



Perfectech International Holdings Limited

Incorporated in Bermuda with limited liability

Stock Code: 00765

2021 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT



ABOUT THIS REPORT

This report is the Environmental, Social and Governance (“ESG”) report issued by Perfectech International Holdings Limited (the “Company”). It describes various activities in support of the principle of sustainable development and the performance on environmental protection and fulfilling social responsibilities of the Company and its subsidiaries (collectively referred to as the “Group” or “we”) in 2021. For information on corporate governance, please refer to the Corporate Governance Report of the Group’s 2021 Annual Report.

REPORTING SCOPE

This ESG report covers the performance of the Group’s principal business in the People’s Republic of China (the “PRC”) in environmental management and social responsibility between 1 January 2021 and 31 December 2021 (the “Year”). The key performance indicators disclosed in this ESG report for the Year are based on the performance of 中山利發玩具有限公司 (“中山利發”).

REPORTING FRAMEWORK

This ESG report was prepared in accordance with Appendix 27 Environmental, Social and Governance Reporting Guide of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“HKEX”).

REPORTING PRINCIPLES

The content of the ESG report is determined through stakeholder engagement and materiality assessment process, which includes identifying ESG-related issues, collecting and reviewing the internal management and stakeholders’ opinions, assessing the relevance and materiality of the issues and preparing and validating the information reported. The ESG report has covered all key issues that are concerned by different stakeholders.

Quantitative environmental and social key performance indicators (“KPIs”) are disclosed in the ESG report so that stakeholders are able to have a comprehensive understanding of the Group’s ESG performance. Information of the standards, methodologies, references and source of key emission of these KPIs are stated wherever appropriate. To enhance comparability of the ESG performance between years, the Group has strived to adopt consistent reporting and calculation methodologies as far as reasonably practicable. For any changes in methodologies, the Group has presented and explained in details in the corresponding sections.

INFORMATION AND FEEDBACK

Your opinions on this ESG report are highly valued by the Group. If you have any advice or suggestions, please contact us via the following email address: info@perfectech.com.hk.



ESG GOVERNANCE

BOARD ESG STATEMENT

The Group believes that adequate ESG governance strategies and practices are crucial to long term development, enhancing the Group's investment value and returns. The Board of Directors (the "Board") will be responsible to monitor the Group's ESG-related issues and its execution progress, including ESG-related laws and regulations, as well as policies and measures. The Board regularly reviews the Group's overall ESG performance, and monitors the Group's ESG-related activities. Meanwhile, the Board is responsible to monitor the compilation of the Group's annual ESG report, and reviews the report's content and quality, so as to ensure that the ESG report meets the Board's requirements. Furthermore, the Board participates in the Group's ESG risk management and stakeholder management. The Board strives to ensure that the Group's operations are in line with international ESG development trends, and monitors the effects of the Group's ESG performances on different stakeholders.

The Board understands that it is integral to the Group to formulate and implement policies and measures according to the materiality of different ESG issues. Therefore, the Board as appointed third-party ESG professionals to conduct materiality assessments. In order to identify material topics, the Group has conducted stakeholder investigations, and has included materiality maps from renowned ESG organizations as well as professional advice from ESG professionals into consideration to analyze the material topics for the industry. The Board has also taken part in such exercise, and has provided valuable insights during the ESG issues identification process. The Board thoroughly understands the results from the assessments, and will continuously review and participate in such exercise.

In order to ensure that the Group's ESG issues management are on the right track, the Board shall monitor the coordination between different departments, and shall review the ESG issues and progress towards targets regularly in meetings, while looking for opportunities to set future development directions for the Group.

STAKEHOLDERS ENGAGEMENT

Based on the Group's business nature of manufacturing toy, novelty and decoration products, we have established a clear ESG approach for guiding the implementation of policies regarding the environmental, social and governance aspects, including measures on pollution monitoring, reduction of greenhouse gas emissions and resources conservation. At the same time, the Group has set up an ESG working group, responsible for maintaining currently effective ESG risk management and internal monitoring systems while actively improving on the Group's ESG performance, and reporting and sharing the work plans and results with the Group's board of directors and employees.

For our sustainable development, it is critical for us to understand stakeholders' concerns and expectations and take corresponding actions. Stakeholders' engagement helps us understand our performance in environmental and social development. Therefore, we have established appropriate communication channels to actively engage with our major stakeholders to understand their expectations in all aspects of ESG, so as to help the Group integrate sustainable development strategies into our long-term business practices. The following table sets out the requirements and expectations of major stakeholders of the Group, as well as the corresponding response and communication channels of the Group.



