-50	571
	Above 50	409
	By Level	
	Top management	8
	Middle management	26
	General staff	1,002
	By Employment Type	
	Full time	1,032
	Part-time	4
	By Geographical Region	
	PRC	1,035
	Hong Kong	1
Employees Turnover Rate¹⁰	Overall number (Turnover rate)	46(4%)
	By Gender	
	Male (Turnover rate)	6(1%)
	Female (Turnover rate)	40(11%)
	By Age Group	
	Below 30 (Turnover rate)	16(29%)
	30-50 (Turnover rate)	20(4%)
	Above 50 (Turnover rate)	4(1%)
	By Geographical Region	
	PRC (Turnover rate)	46(4%)
	Hong Kong (Turnover rate)	0(0%)

¹⁰ Turnover rate = number of employees in the specified category leaving employment / number of employees in the specified category at the end of the Reporting Period.

B. SOCIAL

- **Remuneration**

The Group provides excellent remuneration and benefits to employees. Employees' remuneration is mainly based on job nature, market trends and personal performance. Employees' bonuses are disbursed based on individual performance. Remuneration formulation and distribution are based on the principles of fairness, impartiality, openness, motivation, and competitiveness, and balance the relationship between efficiency and fairness. We also provide additional rewards and allowances based on needs.

- **Recruitment and Dismissal**

The Group has established fair, just, scientific and reasonable staff recruitment, employment and dismissal management system that meets the requirements of the modern enterprise system to effectively protect the interests of both the company and employees. Recruitment adheres to the principle of "Fair competition and appointment on the basis of merit". Dismissal process shall be carried out under local labour laws and regulations.

- **Promotion**

The Group advocates a fair, just and open competition mechanism in order to unleash one's full potential; to fulfil one's responsibilities and to invigorate the initiatives and proactiveness of the employees. The promotion of employees based on their personal qualities, capabilities and performance.

- **Working Hours and Rest Periods**

The Group provides reasonable working hours. If one needs to work overtime, the Company will provide subsidies depending on conditions. The Group's statutory holidays are implemented following national regulations, including wedding leave, funeral leave, maternity leave, and so on.

- **Diversity**

We recognise and embrace the benefits of having a diverse Board to enhance our Board's performance and to achieve sustainable and balanced development. Our Board has adopted a board diversity policy which sets out the approach to achieve and maintain its diversity. The board diversity policy provides that selection of Board candidates should be based on a range of different considerations, including but not limited to professional skills, regional and industry experience, knowledge, gender, age, cultural and educational background, ethnicity and length of service. The ultimate selection of Board candidates is based on merit and potential contribution to our Board with reference to our board diversity policy as a whole. Our Board comprises of seven members, including four executive Directors and three independent non-executive Directors. They have a balanced mix of professional experience and industry background, including experience and industry background in building materials, equipment manufacturing business, finance, accounting and law. We also take steps to promote gender diversity and representation at all levels of our Company. The nomination committee of our Board continues to review the board diversity policy and its implementation from time to time to ensure its continued effectiveness. We disclose the implementation of the board diversity policy in our corporate governance report on an annual basis. At the employee level, we welcome people of different backgrounds to join the Group. By promoting equal opportunities and anti-discrimination, we are committed to creating an inclusive and diverse environment.

- **Equal Opportunities and Anti-discrimination**

Every employee of the Group should be protected. We do not tolerate discrimination or harassment on gender, race and religion. Any employee involved will be placed under disciplinary action or even dismissed. To ensure that all employees are not discriminated against at work, we have established an anti-discrimination policy. Employees are not discriminated against their race, social class, nationality, age, religion, gender, disability, sexual orientation or political affiliation in matters involving employment, compensation, training opportunities, promotion, dismissal, etc. All employees have freedom of belief, and management is strictly prohibited from coercion, threats, insults, and exploitation of employees. We adhere to equal pay for equal work for men and women. If employees encounter targeted discrimination in the areas of benefits, wages, contracts, promotion, training during the process of recruitment and production, they can complain to the union in writing or verbally.

- **Employees' Benefits and Welfare**

The Group is people-oriented and cares for employees in different ways, such as renovating canteens and dormitories to create a good working environment for employees so that employees can also feel the warmth of "home" when they are at the Company. We provide benefits including labour insurance supplies benefits, festival benefits, company annual meeting benefits, etc. Benefit plans not only care about individual employees but also cover employees' family members. For employees with financial difficulties, we provide certain subsidies to support their children's education. These welfare policies ease the worries of the employees and provide good conditions for their development and growth.

