



Perfectech International Holdings Limited
Incorporated in Bermuda with limited liability
Stock Code: 765

Environmental, Social and Governance Report 2018



ABOUT THIS REPORT

This report is the third 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 2018. For information on corporate governance, please refer to the Corporate Governance Report of the Group’s 2018 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 2018 and 31 December 2018 (the “Year”). As the Group had gradually suspended the operation of 中山市志發玩具有限公司 during the Year and arranged 中山市利發玩具有限公司 (“中山利發”) to supplement additional production, the key performance indicators disclosed in this ESG report for the Year are based on the performance of 中山利發.

REPORTING FRAMEWORK

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

STAKEHOLDER ENGAGEMENT

The Group understands that stakeholders are closely connected to the Group’s business development. The Group communicates with key stakeholders through various channels, and this ESG report was prepared in collaboration with the colleagues from various departments, which laid a solid foundation for the Group to formulate and implement short-term and long-term development strategies.

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 APPROACH

Based on the Group’s business nature of toy, novelty and decoration production, we have established a clear ESG approach for guiding the implementation of policies regarding the environmental, social and governance aspects, including measures of pollution control, reduction of greenhouse gas emissions and resources conservation. Meanwhile, an ESG working group, which is comprised of the management personnel across various departments and led by the senior management, has been established by the Group to report work outcomes and plans to the board of directors of the Company directly. As a watchdog body for the Group’s ESG strategies and policies, the ESG working group is responsible for maintaining an effective ESG risk management and internal control system as well as proactively improving the Group’s performance on ESG aspects.

CHAIRMAN'S STATEMENT

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

My greetings to you all!

We are pleased to issue the 2018 ESG report of the Group. The Group's principal activities are the manufacture of toy products, novelties and festival 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 ESG report summarizes 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, 中山利發 persistently enhanced energy efficiency at the workplace by persistently adopting advanced technologies and equipment as well as improving its production process. Meanwhile, 中山利發 has strived to reduce the impact of ink volatility on the employees through various methods.

Employees are important assets in facilitating 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 carry out health check or receive preventive injections and vaccinations. We also provide pre-employment and on-the-job training to ensure that our employees are equipped with the knowledge and skills in safe production. Treating our employees with care, we hope to gather more talents to support the sustainable development and steady growth of the Group.

The Group will continue to develop its core business, catering to the needs of customers by enhancing its product offerings and promoting product upgrade. While striving for technological innovation, we will continue to improve our environmental protection policies, to put focus on economic, social and environmental needs, and to actively fulfill related responsibilities. Looking ahead, the Group will persistently adhere to its corporate ethics, pursue steady growth and be committed to the sustainable development of the enterprise and society.

Gao Xiaorui
Chairman

ENVIRONMENTAL PROTECTION

ENVIRONMENTAL PROTECTION POLICY

The Group is committed to protecting the surrounding environment while operating its business, and it 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 of environmental protection and promotes the importance of environmental management among its employees to reduce as much energy consumption at source as possible. Management procedures and approaches have been established for managing the emissions from our business operation so as to reduce environmental pollution. 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, such as the Environmental Protection Law of the People’s Republic of China, the Law of the People’s Republic of China on Prevention and Control of Atmospheric Pollution, the Law of the People’s Republic of China on Prevention and Control of Water Pollution, and implements relevant policies and measures in an effort to control and reduce 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 through a pool before emission. 中山利發 also engages parties accredited by the government to conduct relevant tests on the exhaust gases to ensure that the emissions meet the 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	2018
Nitrogen oxides (g)	2,411
Sulphur oxides (g)	39
Particulate matters (g)	191

ENVIRONMENTAL PROTECTION

Besides, various activities during daily operations also directly or indirectly produce 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 from the combustion of automobile fuels and the addition of refrigerants; indirect energy emissions from the generation of purchased electricity; and other indirect emissions from sewage and fresh water treatment as well as disposal of waste paper at landfills. Greenhouse gas emissions and global warming are among the most pressing environmental problems in all sectors of society. As such, 中山利發 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 energy saving measures (please refer to the “Resources Conservation” section for details) and recycling paper, in an effort to reduce our carbon footprint as much as possible. The greenhouse gas emissions of 中山利發 for the Year are listed in the following table.

Type	2018
Total greenhouse gas emissions (tCO ₂ e)	699
Scope 1 — Direct greenhouse gas emissions (tCO ₂ e)	61
Scope 2 — Energy indirect greenhouse gas emissions (tCO ₂ e)	633
Scope 3 — Other indirect greenhouse gas emissions (tCO ₂ e)	5
Greenhouse gas emission intensity (tCO ₂ e/employee)	1.98

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 septic tanks to meet national discharge standards 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 harmful 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 Prevention and Control of Solid Waste Pollution. Despite that, the wastes legally disposed of at landfills may still cause a certain degree of impacts to the environment. Hence, in addition to compliance with relevant laws and regulations, we have also implemented prudent and stringent waste management measures in a bid to reduce waste disposal and strive for environmental protection.