ESG GOVERNANCE

Stakeholders	Expectations	Means of Communication and Response from the Group
Government and Regulators	<ul style="list-style-type: none"> • Compliance with national policies, laws and regulations • Support for local economic growth • Contribution to local employment • Tax payment in full and on time • Production safety 	<ul style="list-style-type: none"> • Regular information reporting • Regular communication with regulators • Examination and inspection
Shareholders	<ul style="list-style-type: none"> • Returns • Compliant operation • Information transparency and effective communication 	<ul style="list-style-type: none"> • General Meetings • Company announcement and notices • Email, telephone communication and company website
Partners	<ul style="list-style-type: none"> • Operate with integrity • Fair competition • Performance of contracts 	<ul style="list-style-type: none"> • Review and appraisal meetings • Business communications • Engagement and cooperation
Customers	<ul style="list-style-type: none"> • Outstanding products and services • Health and safety • Performance of contracts • Operate with integrity 	<ul style="list-style-type: none"> • Customer service center and hotline • Customer feedback survey • Customer communication meeting
Environment	<ul style="list-style-type: none"> • Compliance with emission regulations • Energy conservation and emission reduction • Environmental protection 	<ul style="list-style-type: none"> • Communication with local environmental department • Communication with the locals
Industry	<ul style="list-style-type: none"> • Setting industrial standards • Promoting industry development 	<ul style="list-style-type: none"> • Participate in industry forums
Employees	<ul style="list-style-type: none"> • Protection of rights • Occupational health • Remunerations and benefits • Career development • Humanistic cares 	<ul style="list-style-type: none"> • Employee communication meetings • Training and workshops • Employee activities
Community and the Public	<ul style="list-style-type: none"> • Improve community environment • Participation in charity 	<ul style="list-style-type: none"> • Company website • Announcements



ESG GOVERNANCE

MATERIALITY ASSESSMENT

In order to formulate a clear direction and roadmap for ESG management strategies, the Group has conducted a materiality assessment to identify ESG issues that are material to the business of the Group and its stakeholders. The assessment is based on internal stakeholder surveys, professional opinions from the third-party ESG professional as well as materiality maps provided by well-known external institutions¹. The results of this assessment will also serve as a reference for the Group to enhance internal management, and will increase the participation of different stakeholders in the future, so as to collect their valuable and constructive opinions on the development of the Group. During the Year, the Group has identified 9 material ESG issues, which will be further discussed in the ESG report.

Material Topics	Corresponding Sections
Environmental Compliance	Environmental Protection
Use of Packaging Material	Resources Conservation
Emissions Management	Emissions Handling; Waste Management
Prevention of Child Labour and Forced Labour	Stringent Recruitment Process
Occupational Health and Safety	Health and Safety
Product Quality and Safety	Quality Control
Supply Chain Management	Supply Chain Management
Intellectual Property Protection	Intellectual Property Protection
Anti-corruption	Anti-corruption

¹ The materiality maps referenced in the materiality assessment include the ESG Industry Materiality Map and the SASB Materiality Map produced respectively by MSCI and the Sustainability Accounting Standards Board (SASB).



PROTECTING THE ENVIRONMENT

ENVIRONMENTAL PROTECTION POLICY

The Group is committed to protecting the surrounding environment during its business operations, and has also been in strict compliance with the laws and regulations related to environmental protection. The Group upholds an environmental protection philosophy of “observing environmental protection laws and regulations, pursuing continuous improvement, saving energy while reducing consumption, and lowering the production and emissions of pollutants” to facilitate the implementation of various environmental protection policies. The Group also raises the awareness towards environmental protection and promotes the importance of environmental management among its employees to reduce as much energy consumption at source as possible, and conducts annual environmental monitoring. The Group has also established management procedures and approaches to correspondingly manage the emissions from our business operation so as to reduce pollution. Going forward, the Group will continue to abide by the laws and strive to achieve the goals on pollution prevention and continuous improvement of environmental protection policy.

EMISSIONS HANDLING

The Group strictly abides by relevant laws and regulations, such as the Environmental Protection Law of the PRC, the Law of the PRC on the Prevention and Control of Atmospheric Pollution, and the Water Pollution Prevention and Control Law of the PRC, and implements relevant policies and measures in an effort to control and reduce the emissions of air and water pollutants.

As a toy product manufacturer, 中山利發 produces exhaust gases which include benzene, methylbenzene, dimethylbenzene and volatile organic compounds (VOCs) from its production process. All these exhaust gases are filtered before being emitted. 中山利發 also engages government accredited agencies to conduct relevant tests on the exhaust gases to ensure that emissions meet national standards. Besides the production process, the employees of 中山利發 also use vehicles such as private cars and light trucks to maintain daily operations, during which air pollutants including nitrogen oxides, sulphur oxides and particulate matters are produced. The emissions of air pollutants produced from the usage of vehicles during the Year are listed in the following table.

Type ¹	2021	2020
Nitrogen oxides (g)	6,613	8,522
Sulphur oxides (g)	75	76
Particulate matters (g)	554	717

Note:

1. The calculation of pollutant emissions is based on the “Reporting Guidance on Environmental KPIs” issued by HKEX.

Besides, various activities during daily operations also directly or indirectly emit greenhouse gases such as carbon dioxide, methane and nitrous oxide. During the Year, greenhouse gas emissions of 中山利發 mainly stemmed from direct emissions of the combustion of automobile fuels, indirect energy emissions from the generation of purchased electricity, and other indirect emissions from sewage and water treatment as well as disposal of waste paper at landfills. Greenhouse gas emissions and climate change are among the most pressing environmental issues in all sectors of society. As such, 中山利發 places reducing greenhouse gas emissions with all its effort as its goal, and has been striving to reduce emissions of carbon dioxide and other greenhouse gases through various means such as reducing the frequency of business usage of vehicles, implementing various energy-saving measures (please refer to the “Resources Conservation” section for details) and recycling paper, in an effort to reduce our carbon footprint. The greenhouse gas emissions of 中山利發 for the Year are listed in the following table.