Under the relevant PRC laws and regulations, we are required to make contributions to various employee social welfare plans for our employees. Related plans include social insurance contributions and housing provident fund contributions. According to the Chinese social insurance system, we are required to make five types of insurance contributions for our employees, including basic endowment insurance, basic medical insurance, work injury insurance, unemployment insurance and maternity insurance.

Compliance information for relevant laws and regulations

Our business operations must comply with certain PRC laws and regulations relating to labour. The laws and regulations that have a significant impact on the Group's business are as follows:

- The Group must comply with the Labour Law of the PRC 《中華人民共和國勞動法》, the Labour Contract Law of the PRC 《中華人民共和國勞動合同法》 and the Implementing Regulations of the Labour Contract Law of the PRC 《中華人民共和國勞動合同法實施條例》, and other relevant laws, rules and regulations promulgated by relevant government agencies from time to time. The Group signed labour contracts with employees, agreed on that probation periods and penalties for breach of contract, termination of labour contracts, salaries disbursement and economic compensation, used labour dispatch and social insurance premiums were subject to relevant regulations.
- The Group also strictly controls the number of dispatched workers under the Interim Provisions on Labour Dispatch 《勞務派遣暫行規定》, and the number of dispatched workers must not exceed 10% of its total labour force.
- The Group pays five basic types of social insurance premiums to its employees under the Social Insurance Law of the PRC 《中華人民共和國社會保險法》, including basic endowment insurance, basic medical insurance, work injury insurance, unemployment insurance and maternity insurance.

During the Reporting Period, the Group was not aware of any confirmed cases of non-compliance that had a significant impact on the Group.

B. SOCIAL

B2 Health and Safety

Policies

The Group attaches great importance to the health of employees and is committed to providing employees with a safe and healthy working environment. As a responsible enterprise, we create a safety culture. Every employee pays attention to the safety of himself and others, and it is the Group's responsibility to prevent accidents during production and project construction. We have established the following policies and procedures:

- **Production Safety and Occupational Health Protection Management Standards** 《安全生產與職業衛生防護管理標準》
This policy aims to further regulate and restrict the safety behaviour of all employees and maintain the safety status of production equipment, mitigating the Company's safety risk, making the work of safety production management and occupational health protection work rule-based and scientific.
- **Fire Safety Management Procedure** 《消防安全管理制度》
This policy is established under the Fire Protection Law of the PRC 《中華人民共和國消防法》, which aims to strengthen fire safety management, prevent and reduce fire accidents, and protect company property and employees' personal safety.

Compliance information for relevant laws and regulations

Our business operations are subject to certain PRC laws and regulations regarding occupational health, work safety and environmental protection, including the Work Safety Law of the PRC 《中華人民共和國安全生產法》, the Fire Protection Law of the PRC 《中華人民共和國消防法》 and the Law of the PRC on Prevention of Occupational Diseases 《中華人民共和國職業病防治法》.

- Entities operating under the Law of the PRC on Work Safety 《中華人民共和國安全生產法》 must implement the production safety measures specified in the Safety Law and other relevant laws, administrative regulations, national standards and industry standards. No entity shall engage in production and commercial operations without implementing these production safety measures.
- The fire protection design and construction of construction projects under the Fire Protection Law of the PRC 《中華人民共和國消防法》 must comply with national fire protection technical standards for engineering construction. The Group has implemented relevant systems.
- The Law of the PRC on Prevention of Occupational Diseases 《中華人民共和國職業病防治法》 stipulates the employers' responsibilities and specific actions in the prevention and treatment of occupational diseases.

During the Reporting Period, the Group was not aware of any confirmed case of non-compliance that had a significant impact on the Group.

We have designated personnel to oversee occupational health and safety of our business operations, and have established a set of occupational health and work safety procedures that cover every aspect of our business. To avoid any potential occupational health issues or workplace accidents, we have implemented several measures, including:

- Provide education and training on production safety to enterprise management and employees in various departments, and provide professional safety training education and examinations to special operating personnel required by national standards,
- Purchase and install occupational disease protection facilities such as ventilation and purification systems, provide production personnel with necessary safety protection supplies, and establish employee occupational health surveillance files,
- Regularly investigate and manage hidden accident hazards, set up warnings and protections for equipment and places with major dangers, and strictly approve dangerous operations; and
- Establish emergency plans for production safety accidents, and prepare emergency handling procedures for possible production accidents.

The Group did not record any work-related fatality in the three consecutive reporting years including the Reporting Period, and the number of working days lost due to work-related injuries was 356 days.

