



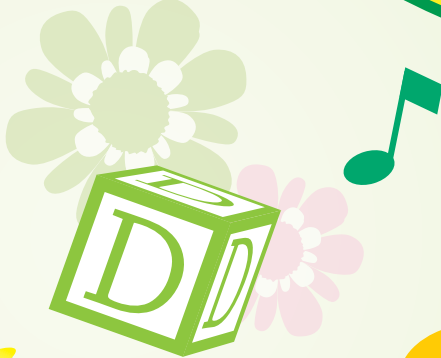
# Perfectech International Holdings Limited

Incorporated in Bermuda with limited liability

Stock Code: 765



## Environmental, Social and Governance Report 2017





## ABOUT THIS REPORT

The Environmental, Social and Governance (“ESG”) report issued by Perfectech International Holdings Limited (the “Company”) describes various activities in support of the principle of sustainable development of the Company and its subsidiaries (together the “Group” or “we”) in 2017.

### ESG APPROACH

The Group has established a clear ESG approach for guiding the implementation of policies regarding the environmental, social and governance aspects, with emphasis placed on a number of areas, covering pollution control, mitigation of greenhouse gas emission and resources conservation. Such strategy is adopted by taking into consideration of the manufacture-based nature of the Group, which produces toy products, novelties and decorations. An ESG working group, led by the senior management and comprised of the management across the Group, has been established to report to the board of directors of the Company as a watchdog body for the Group’s ESG strategies and policies, and is responsible for maintaining an effective ESG risk management and internal control system.

### REPORTING SCOPE

This ESG report mainly covers the Group’s overall environmental and social policies. The ESG working group has reviewed the Group’s performance and assessed the materiality of the environmental and social impacts of its operation. 中山市志發玩具有限公司 (“中山志發”), one of the subsidiaries of the Group, is a wholly foreign-owned enterprise established in the People’s Republic of China whose principal activity is the manufacture and sale of toys. As 中山志發 operates the Group’s largest plant (in terms of raw materials consumption) in the business of manufacture of toy products, this ESG report focuses on its performance in environmental and social aspects between 1 January 2017 and 31 December 2017 (the “Year”). The key performance indicators disclosed in this ESG report were also based on the performance of 中山志發. For the contents of corporate governance, please refer to the Corporate Governance Report on pages 9 to 28 of the Annual Report of the Company for the Year.

### REPORTING FRAMEWORK

This ESG report was prepared in accordance with the “Environmental, Social and Governance Reporting Guide” under Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”). The Reporting Principles set out in Appendix 27 to the Listing Rules underpin the preparation of this ESG Report. This ESG Report presents the ESG performance in a balanced manner.

### STAKEHOLDER ENGAGEMENT

The interests of our stakeholders are important in the establishment of our ESG policies. This ESG report was prepared in collaboration with the cooperative partners and colleagues from various departments, making us better understand our current level of development in environmental and social aspects. We have engaged employees across the Group through the collection of data, information and opinion regarding our environmental and social performance on a regular basis. The information collected forms a conclusion of the Group’s environmental and social activities carried out in the Year as well as the basis for our formulation of short and long-term sustainable development strategies.

### INFORMATION AND FEEDBACKS

Your opinions on this ESG report are highly valued by the Group. If you have any advice or suggestions, please provide through the following email address: [info@perfectech.com.hk](mailto:info@perfectech.com.hk).



## CHAIRMAN'S MESSAGE

Dear shareholders, employees and friends from all sectors of the society,

My greetings to you all!

We are pleased to issue the second ESG report of the Group. The Group's principal activities are the manufacture of toy products, novelties and decorations. In our business operation, we attach great importance to corporate sustainable development as well as the environmental and social responsibilities that should be assumed by the Group. This report summarises the Group's overall environmental protection concept and policies on social responsibility.

We are committed to conserving resources, reducing emissions and protecting our environment. During the Year, 中山志發 persistently enhanced energy efficiency at the workplace by adopting advanced technologies and equipment as well as improving its production process. Meanwhile, 中山志發 has strived to reduce the waste of ink and impact of ink volatility on the employees.

Employees are important assets that drive the development of enterprises. As such, we continue to put efforts in protecting the safety and health of our employees. We provide our employees with appropriate safety guidelines according to the needs of different positions and require them to perform health check or receive preventive injections and vaccinations. We also provide pre-employment and on-the-job training to our employees to ensure they are equipped with the knowledge and skills in safe production. We care about our employees and hope to gather more talents to support the sustainable development and growing scale of the Group.