PROTECTING THE ENVIRONMENT

Type ¹	2021	2020
Total greenhouse gas emissions (tCO ₂ e)	634	648
Scope 1 — Direct greenhouse gas emissions ² (tCO ₂ e)	12	12
Scope 2 — Energy indirect greenhouse gas emissions ³ (tCO ₂ e)	617	633
Scope 3 — Other indirect greenhouse gas emissions ⁴ (tCO ₂ e)	5	3
Greenhouse gas emission intensity (tCO ₂ e/employee)	2.23	2.31

Notes:

1. The Group's greenhouse gas inventory includes carbon dioxide, methane and nitrous oxide, and the greenhouse gas emissions data is presented in carbon dioxide equivalent. The calculation of greenhouse gas emissions is based on the reporting requirements of "Reporting Guidance on Environmental KPIs" issued by HKEX.
2. Scope 1 includes direct emissions from the consumption of vehicle fuels of the Group. The emission factors used for calculating emission is based on the "Guidelines for Accounting and Reporting Greenhouse Gas Emissions for China Electronic Equipment Manufacturing Enterprises (Trial)" issued by the National Development and Reform Commission of the PRC
3. Scope 2 includes indirect emissions from purchased electricity of the Group. The emission factors used for calculating emission is based on from the "Average Carbon Dioxide Emission Factors of China Regional Power Grid 2011 and 2012" issued by the National Development and Reform Commission of the PRC.
4. Scope 3 includes other indirect emissions from waste paper disposal and water treatment. The calculation of greenhouse gas emissions from waste paper disposal is based on the "Reporting Guidance on Environmental KPIs" issued by HKEX, while the emission factor used for calculating water treatment is provided by Shenzhen Water (Group) Co., Ltd.

With regard to water pollution, the wastewater produced by 中山利發 mainly comprises domestic sewage discharged from daily office operation which contains no water pollutants that will significantly affect the environment. Domestic sewage is filtered through sewage treatment equipment to meet national discharge standards, including "Integrated Wastewater Discharge Standard", before discharging into municipal sewage pipes. The Group encourages its employees to conserve water so as to reduce the discharge of domestic sewage.

WASTE MANAGEMENT

The Group understands the detrimental effects of illegal dumping of solid wastes on the environment. Therefore, we arrange the disposal and subsequent handling of wastes in strict compliance with the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Wastes. Despite that, the wastes legally disposed of at landfills may still cause a certain degree of impact to the environment. Hence, in addition to compliance with relevant laws and regulations, we have also set a goal to reduce waste generation, and implemented prudent and stringent waste management measures in a bid to reduce waste disposal and strive for environmental protection.

The solid waste produced by 中山利發 can be divided into hazardous and non-hazardous waste. During the Year, hazardous wastes include a small quantity of waste paint buckets, waste oil residue, waste organic solvent, chemical waste and waste cartridges generated from daily office operation, etc. All hazardous waste are sent to qualified units for subsequent handling. Non-hazardous waste include waste paper, metals and general waste. Apart from allowing the local environmental hygiene department to collect and process general waste, we have also employed qualified recycling companies to recycle metals and most of the waste paper. These measures help reduce waste production and carbon emissions. With effective waste management, there were no records of harmful environmental impact caused by the Group's waste disposal during the Year. The waste disposal amount and intensity of 中山利發 during the Year are listed in the following table.



PROTECTING THE ENVIRONMENT

Type	2021	2020
Total non-hazardous waste (tonnes)	17	16
Non-hazardous waste intensity (tonnes/employee)	0.06	0.06
Total hazardous waste ¹ (kg)	30	25
Hazardous waste intensity (kg/employee)	0.11	0.09

Note:

- The hazardous wastes include waste paint buckets, waste oil residue, waste organic solvent and waste cartridges. Starting from 2021, the types of wastes also include chemical waste.

RESOURCES CONSERVATION

As our economy is based on limited resources, we deeply understand that cherishing resources is critical to sustainable development. The resources used during the production and operation procedures of 中山利發 include energy, water and packaging materials. We are committed to making the best use of resources and reducing waste of resources, and has increasing energy and water resources efficiency as long term goals. The resources consumption data of 中山利發 during the Year is listed in the following table.