The COVID-19 pandemic contingency measures

The COVID-19 pandemic has brought unprecedented challenges to the business of the Group. To reduce the risk of transmission and protect the health of employees, we have implemented different types of measures in the workplace, including regular disinfection of the workplace; requiring employees to measure body temperature and wear masks before entering the plant; requiring employees to keep certain distance with each other while having meals, etc. The Group operated in strict accordance with the crowd control and social distancing rules issued by respective local governments, and proactively took additional disinfection steps to maintain a safe and hygienic environment.

B3 Training and Development

As a high-tech enterprise, the Group's training and development of employees are extremely important to enable employees to improve their professional capabilities and develop their strengths during their employment. Apart from improving the quality of employees' products and services, they also enhance the company's competitiveness. Our talent training program management is conducted following the ISO 9000 Quality Management System. Our employees are trained to cover every aspect of our business operations, including production safety, sales and marketing, compliance with applicable laws and regulations, technical skills, management and production quality. These training courses are conducted by us regularly and when deemed necessary by the Group. During the Reporting Period, not only did the Group provide employees with training about disclosure responsibility and compliance requirements, Advanced AEO Authorised Enterprise Standard Training by the Customs, training for operators of special work types, but it also provided training related to excellent performance management, limited space, and electrician (high and low voltage), as well as provided certain external professional training subsidies for employees. The Group upholds an open and responsible attitude, listens to opinions with an open mind, and improves its work efficiency through continuous discussion and reflection.

B. SOCIAL

As at 31 December 2021, the employee training data of the Group are listed as below:

		<u>2021</u>
Number of Trained Employee and percentage¹¹	Overall	574(55%)
	By Gender	
	Male	361(53%)
	Female	213(61%)
	By Level	
	Top management	8(100%)
	Middle management	37(100%)
General staff	529(53%)	
Average Training Hours¹² (hour/employee)	Overall	4.43
	By Gender	
	Male	4.22
	Female	4.84
	By Level	
	Top management	8.00
	Middle management	11.38
General staff	4.22	

B4 Labour Standards

As a manufacturing enterprise, the Group mainly employs production technicians. The Group strictly prohibits the employment of child labour or forced labour. The human resources management department will pay close attention to the situation of employment application, including full-time or part-time personnel. The recruitment policy has stipulated that only applicants at the age of 18 or above can be hired. Relevant identification documents will be checked when hiring to ensure compliance with local labour practices.

Our business operations must comply with the "Provisions on Special Protection for Juvenile Workers" 《未成年工特殊保護規定》 and the "Provisions on the Prohibition of Using Child Labour" 《禁止使用童工規定》 in the Labour Law of the PRC 《中華人民共和國勞動法》. During the Reporting Period, there were no confirmed non-compliance events or unfair situations that had a significant impact on the Group's human rights and labour practices, and aspects of prevention of child labour and forced labour.

¹¹ Percentage of trained employee = Number of employees received training during the Reporting Period/Number of employees at the end of the Reporting Period.

¹² Average Training Hours = Total training hours during the Reporting Period/Total number of employees at the end of the Reporting Period.

OPERATING PRACTICES

B5 Supply Chain Management

Selection criteria for our suppliers

The Group have in place a set of selection criteria for suppliers of our raw materials, parts and components, and equipment, including various factors such as (i) quality of work; (ii) pricing; (iii) reputation in the industry; (iv) supplier's qualification and compliance record (including environmental and social compliance); (v) production capacity; and (vi) financial position, etc. Potential suppliers that satisfy our selection criteria will be included in our list of qualified suppliers which will be reviewed and updated on an annual basis. We generally obtain price quotations from at least three potential suppliers. We have very strict requirements on suppliers. We refuse to cooperate with suppliers who violate environmental and social labour laws and regulations, in order to reduce environmental and social risks in the supply chain and help to maintain the stability of our business operations. In response to the society's expectations for green business operations, other than green packaging policy as mentioned in the section headed "Packaging material for Finished goods", we also intend to actively study the use of environmentally friendly products and services when selecting suppliers in the future.

We outsource certain design, civil construction and installation work to sub-contractors to ensure the progress and quality of projects. We may also outsource the processing of certain raw materials to external parties in case we do not have enough production capacity and/or manpower to process such raw materials. We will provide the raw materials and the drawings of the parts and components that we require to our sub-contractors which will process the raw materials following our specifications. We believe it would be more cost-effective and efficient if we outsource such manufacturing processes to external parties. Services to be provided by our sub-contractors will depend on the needs of individual projects. We will continue to engage such sub-contractors as and when the need arises as described above.