The Group will continue to develop its core business, cater to the needs of customers and increase its market share by enhancing its product offerings and promoting product upgrade. While striving for technological innovation, we will continue to strengthen our environmental protection policy, to comply to economic, social and environmental requirements, and to actively discharge relevant responsibilities. Looking forward, the Group will persistently adhere to its corporate ethics, pursue steady growth and be committed to the sustainable development of the enterprise and the society.

**Gao Xiaorui**

*Chairman*

**Perfectech International Holdings Limited**

# ENVIRONMENTAL PROTECTION



## ENVIRONMENTAL PROTECTION POLICY

The Group is committed to protecting the surrounding environment while operating its business. The Group has been in strict compliance with the laws and regulations related to environmental protection, such as the Environmental Protection Law of the People's Republic of China, Law of the People's Republic of China on Prevention and Control of Atmospheric Pollution, Law of the People's Republic of China on Prevention and Control of Water Pollution and Law of the People's Republic of China on Prevention and Control of Solid Waste Pollution. We uphold an environmental protection philosophy of "observing environmental protection laws and regulations, pursuing continuous improvement, saving energy while reducing consumption, and lowering the production and emission of pollutants", which lays the foundation for promotion of various environmental protection policies. The Group also raises the awareness of environmental protection and promotes the importance of environmental management among its employees to reduce as much energy consumption at source as possible, and establishes management procedures and approaches to manage the emissions from its business operation, therefore the levels of environmental pollution could be reduced. From now on, the Group will continue to abide by the laws and strive for the environmental protection goals on pollution prevention and continuous improvement of environmental protection policy.

## EMISSION HANDLING

The Group strictly abides by relevant laws and regulations and implements relevant policies and measures in an effort to control and reduce emission of air and water pollutants.

Being a toy products manufacturer, 中山志發 produces exhaust gases which include benzene, methylbenzene, dimethylbenzene and volatile organic compounds (VOCs) from the production process. All the exhaust gas is filtered through a pool before emission and 中山志發 also engages the national accreditation department to conduct the relevant test on the exhaust gas to ensure that its exhaust gas emissions meet the national standard. Besides the production process, the employees of 中山志發 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 emission of air pollutants during the Year is as follows:

Type	Weight (g)
Nitrogen Oxides	5,865
Sulphur Oxides	78
Particulate Matters	471

Besides, various activities during daily operations also directly or indirectly produce greenhouse gases such as carbon dioxides, methane and nitrous oxides. During the Year, greenhouse gas emission of 中山志發 mainly stemmed from the combustion of automobile fuels, indirect emissions from purchased electricity in the production process, indirect emissions from sewage and fresh water treatment as well as emissions caused by disposal of waste paper at landfills. Greenhouse gas emission and global warming are among the most pressing environmental problems in all sectors of society. As such, 中山志發 has been striving to reduce emission of carbon dioxides and other greenhouse gases through various means such as energy saving and paper recycling, in an effort to reduce our carbon footprint as far as possible (please refer to the "Resources Conservation" section for details). Such measures in mitigating emissions have resulted in reduction in carbon footprint and emissions by 中山志發 during the Year. The greenhouse gas emission of 中山志發 for the Year is as follows:

Type	Weight (tonnes CO <sub>2</sub> -e)
Total emissions	970
Direct emissions (Scope 1)	13
Indirect emissions (Scope 2)	949
Indirect emissions (Scope 3)	9
Intensity (per employee)	3.48



# ENVIRONMENTAL PROTECTION

With regard to water pollution, the wastewater produced by 中山志發 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 septic tanks so as to ensure the compliance with the national discharge standard before discharging into municipal sewage pipes. The Group encourages its employees to conserve water and reduce discharge of domestic sewage.

## WASTE MANAGEMENT

The Group understands the harmful effects of illegal dumping of solid wastes on the environment. Therefore, we arrange disposal and subsequent handling of wastes in strict compliance with the Law of the People’s Republic of China on Prevention and Control of Solid Waste Pollution. Despite this, the wastes legally disposed of at landfills may still cause a certain degree of impact to the environment. Hence, 中山志發 has implemented prudent and stringent waste management measures in a bid to reduce waste disposal and strive for environmental protection without compromising compliance with relevant laws and regulations.