Type	2021	2020
Energy		
Total energy consumption (MWh)	1,219	1,250
Vehicle fuel consumption ¹ (MWh)	49	50
Electricity consumption (MWh)	1,170	1,200
Energy consumption intensity (MWh/employee)	4.29	4.45
Water Consumption		
Total water consumption (m ³)	8,200	7,800
Water consumption intensity (m ³ /employee)	28.87	27.76
Package Material		
Paper and paper product consumption (tonnes)	95	85
Paper and paper product consumption intensity (kg/piece of packaged product)	0.06	0.07
Plastic product consumption (tonnes)	70	96
Plastic product consumption intensity (kg/piece of packaged product)	0.06	0.07

Note:

- The consumption of vehicle fuels is calculated based on the energy conversion factor from the "Guidelines for Accounting and Reporting Greenhouse Gas Emissions for China Electronic Equipment Manufacturing Enterprises (Trial)" issued by the National Development and Reform Commission of the PRC and the fuel density from National Standards of the PRC GB17930-2016 "Gasoline for Motor Vehicles" and GB19147-2016 "Diesel Oil for Motor Vehicles".



PROTECTING THE ENVIRONMENT

In order to control resources consumption and reduce waste, 中山利發 has formulated and strictly implemented the Water and Energy Conversation Procedure to regulate employees' conduct on using water and electricity. 中山利發 requires employees of all departments who are the last to leave the offices to switch off the air-conditioning and lighting systems, and requires electrical devices that are left idle for more than 10 minutes to be turned off. 中山利發 also forbids employees to turn on the air-conditioning system when the temperature falls below 26 degrees Celsius, encourages them to set the air-conditioning system at temperatures not lower than 25 degrees Celsius during office hours, and allows casual wear on hot weather and Fridays, so as to reduce the use of the air-conditioning system. Moreover, 中山利發 advocates to use less disposal products, and reuse stationery, such as envelopes and folders. Meanwhile, we set up sorting bins to recycle waste paper, plastics and metals, etc. In terms of paper use, 中山利發 upholds the philosophy of protecting the environment, and encourages employees to use emails and other electronic systems instead of paper to reduce the use of paper. We also promote using paper on both sides whenever possible. Used paper is recycled by recycling companies to minimise the waste of paper. 中山利發 also reminds employees to turn off the faucet tightly after using and reuse water whenever possible in order to help prevent the waste of water resources and reduce water consumption. To strengthen supervision, the administration department regularly inspects the temperature of the air-conditioning system and the use of resources. If violations are detected, the relevant person in charge will be notified and punished accordingly to reduce the occurrence of the similar incidents.

In order to conserve resources and reduce emissions, 中山利發 adopts advanced technological equipment while constantly improving production technology in the production process. For instance, 中山利發 adopts energy-saving and environmentally-friendly air-conditioning systems in production workshops and uses energy-saving injection moulding machines and automatic intelligent mechanical arms. Meanwhile, the assembly department of 中山利發 has also introduced automatic screwdrivers and other automatic equipment to enhance energy and production efficiency of workplaces. Moreover, 中山利發 has changed the mode of painting spraying by introducing pad printing and automatic spray gun, which not only reduces the waste of ink, but also minimises the impact of volatile ink on employees and further improves product stability and quality. 中山利發 conducts maintenance on its vehicles regularly and ensures that there are no engine idling. In addition, we encourage employees to use public transportation to reduce carbon footprints, thereby reaching the goal of the reduction of greenhouse gas emissions.

Regarding packaging, 中山利發 has always applied the simplicity principle to product packaging in order to minimize the use of packaging materials. The Group has also put robust procedures in place to ensure that raw materials and packaging materials are used efficiently in the production and packaging process.

DEALING WITH CLIMATE CHANGE

Climate change has currently emerged as one of the most urgent environmental issues in the world, and is a shared responsibility across all sectors. Being aware of the consequences brought by the changing climate, 中山利發 has taken various measures to identify and mitigate climate-related risks and impacts. Both the production and operation of the Group are involved with climate-related risks, mainly including physical risks brought by extreme weather events and the changes in precipitation and weather patterns. These events may lead to difficulties in transportation, disruptions in the supply chain and delay of projects, thus decreasing production capacity. Meanwhile, extreme weather conditions may also cause negative impacts on employees' health and safety, thereby decreasing workforce.

To mitigate climate-related risks, 中山利發 has put effort into different aspects. We have formulated an emergency plan for natural disasters, outlining emergency evacuation procedures when extreme weather events occur. We will issue safety warning immediately, adopt special work arrangements in response to special weather conditions, and notify employees and on-site workers, so as to safeguard their health and safety. Moreover, regular inspections of the factory structure and electrical appliances will be carried out to eliminate any hidden hazards. To avoid property loss, 中山利發 maintains comprehensive insurance coverage for physical assets which are prone to damage by extreme weather.