Selection procedure and relationship with sub-contractors

When selecting sub-contractors, we follow similar designated criteria as stated in the selection procedures of our suppliers and we keep a list of qualified sub-contractors with candidates that can provide suitable sub-contracting services. As part of the selection procedures for our sub-contractors, we will also consider their responsiveness to our requests and their understanding of the technical know-how of our machinery and equipment. We require our sub-contractors to maintain high-quality standards for their services and to comply with the terms and conditions set out in our contracts with project owners or main contractors. If any of our sub-contractors encounters any non-compliance incidents, the relevant sub-contractors shall rectify and undertake the necessary remedial actions at their own costs. All losses caused or incurred by our Group as a result of such sub-contractors' failure to maintain proper quality control, occupational health, work safety and environmental protection standards shall be borne by such sub-contractors.

During the Reporting Period, the Group had 225 qualified suppliers. Each year, the supply department organises relevant departments to evaluate suppliers, establish qualified supplier files, and fill in the "Supplier Performance Evaluation Form" (《供方業績評估表》). When the supplier has serious failure ratings or continuous failures, the supply department issues a "Corrective Action Plan Sheet" (《糾正措施計劃單》), requiring them to analyse the reasons, take measures to improve the quality, and for cases which the "Corrective Action Plan Sheet" have been issued twice but the quality provided has no significant improvement, the Group will disqualify the suppliers.

B. SOCIAL

During the Reporting Period, the Group's suppliers by geographical location are listed as below:

<u>Location</u>	<u>Supplier by type</u>	<u>2021</u>
PRC	Raw material supplier	207
	Service supplier	18
	Total	225

B6 Product Responsibility

The Group provides rotary kiln, milling equipment and production line engineering, equipment procurement and construction (EPC) business for domestic and foreign customers, performs quality control or provides project design, installation and commissioning services during the production process.

Products Quality Management

We believe that the reliability and quality of our products and services are crucial to the success of our Group. As such, we have implemented quality control procedures covering all aspects and stages of our production process, from the procurement of raw materials to the delivery of products and/or the construction of production lines, to ensure the production of products with consistent quality and/or provision of quality services. As of the end of the Reporting Period, our quality control department comprised 28 employees, a majority of whom have received secondary or higher education with an average of over 20 years of experience in related industries such as building materials and machinery.