ENVIRONMENTAL PROTECTION

The solid waste produced by 中山利發 can be divided into hazardous and non-hazardous waste. The hazardous wastes include a small amount of waste engine oil, waste paint bucket, waste oil residue, waste organic solvent, waste printing plate and waste lamp tube, etc. All these hazardous wastes are sent to qualified units for further handling. While non-hazardous wastes include waste paper, metals and general garbage. Apart from letting the local environmental hygiene department collect and process the general garbage, we have also employed qualified recycling companies to recycle metals and most of the waste paper. These measures help to reduce waste disposal and carbon emissions. Under our effective waste management, there were no records on the harmful environmental impacts 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.

Type	2018
Total non-hazardous wastes (ton)	36
Non-hazardous waste intensity (ton/employee)	0.10
Total hazardous wastes (kg)	60
Hazardous waste intensity (kg/employee)	0.17

RESOURCES CONSERVATION

As our economy is based on limited resources, we deeply understand that cherishing resources is critical to sustainable development. The resources used in 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 wastage. The resources consumption data of 中山利發 during the Year are listed in the following table.

Type	2018
Total energy consumption (MWh)	1,225
Vehicle fuel consumption (MWh)	25
Electricity consumption (MWh)	1,200
Energy consumption intensity (MWh/employee)	3.47
Total water consumption (m ³)	10,800
Water consumption intensity (m ³ /employee)	30.59
Paper and paper product consumption (ton)	25
Paper and paper product consumption intensity (kg/each piece of packaged product)	0.08
Plastic product consumption (ton)	15
Plastic product consumption intensity (kg/each piece of packaged product)	0.05



ENVIRONMENTAL PROTECTION

To control resources consumption and reduce wastage, 中山利發 has formulated the Water Conservation and Energy Conversation Procedure to regulate employees' conduct on using water and electricity usage. 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 turn off electrical devices that are left idle for more than 10 minutes. 中山利發 also forbids employees to turn on the air-conditioning system when the temperature falls 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. Moreover, 中山利發 encourages employees to use emails and other electronic systems instead of paper to reduce the use of paper. When using paper, 中山利發 upholds the philosophy of being environmentally-friendly by promoting the use of both sides of paper 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 to reuse water whenever possible in order to help prevent the waste of water resources and reduce water consumption.

In order to conserve resources and reduce emissions, 中山利發 has been adopting advanced technological equipment and improving production technologies in the production process. For instance, 中山利發 adopts energy-saving and environmentally-friendly air-conditioning systems in the workshops and keeps using the energy-saving injection moulding machines and automatic intelligent manipulator. Meanwhile, the assembly department of 中山利發 also introduces automatic screwdriver and other automatic equipment to enhance energy consumption efficiency and production efficiency of its workplace. 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 wastage of ink, but also minimizes the impacts of volatile ink on employees.

Regarding packaging, 中山利發 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.

CARE FOR EMPLOYEES

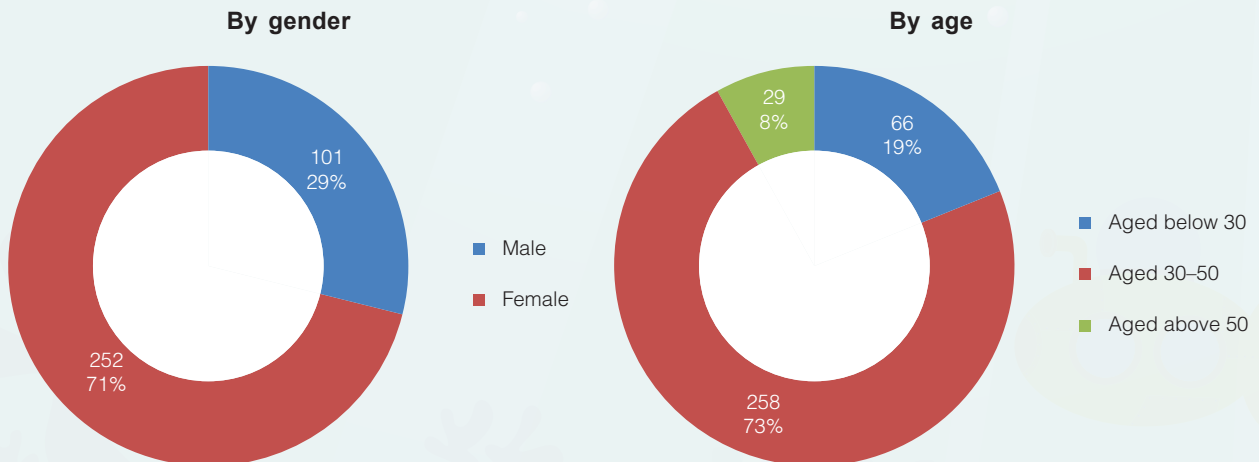
STRINGENT RECRUITMENT PROCESS

The Group's success relies on the joint effort of our employees. Thereby, we recognize talents as our most important assets. When formulating our employment system, we have been strictly complying with the relevant laws and regulations, such as the Labour Law of the People's Republic of China and the Labour Contract Law of the People's Republic of China to protect employees' legal interest 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 an interview as long as they possess the skills, education background and work experience required by the relevant positions.