CARING FOR EMPLOYEES

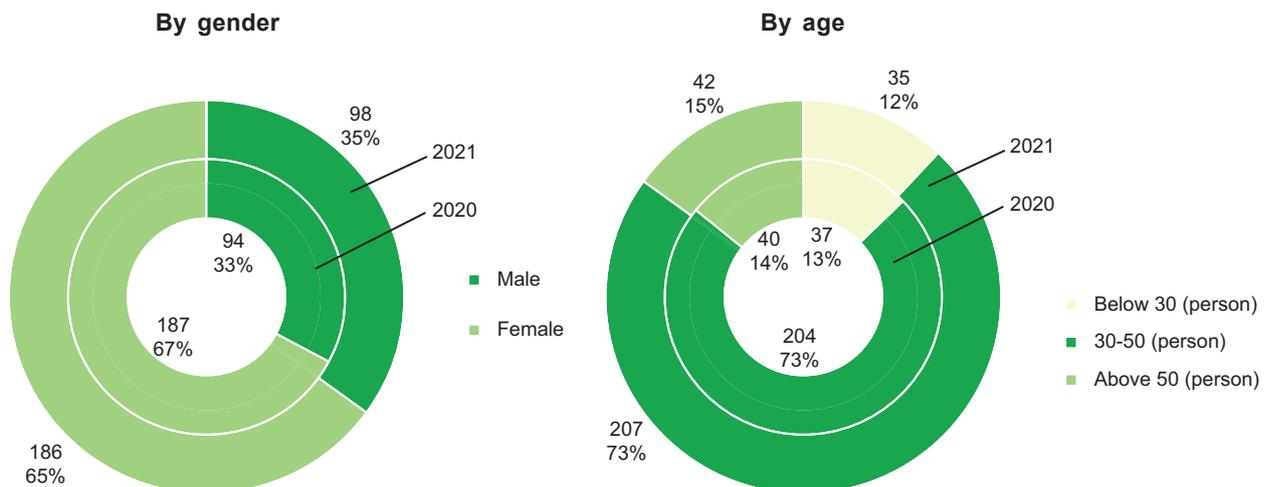
STRINGENT RECRUITMENT PROCESS

The Group's success relies on the joint effort of our employees. Therefore, we recognize talents as our most important assets. During the process of formulating an employment system, we have been strictly complying with relevant laws and regulations, such as the Labour Law of the PRC and the Labour Contract Law of the PRC, to protect employees' legal rights and interests and lay a solid foundation for the Group's long-term development at the same time.

During the recruitment process, we look for suitable talents based on the principle of "open recruitment, comprehensive assessment and meritocratic appointment". We set our recruitment requirements according to the actual needs of various departments, and do not treat candidates differently on grounds of ethnicity, social hierarchy, nationality, religion, disability, gender and sexual orientation. Applicants have equal opportunities for interviews as long as they possess the skills, education background and work experience required by relevant positions.

To effectively prevent the issue of child labour, we have formulated the Policy on the Prohibition of Using Child Labour. We will follow the policy to conduct background checks on applicants and inspect their identification documents to verify their ages, so as to prevent child labour due to the falsified age documents provided by applicants. In case of inadvertent use of child labour, we will send child workers back to their original residences and ensure that they can continue to receive education, with all expenses covered by the Group. Furthermore, we respect employees' rights and freedom, including the freedom of employment, resignation, overtime work and movement. To prevent the occurrence of forced labour, we have set a maximum of 40 working hours per week. Overtime work requires prior application and the approval from an authorized supervisor. 中山利發 has been certified with the International Council of Toy Industries ("ICTI")² Ethical Toy Program ("IETP") for its commitment not to use child or forced labour and its respect for employees.

During the Year, 中山利發 had a total of 284 employees and all of them were permanent staff working in the PRC. The number of employees and the turnover rate by different categories are presented in the following chart and table respectively.



² ICTI is a non-profit organization registered in the United States of America, its certification guarantees that products of children toy product manufacturers are produced under safe and humanitarian conditions and in harmless and sustainable factory environment.



CARING FOR EMPLOYEES

Employee turnover rate (%)	2021	2020
By gender		
Female	19	18
Male	12	12
By age		
Aged below 30	34	35
Aged 30–50	11	7
Aged above 50	14	28

EMPLOYEE BENEFITS

The Group places particular emphasis on the welfare and benefits of employees during work, as we believe that job satisfaction among employees is crucial to the enterprise's development. We adhere to the same belief when managing the welfare of employees. Therefore, in addition to providing statutory benefits, we also implement extra measures to offer additional welfare to employees.

To ensure that our employees have sufficient time to rest, we not only arrange the working hours and leave of employees in strict compliance with relevant laws, but also provide reasonable compensation for employees' overtime work. Besides statutory holidays, our employees are also entitled to paid annual leave, marriage leave, compassionate leave, maternity leave and breastfeeding leave, etc. We offer competitive remuneration to employees and conduct regular salary adjustment with reference to employees' performance and our business results.

Moreover, in order to encourage and motivate employees to be more aspirational and thus continuously improve their business capability and quality, we will conduct annual performance appraisals for employees. Based on employees' competence, conduct, experience and work performance, we will conduct comprehensive appraisals on them in a fair, reasonable, open and transparent manner, and provide outstanding employees with sufficient promotion opportunities. Our employees enjoy absolute freedom of resignation and the termination terms are set forth in the employment contracts in accordance with relevant laws. When the employment is terminated, we undertake to pay the remaining wages and relevant compensation to employees in accordance with relevant employment contracts on time without falling into arrears.

The Group endeavours to create a harmonious working atmosphere and is committed to eliminating any form of discrimination in the workplace. No discrimination, harassment, bullying, intimidation or other unfair treatment due to any reason whatsoever is allowed against new employees, current employees, or during the promotion and training process. We have established a complaint mechanism for employees, providing them with sufficient opportunities and channels to give comments and feedback. Employees can give comments or make complaints to the management via written means or phone. Upon receipt of complaints, we will find out the facts timely and take remedial actions.