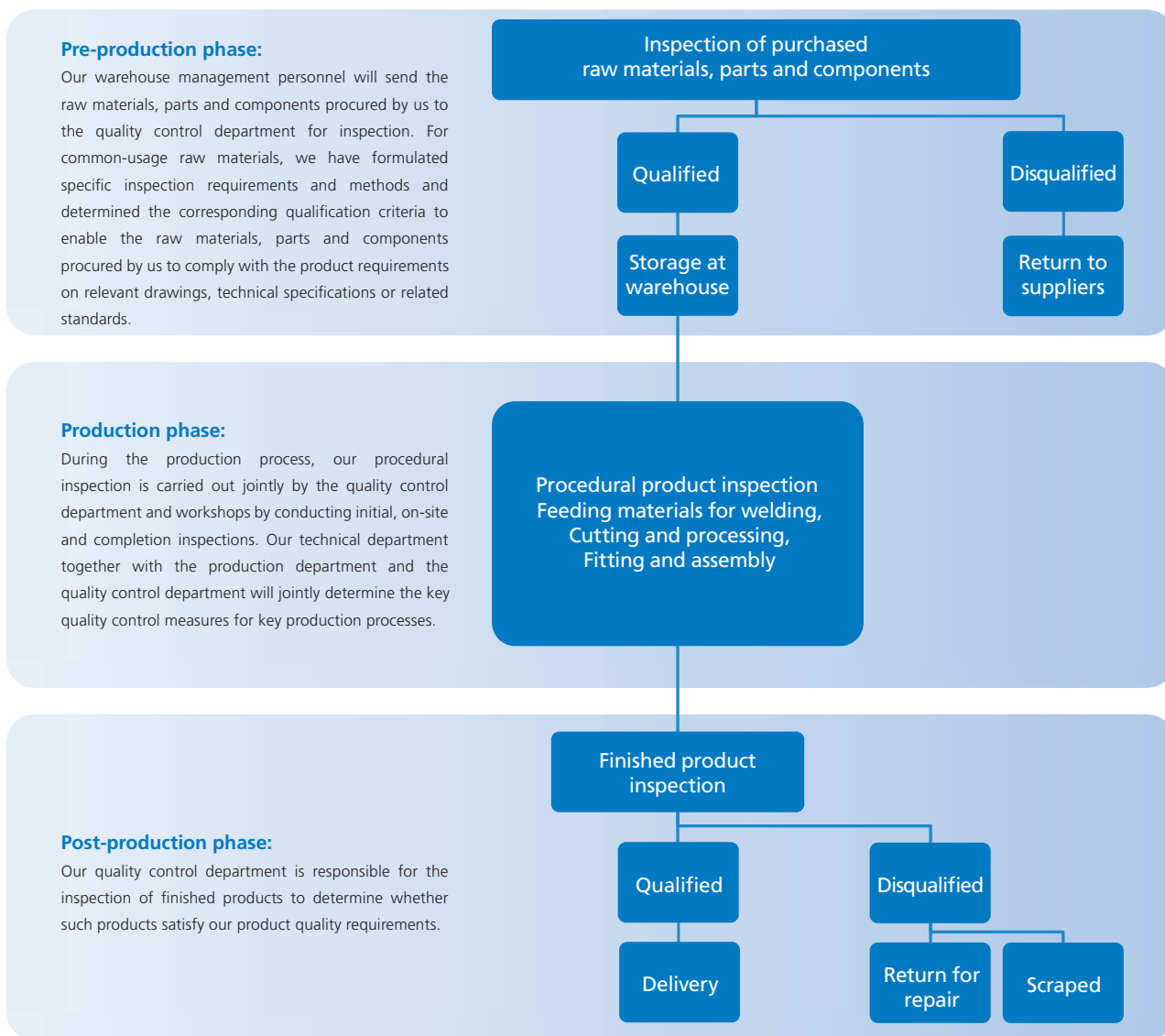
Our certification

We place great emphasis on our product quality and has established a sound quality system. All our products have to comply with national and industrial standards in the PRC. In recognition of our quality control measures, we have received various certifications illustrating our ability to provide quality products and/or services that meet our customers' needs and regulatory requirements consistently. The table below listed out a summary of important certifications obtained by the Group at the end of the Reporting Period:

- Quality Management System Certification ISO9001:2015
- CE certified Ball Mill
- CE certified Belt Conveyor Scale
- CE certified Vertical Roller Mill
- CE certified Ball Mill
- CE certified Rotary Kiln
- CE certified Vertical Coal Mill
- Jiangsu Quality and Creditworthiness AAA-rating Enterprise
- Advanced AEO Authorised Enterprise by the Customs

Quality inspection management process

Our quality inspection management system is established to control the product quality by conducting inspection from the pre-production phase to the production phase and the post-production phase.



Jiangsu PengFei Group Co., Ltd., a subsidiary of the Group, has received the “Mayor of Haian Quality Award” (“海安市市長品質獎”), which affirmed the quality of our products.

B. SOCIAL

Complaint Handling

We value close communication with customers during the design, manufacture and installation of the project. The quality manager is responsible for friendly negotiation with customers to solve problems, and internally, the Group will also make improvements regarding the relevant complaints. We provide after-sales services to our customers. We generally aim to address product-related issues raised by our customers within 72 hours. Both our production department and sales department will contact our customers to understand the use of the product and provide relevant services. We will also prepare reports or feedback for customers if we receive any comments from our customers on products or services.

We will conduct on-site investigations of the relevant issues raised by our customers to determine the type of after-sales services to be provided including, repair of equipment and/or replacement of parts and components. For after-sales services which fall within the warranty period as stipulated in the sales contract, we will not charge additional fees for the provision of after-sales services to customers (except for repairments and/or replacements which take place due to the reasons caused by our customers. During the Reporting Period, the Group did not receive any material product and service related complaint.

Product Return Policy

The Group maintain the usual high quality of our products and services, meanwhile, we also arrange for the return and compensation of products with quality issues in accordance with the terms written in the sales contracts. For any customers who are affected by quality issues, we respond to them with standard procedures including return, recall, or compensation of products in a consistent manner. Relevant records will be added to the group's internal review system and annual management review system.

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

Product Advertising and Labelling

Most of our products are sold directly to our customers under our own brand name. Our sales and marketing team market our products through various marketing channels and methods, which include, among others: (i) advertisements in paper media such as magazines and newspapers; (ii) advertisements on the Internet (i.e. our Group's website and other websites); (iii) attending events and/or exhibitions relating to the building materials and machinery industry both in the PRC and overseas (i.e. Canton Fair ("廣交會"), bauma CHINA ("中國國際工程機械、建材機械、礦山機械、工程車輛及設備博覽會"), Arab International Cement Conference ("阿拉伯國際水泥展") and Exhibition with other industry professionals, potential customers and suppliers; and (iv) customer visits.