The solid waste produced by 中山志發 can be divided into hazardous and non-hazardous waste. During the Year, the hazardous waste produced by 中山志發 include waste industrial oil, waste computers and waste light tubes. All these hazardous wastes are sent to qualified units for further handling. As for non-hazardous wastes, 中山志發 produces waste paper, metals and general domestic garbage during its production and daily operations, while general domestic garbage is collected and processed by the local environmental hygiene department. As waste reduction initiative, 中山志發 also engages qualified recycling companies to recycle metals and most of its waste paper, thereby reducing both waste disposal and carbon emissions. Under our effective waste handling, there were no harmful environmental impacts recorded to be caused by the Group’s waste disposal. Through such waste reduction initiatives, 中山志發 achieved reduction in metal and paper consumption. The waste disposal volume and intensity of 中山志發 for the Year are as follows:

Type	Weight/number	Intensity (per employee)
Hazardous wastes		
Waste industrial oil	0.2 tonnes	0.00072 tonnes
Waste computers <sup>1</sup>	3	0.01
Waste light tubes <sup>1</sup>	55	0.2
Non-hazardous wastes		
	18.44 tonnes	0.07 tonnes

## RESOURCES CONSERVATION

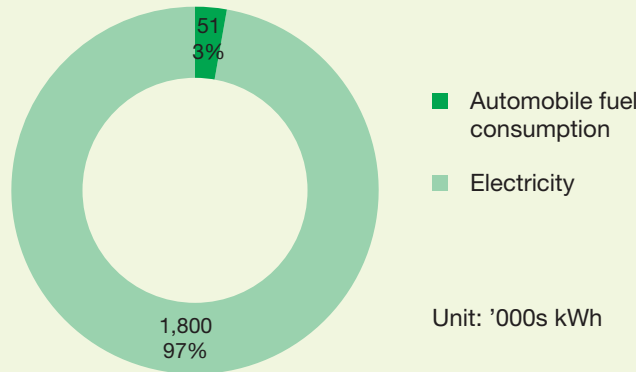
Resources consumption is inevitable in the course of production and daily operations. The Group therefore endeavours to maximise the efficiency of resources use and reduce the waste of resources. The production and operations of 中山志發 mainly involve the use of energy, water and packaging materials. During the Year, 中山志發 recorded a total energy consumption of 1,851,000 kWh, representing an average consumption of 6,640 kWh per employee, whereas total water consumption and average water consumption stood at 21,000 m<sup>3</sup> and 75.27 m<sup>3</sup>/employee respectively.

<sup>1</sup> Waste computers and waste light tubes were not weighed by the relevant waste-collection units.

# ENVIRONMENTAL PROTECTION



Total Energy Consumption by Type



Unit: '000s kWh

中山志發 requires employees of all departments who are the last to leave the offices to switch off the air-conditioning and lighting systems, and turn off electrical devices that are left idle for more than 10 minutes. 中山志發 also forbids employees to turn on the air-conditioning system when the temperature is below 26 degrees Celsius, and encourages employees to set the temperature of the air-conditioning system at 25 degrees Celsius or above during office hours. The aforementioned measures have helped the Group to reduce electricity consumption during the Year.

Moreover, 中山志發 encourages employees to use emails and other electronic systems instead of paper systems for work to reduce the use of paper. When paper is used, 中山志發 keeps the idea of environmental protection in mind and promotes the use of both sides of paper when possible. Used paper is recycled by recycling companies to minimise the waste of paper. 中山志發 requires employees to turn off the faucet tightly after each use and to use recycle water whenever possible in order to help prevent the waste of water resources and reduced water consumption.

Besides, 中山志發 also devotes continuous effort to resources conservation and emissions reduction during production. The adoption of cutting-edge technologies and equipment coupled with the advancement in production techniques not only enhances production efficiency but also contributes to resources conservation. 中山志發 adopts energy-saving and environmentally-friendly air-conditioning systems and keeps using the energy-saving injection moulding machines introduced in the previous year to enhance energy efficiency of its workplace. Moreover, the paint spraying process has been replaced by the pad printing to achieve a higher degree of automation in the production lines while effectively reducing the waste of ink and minimizing the impacts of volatile ink on the employees.

Regarding packaging, 中山志發 has all along applied the simplicity principle to product packaging in order to reduce the use of packaging materials to the greatest extent. 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. The packaging materials used by 中山志發 are mainly paper products and plastic products, the corresponding total and average consumption are as follows:

Type	Total consumption (tonnes)	Average consumption (kg/piece) <sup>2</sup>
Paper and paper products	75	0.03
Plastic products	50	0.02

<sup>2</sup> Average consumption is calculated using the total number of packaged products. Kg is used instead of tonnes for better data expression.