To balance the physical and mental health of employees, we also hosted an annual dinner during the Year to reward and encourage employees, and to provide them with a relaxing time.



CARING FOR EMPLOYEES

HEALTH AND SAFETY

The Group is committed to creating a healthy and safe working environment for its employees. We strictly comply with the laws and regulations in relation to labour safety and hygienic conditions, such as the Law of the PRC on the Prevention and Treatment of Occupational Diseases and the Production Safety Law of the PRC, and provide our employees with necessary protective equipment. To ensure the health of employees, we provide our employees with preventive vaccines and relevant physical examinations according to the needs of different positions and the hazards they are exposed to. If any abnormalities are found during the check-up, they will be immediately suspended from work. As required by the national provisions, we exercise special labour protection for female employees to prevent them from performing duties that are prohibited for female labour. We also require our employees to work in accordance with the Group's safety standards, comply with the safety code and participate in safety and hygiene training to attain the goal of safe production.

Against the novel coronavirus epidemic (the "Epidemic"), all sectors are on high alert and are dedicated to the prevention and control of the Epidemic, so as to mitigate the impact of the Epidemic on health and safety. The Group is no exception as well, attaching great importance to the Epidemic, and are devoted to the prevention and control of the Epidemic. Based on the principles of "Prevention first, and integrating prevention with control" and "People-oriented, be kind to life", the Group has formulated an emergency plan for Epidemic prevention and control, so as to implement prevention and rescue measures as quickly and efficiently as possible to protect employees' health. 中山利發 has established an emergency command center for infectious disease Epidemics, and has set up different departments, including emergency command department, material supply department and safety department, to be responsible for emergency coordination, logistics support and other Epidemic-related matters. We have implemented comprehensive planning for employees' health, creating forms for various departments to carry out temperature monitoring and record-tracking, and shall report any abnormalities immediately. During the Epidemic, we strengthened the cleaning and disinfection of office areas, and issued notices of the prevention and safety control of the Epidemic to employees, so as to raise their awareness of Epidemic prevention. All employees and visitors of 中山利發 must wear masks and have their body temperature taken before entering the office. We also actively cooperated with the Epidemic prevention work carried out by the local governments, and provided employees with adequate supplies of protection and disinfection.

Apart from the Epidemic, the Group also pays attention to employees' occupational health and safety. To ensure the safe operation and production of the Group's employees, the Group has formulated a specific Safety Management System and the emergency procedures for industrial incidents, and requires the operators to strictly abide by it. We hold regular training on safety management system for our employees, providing information on health and safety policies as well as the use of protective gear, so that they can fully understand matters needing attention related to operation safety during the operation process. In case of emergencies such as chemical leakages or explosions, the Group will promptly arrange emergency personnel to organise and lead employees to evacuate to a safe area in an orderly manner, and inspect and clean up the site, and investigate the cause at the same time, so as to prevent re-occurrence of similar incidents.

To ensure fire safety, we have established the fire emergency plan, require our employees to learn fire-fighting regulations and acquire basic knowledge about fire prevention, extinguishment and escape as well as first aid. We also hold fire drills and related training sessions regularly to consolidate employees' fire-fighting awareness. Meanwhile, we ensure that the fire routes, fire hydrants, staircase for emergency evacuation and safety exits at the workplace are always kept clear so as to protect the safety of employees.



CARING FOR EMPLOYEES

We have established an occupational health and safety committee to monitor the implementation of occupational safety and health measures. In order to reduce potential risks, besides the inspection and evaluation conducted by us, we also regularly commission third-party testing agencies to detect the occupational hazards in production plants, such as toxic gas concentrations and noise levels. If any abnormality is found, corrective measures will be taken immediately to prevent accidents. We require prompt reporting of work-related injuries based on the prescribed procedures, so that the occupational health and safety committee can perform analysis and formulate remedial and preventive measures accordingly. Looking ahead, the Group will continuously review its health and safety measures and identify room for improvement in order to further reduce the risk of accidents and injuries among employees.

By implementing various measures to protect employees' health and safety, we have effectively reduced the rate of work-related injuries and accidents. During the Year, 中山利發 had no work-related fatalities in the past three years, while 3 working days were lost due to work-related injuries.

TRAINING AND DEVELOPMENT

Employee development is the cornerstone of the Group's success and therefore we pay special attention to the all-round development of employees. In order to improve manpower performance and employee quality while enhancing employees' ability to perform their duties and understanding of corporate culture, we have formulated the Training Management System as the basis for the Company's personnel training and management. The Training Management System effectively manages the content and quality of different training programs through clear training plans and records, so as to ensure that employees can learn from each training program. The Group expects to enrich employees' knowledge and skills in a planned manner, give full play to their potential, and establish good interpersonal relationships so as to carry forward the corporate spirit of the Company and meet its long-term development goals.