The Group publishes all kinds of advertisements and information truthfully to ensure that the content is clear and correct, and must not infringe on the intellectual property rights, privacy or other legal rights of any individual or entity, and avoid misleading consumers. The labelling of product delivery, packaging and transportation shall be implemented under the provisions of GB191 illustration of Packaging, Storage and Transportation.

Research and Development of Products and Intellectual Property Rights

We place great emphasis on our research and development ("R&D") capabilities as we believe that it will enable us to maintain our market position and allow us to compete effectively with leading players in the rotary kiln and grinding equipment industries. We have established the enterprise technology centre which is a professional R&D institution especially responsible for enterprise technology development and transformation of achievements, playing an important role in areas such as promoting technological advancements, solving technical problems, promoting transformation and upgrading, and cultivating professional and technical personnel. In 2016, our technology centre obtained the certification of the National Enterprise Technology Centre.

The Group complies with the Copyright Law of the PRC 《中華人民共和國著作權法》, the Patent Law of the PRC 《中華人民共和國專利法》, the Trademark Law of the PRC 《中華人民共和國商標法》, Agreement on Trade-Related Aspects of Intellectual Property Rights 《與貿易有關的知識產權協定》, etc. Following the guidelines of the quality control system, the Group established the management method of the Company's intellectual property rights to systematically manage the Company's intellectual property rights. During the Reporting Period, there were no confirmed incidents of violations or unfairness in respect of the Group's R&D of products and intellectual property rights that had a significant impact on the Group.

To protect our intellectual property rights, as at the end of the Reporting Period, we have obtained 79 authorised patents, of which 47 are invention patents, meanwhile, we have 64 patent applications pending approval. The patents are primarily relating to the manufacturing of products of our rotary kiln system and grinding equipment system. The specific protection measures are as follows:

- For the patent knowledge that has been declared, the technical department is responsible for applying and tracking the protection of patents on other products, and taking corresponding protection measures when infringement is found; and
- As for the proprietary technology, the Technology Department ensures that only specific personnel can obtain it and such knowledge should be kept confidential, and other unrelated personnel must not have access to the relevant knowledge to prevent leakage; the company signs Non-disclosure Agreement with those who have mastered these core knowledge.

Data Protection and Privacy

The Group strictly abides by national and local laws and regulations, including but not limited to the Patent Law of the PRC 《中華人民共和國專利法》, the Copyright Law of the PRC 《中華人民共和國著作權法》, the Trademark Law of the PRC 《中華人民共和國商標法》 and other laws and regulations. In order to protect the information of customers and the group (including information related to intellectual property rights), we have formulated guidelines for job conduct to ensure that office equipment such as laptops are properly kept. All the documents and electronic materials of the group, including teaching materials for training, are not allowed to circulate outside without authorization. All business information, financial information, personnel information, bidding information, contract documents, customer information, research and statistical information, technical documents, planning and marketing plans, management documents, meeting content, that have not been publicly disclosed are all considered corporate secrets. Our Employees are responsible for their confidentiality. All rights and interests obtained by employees who are on duty, such as commercial and technical information, inventions and research results, belong to the Group, and no one is allowed to copy, imitate, reprint, extract, or distribute without written authorisation. The Group is committed to protecting customers' data and privacy.

The Group values the protection of customer privacy and related company confidential information. The Group requires employees to strictly implement the confidentiality system and strictly prohibit the disclosure and selling of company's trade secrets, technical and economic information. The insider should report to the person-in-charge or the Company's management promptly and must not conceal it. The technical department is responsible for improving and consummating the technical management and confidentiality system. Company files and technical drawings information are kept by designated personnel. Those who steal or sell the Company's trade secrets, technical drawings, and other important secrets will be given corresponding monetary penalty and shall compensate for corresponding losses. Those involved in severe cases will be dismissed and pursued for criminal responsibility in accordance with laws.

B. SOCIAL

B7 Anti-corruption

The Group always requires employees to abide by ethical standards, establish and maintain an overall ethical culture for the Group, and ensure that the Group conducts business with a high degree of integrity, which is an important responsibility of the Board.