# CARE FOR EMPLOYEES



## STRINGENT RECRUITMENT PROCESS

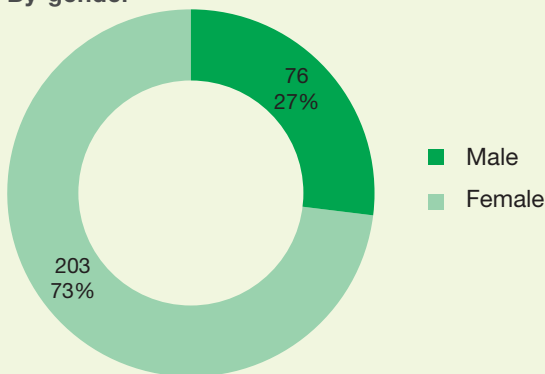
The Group always recognises talents as our most important assets. We believe the Group's success relies on the joint effort of our employees. Thereby, we strictly comply with the relevant laws and regulations, such as the Labour Law of the People's Republic of China and Labour Contract Law of the People's Republic of China to regulate our employment system.

When recruiting talents, 中山志發 looks for appropriate talents based on the principle of "open recruitment, comprehensive assessment and meritocratic appointment". It sets out recruitment requirements according to the actual needs of various departments and does not treat candidates differently on grounds of ethnicity, social hierarchy, nationality, religion, disability, gender and sexual orientation. Applicants have equal opportunities for an interview as long as they possess the skills, education background and work experience required by the relevant posts.

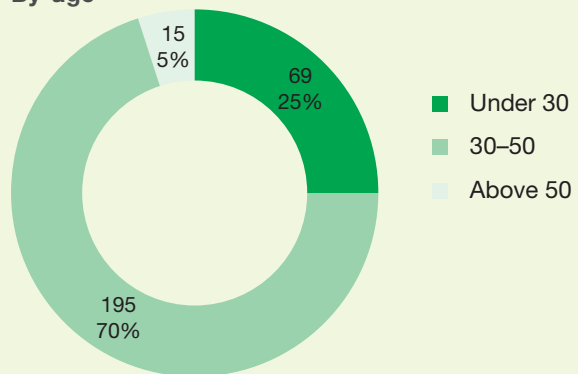
To effectively eliminate child labour, 中山志發 has put in place a policy on the prohibition of child labour and always conducts a background check on the applicants and inspects their identifications to verify their actual ages, as a way to prevent child labour due to the falsification of age by the applicants. 中山志發 respects employees' rights and freedom, including the freedom of employment, resignation, overtime work and movement, so as to prevent the occurrence of forced labour. 中山志發 has obtained the management system certification under the International Council of Toy Industries Code of Business Practices for its commitment to no child or forced labour and its respect for employees.

During the Year, 中山志發 had a total of 279 employees. The number of employees and turnover rate by gender, age and employment type are as follows:

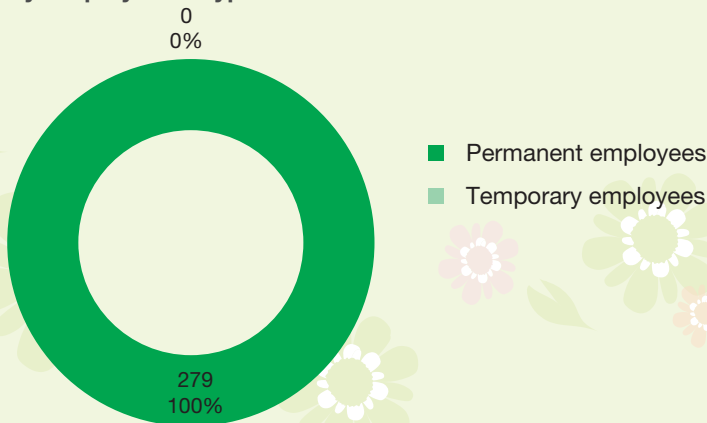
By gender



By age



By employment type





# CARE FOR EMPLOYEES

## Employee turnover rate (%)

	%
By gender	
Male	57
Female	57
By age	
Under 30	58
30-50	57
Above 50	53

## EMPLOYEE BENEFITS

The Group places particular emphasis on the welfares and benefits of employees during their service, as we are convinced that job satisfaction among employees is a key driver of enterprise development. 中山志發 adheres to the same belief when managing the welfares of employees. Besides the statutory benefits, extra measures are therefore taken to offer additional welfares to employees.