To help employees adapt to new working environment and positions and enter the working state smoothly, the Group provides new recruits with pre-employment training, such as the development history and prospect of the Company, institutional structure of the Company, and department and product briefing provided by the respective department heads. Meanwhile, the Group provides employees with regular trainings on company policies, illustrating and explaining to employees different policies such as staff codes, policies of salary and welfare, anti-discrimination policy, Environmental, Health and Safety ("EHS") policy, etc. The new recruits are required to pass the assessment conducted by the respective department heads before reporting for duty. The Group also attaches importance to the skill development of its employees. We therefore provide special technical training to employees according to the needs of different positions such as post-specific technical training to enhance their level of skills.

During the Year, 中山利發 has organised training sessions in relation to product quality and production efficiency for all employees, including offering a quality and efficiency analysis summary to employees on a regular basis. Programmes with a focus on defective goods analysis and prevention training were also organized to help raise employees' awareness of product quality and strengthen total quality management. In addition, with a focus on control and analysis of product disqualification, 中山利發 provided elaboration on the key process of quality control to the management in order to equip them with the necessary management knowledge, as well as to bolster their management capability. We have also organised a series of training sessions on production safety as well as labour knowledge and policies, including trainings on the use of protective gear, blood contamination control, prevention of sexual harassment, natural and industrial disasters emergencies, etc.



CARING FOR EMPLOYEES

During the Year, all employees of 中山利發 received training of different modes and types, bringing the percentage of employees trained to 100%. The average training hours of employees are listed in the following table.

Average training hours of employees (hours)	2021	2020
By gender		
Female	3.2	136
Male	0.5	136
By employee category		
Senior	27.5	55
Middle-level	13.6	95
Junior	0.9	137

In addition, the Group encourages its employees to participate in a variety of external training on topics like industry technical knowledge, enterprise strategy and development, including external open classes and exchange seminars. With the help of external experts, the Group expects to improve its employees' professional knowledge, insights on industry dynamics and skills at work, so as to improve work efficiency and quality.



VALUING CUSTOMERS

SUPPLY CHAIN MANAGEMENT

As a toy product manufacturer, it is crucial for our business to maintain a stable supply chain management in compliance with laws. To guarantee the quality of our products and effectively identify, alleviate and eliminate the potential risks of the supply chain, we have formulated the supply chain safety management system based on Global Security Verification standards and secured the recognition of Global Security Verification Agency, so as to improve import and export security, control logistics risk, enhance delivery efficiency and save cost. Meanwhile, we also make sure that our cooperation with suppliers meets the requirements of IETP.

We have formulated policies on supplier evaluation management and procurement control, and have implemented procurement policies while upholding the principles of openness, fairness, justice and scientific selection of the best. When selecting suppliers, we evaluate factors including product quality, supply stability and service standard of the suppliers. The suppliers also have to comply with the laws and regulations in their principal places of business, adhere to business ethics, and maintain honesty. When necessary, we will conduct site visits to suppliers to assess their equipment in plants, technology and on-site production management and check if they have obtained ISO9001 and other international quality system certifications. We include qualified suppliers in the supplier directory for reference and conduct an annual assessment on them to update the supplier directory. As for unqualified suppliers, we require them to take remedial actions or withdraw their qualification to ensure our products are not affected by the quality of suppliers.

Environmental and social risks along the supply chain are always considered by the Group. When evaluating and reviewing suppliers, we attach importance to their social responsibilities and commitment to environmental protection. We give priority to suppliers that comply with national, regional and industrial environmental standards and own certifications concerning energy management systems and social risk management. We also pay special attention to the integrity of suppliers in the selection process, ensuring that the rights of their employees are adequately protected in accordance with relevant laws and regulations and have adopted comprehensive occupational health and safety policies. Upon the discovery of any incompliance with relevant laws and regulations regarding anti-bribery, anti-corruption and any other unethical business practices, cooperation with the involved suppliers will be immediately terminated.

The Group shoulders the responsibility for environmental protection while developing its business. Hence, we incorporate the concept of environmental protection into our supply chain management. For comparable suppliers with similar performances, we incline to select suppliers based on proximity to reduce carbon emissions during transportation. Under the premise of fulfilling production needs, the Group also consider selecting products with less environmental impacts, such as products with environmentally friendly labels, and encourage employees to pay attention to the expiry date of products and use products purchased earlier to avoid unnecessary wastage.

During the Year, the Group has a total of 4 major suppliers from China (2), Taiwan (1) and South Korea (1) respectively.

QUALITY CONTROL

To satisfy the needs of customers of different age groups, the Group attaches great importance to the quality, safety and health standards of our products, in an effort to provide customers with quality products and services. We strictly observe the laws and regulations related to product quality, safety and health standards, such as the Product Quality Law of the People's Republic of China. In order to carry out thorough quality inspection procedures for the whole production process starting from raw materials procurement to product packaging, including sample inspection, confirmation and verification of hazardous materials purchased externally, 中山利發 has established a comprehensive quality management system and obtained the GB/T19001-2016/ISO9001:2015 standard certification.