During the Reporting Period, we provided professional ethics and behavioral guidelines training for employees who were responsible for procurement and sales. We encourage employees to cooperate with suppliers and potential suppliers in a manner that conforms to professional ethics, and prohibited all forms of commercial bribery. Looking ahead, we will continue to input more resource to our anti-corruption training and expand the scope of anti-corruption training data disclosure.

Policies

The Group has established the following policies and procedures:

- **Corporate Anti-fraud Management Policy** (《企業反舞弊管理制度》)

According to the formulation of the internal control system, the Company intends to prevent fraud, strengthen the Company's corporate governance and internal control, reduce the Company's corporate risks, regulate business operations, and safeguard the legitimate rights and interests of the Group. The system regulates the professional behaviour of the Company's senior and middle management and all employees, requires employees to strictly abide by relevant laws, industry norms and standards, professional ethics and company rules and regulations, establish a good atmosphere of integrity and diligence, and prevent acts that harm the interests of group companies and shareholders from arising.

Fraudulent behaviours prevented by this policy refer to behaviours in which individuals inside or outside the Company uses fraud and other illegal means to seek illegitimate interests of individuals or small groups; or seek illegitimate economic benefits of the company which may bring illegitimate benefits to individuals in the meantime. The scope of its definition includes: (i) accepting bribes or kickbacks; (ii) transferring transactions that would normally make the organisation profitable to others; (iii) illegally using company assets, embezzling and stealing company assets; (iv) making the company pay for false transactions; (v) intentionally concealing or misreporting the transactions; (vi) forging accounting records or documents; (vii) leaking the company's business or technical secrets; (viii) other frauds that harm the company's economic interests.

- **Conflict of Interest Management Policy** (《利益衝突管理制度》)

The purpose of this system is to effectively prevent the normative development of conflicts of interest between directors, supervisors, senior management personnel and ordinary employees and the Company, and prevent acts that harm the interests of the Company and shareholders from arising.

During the Reporting Period, we arranged eight hours of anti-corruption and bribery training for all the directors and heads of various departments, including the operation department, finance department, supply department and quality inspection department. The content of anti-corruption training covers enterprise anti-fraud management system, Chinese national laws and regulations on corruption and bribery, typical case analysis, and the consequences and responsibilities of illegal activities, to strengthen employees' professional ethics and achieve integrity and law-abiding operations. Participants will undergo random checks after the training to evaluate their mastery of the training content. The results showed that the participants have a basic understanding of relevant anti-corruption laws and regulations, and also understand the company's corporate fraud management system, which has fulfilled the expected result and purpose of the training. Looking ahead, we will continue to work on relevant anti-corruption training.

Compliance information for relevant laws and regulations

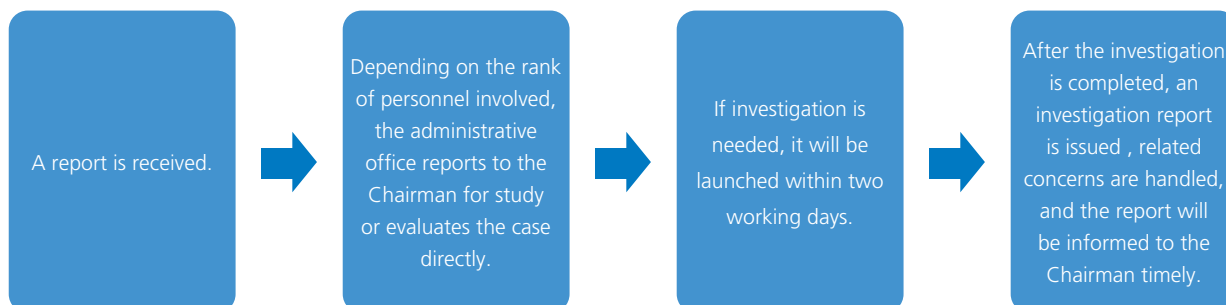
The Group strictly complies with anti-corruption laws and regulations in the PRC and Hong Kong, including but not limited to the Criminal Law of the PRC 《中華人民共和國刑法》, the Anti-Unfair Competition Law of the PRC 《中華人民共和國反不正當競爭法》, the Interim Provisions on Prohibition of Commercial Bribery 《關於禁止商業賄賂行為的暫行規定》, and Prevention of Bribery Ordinance in Hong Kong.

- The Criminal Law of the PRC 《中華人民共和國刑法》 regulates extortion and bribery activities in commercial dealings.
- Prevention of Bribery Ordinance in Hong Kong prohibits all forms of corruption and bribery. Any director or employee is prohibited from soliciting, accepting or offering any bribe while conducting company business or affairs in Hong Kong or elsewhere.