To ensure that our employees have sufficient time to rest, we arrange the working hours and leaves of employees in strict compliance with the relevant laws, and provide reasonable compensation for employees' overtime work. Besides statutory holidays, our employees are also entitled to marriage leave, compassionate leave, maternity leave, etc. 中山志發 offers competitive remuneration to its employees and conducts regular salary reviews with reference to employees' performance and our business results. Moreover, 中山志發 conducts annual performance appraisals for its employees and identifies outstanding employees for promotion based on their competence, conduct, experience and working performance. Our employees enjoy absolute freedom of resignation and the terms of termination are set out in the employment contracts as required under the applicable laws. As for each employee whose employment has been terminated, we undertake to pay the remaining wages and relevant compensation (if any) in accordance with the relevant employment contract on time without falling into arrears.

The Group endeavours to create a harmonious working atmosphere. 中山志發 has 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 in writing and via telephone. Upon receipt of complaints, we will carry out investigation promptly and take remedial actions.

To balance the physical and mental health of employees, 中山志發 has organized an annual dinner during the Year to recognise and encourage its employees so that they could have a relaxing time.

## 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 People's Republic of China on Prevention and Control of Occupational Diseases and Production Safety Law of the People's Republic of China, and provide our employees with necessary protective devices. Running a large plant of the Group, 中山志發 is particularly attentive to employees' health and safety. According to the needs of different positions, 中山志發 requires the relevant employees to undergo body check or receive preventive injection and vaccination to ensure that they are in good health. Employees are also required 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.





## CARE FOR EMPLOYEES

To ensure the safety of employees, 中山志發 requires its employees to learn fire regulations, gain knowledge about fire safety, participate in fire training and drills, and grasp basic knowledge about fire prevention, extinguishing and escape as well as first aid. Meanwhile, 中山志發 requires fire routes, fire hydrants, staircase for emergency evacuation and safety exits at the workplace to be always kept clear. As a targeted measure, 中山志發 exercises special labour protection for female employees as required under the relevant national provisions to prevent them from performing duties that fall within the scope of prohibited labor for female employees. Besides, female employees are arranged to receive gynecological cancer screening once a year.

中山志發 has also established an occupational health and safety committee to monitor the implementation of occupational safety and health measures, and organize inspection and evaluation over the safety and hygiene conditions of plants and other aspects in the area from time to time to mitigate potential risk factors, prevent accidents from happening and rectify the situation when problems are discovered.

By implementing various measures to protect employees' health and safety, 中山志發 manages to minimize the rate of work-related injuries and accidents. During the Year, 中山志發 did not record any work-related fatalities, whereas work-related injuries have resulted in the loss of 15 working days. 中山志發 requires 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.

## TRAINING AND DEVELOPMENT

To help employees adapt to their new posts, the Group provides new recruits with pre-employment trainings, such as in-house briefing provided by the heads of the relevant departments. The new recruits are required to pass the assessment conducted by the head of the relevant departments before reporting for duty. The Group also attaches importance to the skill development of its employees. We therefore provide specialised technical training to employees according to the needs of different positions such as post-specific technical training to enhance employees' level of skills.

During the Year, 中山志發 has organized training sessions in relation to product quality for all employees, including offering a quality and efficiency analysis summary to employees on a daily basis and organising programmes to raise awareness of quality and strengthen total quality management. In addition, for the management staff, 中山志發 explained the key points of the quality manual and equipped them with the necessary management knowledge, in an effort to bolster their capabilities of management. All the employees of 中山志發 received training of different modes and types during the Year thereby bringing the percentage of employees trained to 100%, and the data of average training hours of employees is as follows:

	Hours
By gender	
Male	2.11
Female	0.79
By employee category	
Senior	43.33
Middle-level	20
Junior	0.6



## ATTENTION TO CUSTOMERS

### SUPPLY CHAIN MANAGEMENT

To ensure the Group's products will not be affected by the supply of raw materials and to effectively manage the social risks related to the supply chain, we have stringent criteria in place for the selection of suppliers. As a manufacturer of toy products, 中山志發 always puts a high priority on supply chain management in its business operation.