VALUING CUSTOMERS

In terms of raw materials, the raw materials procured are verified and inspected randomly by the quality control department upon arrival at our production facilities. We also engage third-party testing agencies to conduct annual inspections on raw materials to ensure their compliance with the requirements of international toy safety standards. Only materials that passed the inspections are allowed to enter the warehouses. The qualified raw materials are labelled with batch codes and entry codes for future product tracking, whereas sub-standard raw materials are returned to the suppliers. As for finished goods, 中山利發 also has a series of inspection and release procedures to ensure that all finished products are subject to a final inspection by professionally trained inspectors. For each production process, such as moulding, paint spraying, assembly and packaging, we will conduct sample testing from time to time to ensure that our product quality meet the national standards.

To promptly deal with potential safety risks of the shipped products, we have compiled the Product Recall Procedures to trace and recall the products that are contaminated, or detected with safety, hygiene concerns that impose a risk to the consumers' health. We will treat the recalled products according to the Control Procedures for Defective Products and actively report to the competent government departments. We also conduct a simulated recall exercise every year to assess its effectiveness. During the Year, 中山利發 had no incidents of product recalls due to safety and health reasons.

INTELLECTUAL PROPERTY PROTECTION

In order to better safeguard the interests of customers' brands and the Group, protect customers' trademarks from infringement, and eliminate and prevent the risk of the Group's intellectual property rights, the Group have specially formulated the Customers' Intellectual Property Rights Protection Policy, which sets out comprehensive and rigorous codes and rules. We require customers to prove that their trademarks comply with the relevant law requirements of the PRC and the places of export and conducting verification. Without customers' authorisation, the Group is not allowed to sell, give away or destroy any products and materials containing brand information to protect customers' trademarks from infringement. Through the effective management of the operational practices and processes relating to intellectual property rights, we provide intellectual property protection for both customers and the Group itself.

In addition, the Group manages the use of labelling and advertising in accordance with relevant laws such as the Advertising Law of the People's Republic of China to protect customers' rights. All content regarding advertising made by the Group are required to be approved by management in order to ensure that no regulations are violated. When using labels and packaging, we will conform to product characteristics, technical requirements, as well as customer requirements, so as to ensure the accuracy of the information shown on the packaging.

CUSTOMER COMPLAINTS

The Group attaches great significance to customers' comments and considers them as the motivation for our continuous improvement of product and service quality. We have established a customer service management team to better understand customers' satisfaction and need. Customers may express their opinions or make complaints about our products via phone or written means. Upon receiving complaints, we will designate personnel to communicate with customers to handle such complaints, and conduct inspection and analysis of relevant products. If product quality or safety issues are discovered after inspection and analysis, we will recall the batch of products to stop their sale in the market. During the Year, 中山利發 have received 2 complaints regarding its products and services, where they are adequately addressed through reissuing the products.



VALUING CUSTOMERS

INFORMATION CONFIDENTIALITY

The Group strictly abides by local laws and regulations in relation to information confidentiality to ensure information security of customers and the Group. To safeguard the intellectual property rights of customers in product development and the information of the Group, we prohibit employees from disclosing confidential information of customers and the Group to third parties, whether orally or in written means. Without the approval of senior officers, employees are not allowed to access the Group's confidential documents so as to avoid leakage of confidential information. In addition, we provide training on information confidentiality to new recruits to ensure all employees understand the importance of information confidentiality.

ANTI-CORRUPTION

The Group strives to combat corruption in its business activities and maintains integrity through strengthening internal supervision. We have observed the laws and regulations in relation to anti-corruption, extortion, fraud and money laundering, such as the Criminal Law of the PRC and the Bidding Law of the PRC. We also require employees to follow the Group's policy on professional ethics and business conduct strictly during work, and any kinds of commercial bribery, such as receiving gifts and money from interested parties or attending banquet outside work, is prohibited. To raise employees' awareness of anti-corruption, we also organised relevant trainings. During the Year, the Group has provided 35 middle and senior management staff with 35 hours of training sessions concerning codes of commercial conduct, bribery as well as gifts and hospitality, so as to create a corporate atmosphere of transparent administration with integrity and mitigate the risks of corruptive behaviour.

We have established a supervision and management department and a set of integrity procedures to prevent commercial bribery. It is responsible for monitoring internal compliance with national laws and regulations in relation to commercial bribery prevention, strengthening bribery precaution at source, and performing the duties of discipline inspection and supervision. Meanwhile, we have also provided a report mailbox and a reporting hotline to prevent commercial bribery and other misconduct. When a report is received, the supervision and management department will take corresponding investigation actions timely to combat any misconduct while protecting the information of the complainants. During the Year, neither the Group nor any of its employees was involved in any corruption lawsuits.





COMMUNITY ENGAGEMENT

The Group strives to develop its business and actively participates in charitable activities simultaneously, demonstrating its gratitude for and desire to give back to communities. We maintain communication with local governments and non-profit organizations from time to time to understand the needs of the communities where the Group operates and ensure to take into account the communities' interests. We also encourage employees to make donations to charities, help groups in need within the communities, and meanwhile support the development of social welfare undertakings. During the Year, the Group has organised monthly charitable donations in the office, and has donated a total of RMB4,800 to social services organisations throughout the year.



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