During the Reporting Period, the Group was not aware any serious violations regarding corruption and concluded legal cases regarding corrupt practices brought against the issuer or its employees.

Whistle-blowing Channel

The administrative office acts as the permanent agent for anti-fraud works, handling business ethical issues and fraud cases. Whistle-blower can report by real name or anonymously through various channels including face-to-face, telephone hotline, e-mail. The whistle-blowing process is as follows:



After the investigation is completed, the relevant investigation report is issued, relevant concerns are handled, and the Chairman is informed. The investigation result of the real-name report will be informed to the whistle-blower timely. After verification, the whistle-blower will be rewarded according to the situation. The reward is decided based on the severity of the case or how the reported person is handled by the Group.

To protect the whistle-blower, the administrative office will not record the name and other relevant information of the whistle-blower on the registration form when registering the report. Information of the registration form and the whistle-blower is limited to inspection by the head of the administrative office and the Chairman. Any departments or individuals are not allowed to inquire about the report and the information of the whistle-blower for any reason. The administrative office must also not inform the person other than the Chairman of the whistle-blower's information for any reason. If the information of the whistle-blower is leaked, we try to protect the personal and property safety of the whistle-blower and pursue the related responsibilities of the leaker. No unit or individual may block or suppress the report by the whistle-blower for any reason, and shall not take any actions to combat and retaliate against the whistle-blower. Once discovered, we will deal with it seriously in accordance with relevant regulations. If a person has committed an offence regarding certain behaviour, the person will be transferred to the judicial body for handling in accordance with laws.

B. SOCIAL

COMMUNITY

B8 Community Investment

The Group is committed to serving the community. One of the ways we embody corporate social responsibility is to continue to support local education and employment. The Group is committed to promoting and cultivating talents and expanding the platform to recruit more talents. We continuously improve the internship system, and also work closely with institutions such as higher education institutes and research institutes, and provide comprehensive on-the-job learning opportunities and career development opportunities for young people who are aspired to certain career paths. The Group was committed to helping the poor and needy people, during the Reporting Period, we have donated a total of RMB500,000 for charity and other purposes.

THE STOCK EXCHANGE “ESG REPORTING GUIDE” CONTENT INDEX

Subject Areas, Aspects, General Disclosures and Key Performance Indicators (KPIs) (Note 1)		Section/Statement
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 greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	A1 Emission
KPI A1.1	The types of emissions and respective emissions data.	A1 Emission
KPI A1.2	Direct (Scope 1) and energy indirect (Scope 2) Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	A1 Emission
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	A1 Emission
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	A1 Emission
KPI A1.5	Description of emissions target(s) set and steps taken to achieve them.	A1 Emission
KPI 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.	A1 Emission
Aspect A2 Uses 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 (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	A2 Use of Resources
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	A2 Use of Resources
KPI A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	A2 Use of Resources
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
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	A2 Use of Resources

THE STOCK EXCHANGE “ESG REPORTING GUIDE” CONTENT INDEX

Subject Areas, Aspects, General Disclosures and Key Performance Indicators (KPIs) (Note 1)		Section/Statement
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, age group and geographical region	B1 Employment
KPI B1.2	Employee turnover rate by gender, age group and geographical region	B1 Employment
Aspect B2 Health and Safety		
General Disclosure	Information on: (a) the policies; and 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
KPI B2.2	Lost days due to work injury.	B2 Health and Safety
KPI B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.	B2 Health and Safety

THE STOCK EXCHANGE “ESG REPORTING GUIDE” CONTENT INDEX

Subject Areas, Aspects, General Disclosures and Key Performance Indicators (KPIs) (Note 1)		Section/Statement
Aspect B3 Development and Training		
General Disclosure	Policies on improving employees’ knowledge and skills for discharging duties at work. Description of training activities.	B3 Training and Development
KPI B3.1	The percentage of employees trained by gender and employee category.	B3 Training and Development
KPI B3.2	The average training hours completed per employee by gender and employee category.	B3 Training and Development
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
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	B4 Labour Standards
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
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
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
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	B6 Product Responsibility

THE STOCK EXCHANGE “ESG REPORTING GUIDE” CONTENT INDEX

Subject Areas, Aspects, General Disclosures and Key Performance Indicators (KPIs) (Note 1)		Section/Statement
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	B6 Product Responsibility
KPI B6.4	Description of quality assurance process and recall procedures.	B6 Product Responsibility
KPI B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	B6 Product Responsibility
Aspect A7 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, how they are implemented and monitored.	B7 Anti-corruption
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