In the selection of suppliers, 中山志發 evaluates the product quality, supply stability and service standard of the suppliers, and meanwhile takes into account the suppliers' performance in fulfilling their social responsibilities and commitment to environmental protection. The suppliers also have to comply with the laws and regulations in their principal places of business, and operate in good faith by adhering to their business ethics. When necessary, 中山志發 will conduct site visits to suppliers to assess their plants and equipment, technology and on-site production management and check if the ISO9001 and other international quality system certifications have been obtained. For comparable suppliers with similar performance, 中山志發 inclines to choose suppliers based on proximity to reduce carbon emission during transportation. 中山志發 includes qualified suppliers in the supplier directory for reference and conducts an annual assessment on them to update the supplier directory. As for unqualified suppliers, 中山志發 requires them to take remedial actions or withdraws their qualification to ensure our products are not affected by the quality of suppliers.

### QUALITY CONTROL, ADVERTISING AND LABELLING

To satisfy the needs of customers of different ages, 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 rigorous quality inspection procedures for the whole production process from raw materials procurement to product packaging, including sample inspection, confirmation and verification of hazardous materials purchased externally, 中山志發 has established a sound quality management system, which has already obtained the GB/T19001-2008/ISO9001:2008 standard certification.

In terms of raw materials, the raw materials procured are verified and inspected randomly by the quality control department upon arrival at the production facilities of 中山志發 before warehousing. The qualified raw materials are labelled with batch and serial numbers for future product tracking, whereas sub-standard raw materials are returned to the suppliers. As for finished goods, 中山志發 has a series of inspection and release procedures in place to ensure all the finished products are subject to a final inspection by professionally trained inspectors. For each production process, such as moulding, paint spraying, assembly and packaging, 中山志發 will conduct spot inspections from time to time to ensure that our products meet the national quality standards.

Moreover, the Group manages the use of labelling and advertising in accordance with the relevant laws such as the Advertising Law of the People's Republic of China to protect customers' rights. All content of advertisement made by the Group has to be approved by our management in order to ensure that applicable regulations are not violated. The use of labels and packaging conforms to the characteristic of products with the technical specification and the requirements of customers to ensure the accuracy of the information shown on the packaging.



## ATTENTION TO CUSTOMERS

### CUSTOMER COMPLAINTS

The Group attaches great significance to customers' comments since their comments can effectively help the Group continuously improve its product and enhance service quality continuously. 中山志發 has established complaint handling procedures for a better understanding of customer satisfaction and needs. Customers may give their comments or file complaints about our products via different methods such as telephone and in writing. Upon receipt of a complaint, 中山志發 has designated personnel to communicate with the customers and handle the complaint, and conduct an inspection and analysis of the relevant products. If quality or safety issues of the products are discovered after inspection and analysis, 中山志發 will recall the batch of products to prevent them from continuing to be sold in the market. During the Year, 中山志發 did not receive any complaints regarding its products and services, and no incidence of product recalls due to safety and health issues were recorded.

### CONFIDENTIALITY

The Group strictly abides by the local laws and regulations in relation to information confidentiality to ensure security of the information of both our customers and the Group. To safeguard the intellectual property rights of customers in product development and the information of the Group, we prohibit our employees from disclosing the confidential information of our customers and the Group to third parties, whether orally or in writing. Without the authorisation 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 message clearly.

### ANTI-CORRUPTION

The Group strives to combat corruption in its business activities and maintains integrity through stronger 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 People's Republic of China and Bidding Law of the People's Republic of China, and require our employees to follow the Group's policy on professional ethics and business conduct strictly in operation. Acceptance or conduct of commercial bribery of any kind, such as receiving any gifts and property from interested parties or attending banquet outside working hours, are prohibited.

中山志發 has established a supervision and management department to prevent commercial bribery, which is responsible for monitoring internal compliance with the national laws and regulations in relation to commercial bribery prevention for the sake of stronger bribery precaution from the source, and discharging the duties of discipline inspection and supervision. 中山志發 has also set up a report box and a reporting hotline to prevent commercial bribery and other misconduct. When a report is received, the supervision and management department will inspect the case promptly to fight against any misconduct while protecting the identity of the whistle-blower. During the Year, the Group was not involved in any corruption lawsuits.



## COMMUNITY ENGAGEMENT

The Group actively participates in charitable activities while striving to develop its business. We maintain communications with the local government and non-profit-making organisations from time to time to understand the needs of the communities where the Group operates and to ensure the communities' interests are taken into consideration. 中山志發 also encourages employees to make donations to charitable organisations, help those in need in the communities and meanwhile support the development of social welfare undertakings.