To effectively prevent the issue of child labour, we have put in place a policy on the prohibition of child labour. We also conduct background checks and inspect the applicants' identification documents to verify their ages, as a way to prevent child labour due to the falsification of age by the applicants. We will strictly comply with laws and regulations in case of a negligent use of child labour. 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 working requires a prior application with the approval from an authorized supervisor. 中山利發 has been certified with the International Council of Toy Industries ("ICTI") Ethical Toy Program ("IETP") for its commitment to not using child or forced labour and its respect for employees.

During the Year, 中山利發 had a total of 353 employees and all of them were permanent staff. The number of employees and the turnover rate by different categories are presented in the following charts and table respectively.



1 ICTI is a non-profit organization registered in the U.S., its certification can guarantee that products of children toy product manufacturers are produced under safe and humanitarian conditions and in harmless and sustainable factory environment.

CARE FOR EMPLOYEES

Employee turnover rate (%)

2018

By gender	
Male	29
Female	21
By age	
Aged below 30	73
Aged 30–50	13
Aged above 50	3

EMPLOYEE BENEFITS

The Group places particular emphasis on the welfares 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 welfares of employees, thus in addition to the statutory benefits, extra measures are taken to offer additional welfares to employees.

To ensure that our employees have sufficient time to rest, not only do we arrange the working hours and leaves of employees in strict compliance with the relevant laws, but we 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 reviews with reference to employees' performance and our business results. Moreover, we conduct annual performance appraisals for employees and provide outstanding employees with promotion opportunities based on their competence, conduct, experience and working performance. Our employees enjoy absolute freedom of resignation and the terms of termination are listed in the employment contracts as required by the applicable laws. When the employment is terminated, we undertake to pay the remaining wages and relevant compensation to the employees in accordance with the relevant employment contract on time without falling into arrears.

The Group endeavours to create a harmonious working atmosphere and is committed to eliminating any discrimination in the workplace. No discrimination, harassment, bullying, intimidation or other unfair treatment is allowed for any reason, whether for 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 carry out investigation promptly and take remedial actions.

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

CARE 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 People's Republic of China on the Prevention and Control of Occupational Diseases and the Law of the People's Republic of China on Work Safety, and provide our employees with necessary protective equipment. To ensure the health of employees, our employees are received with preventive vaccines and are provided with related medical 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.

To ensure fire safety, we require our employees to learn fire regulations and acquire basic knowledge about fire prevention, extinguishing and escape as well as first aid. We also hold fire training and drills regularly to consolidate employees' fire 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 life safety of 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 organized by us, we also regularly commission third-party testing agencies to detect the occupational hazards in the 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 did not record any work-related fatalities, whereas work-related injuries have resulted in a loss of 7 working days.

CARE FOR EMPLOYEES

TRAINING AND DEVELOPMENT

To help employees adapt to their new positions, the Group provides new recruits with pre-employment trainings, such as in-house briefing provided by the respective department heads. 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 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, 中山利發 has organized 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 which helped raise employees' awareness of product quality and strengthen total quality management. In addition, with a focus on control and analysis of product failure, 中山利發 provides 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 capabilities of management. During the Year, all the employees of 中山利發 received training of different modes and types, thereby 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)

2018

By gender	
Male	140
Female	140
By employee category	
Senior	60
Middle-level	87
Junior	146

ATTENTION TO 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 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.

Generally, we evaluate the product quality, supply stability and service standard of the suppliers when selecting suppliers, and meanwhile take 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, adhere to their business ethics, as well as to be trustworthy. When necessary, we will conduct site visits to suppliers to assess their equipment in plants, technology and on-site production management and check if ISO9001 and other international quality system certifications have been obtained. For comparable suppliers with similar performance, we incline to choose suppliers based on proximity to reduce carbon emission during transportation. 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.

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 the 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, which has already obtained the GB/T19001-2016/ISO9001:2015 standard certification.

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 authorize third-party testing agencies to conduct inspections on raw materials to ensure the 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 has a series of inspection and release procedures to ensure that 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, we will conduct spot checks from time to time to ensure that our products meet the national quality 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 defected with safety, hygiene concerns that impose a risk to the consumers' health. The recalled products will then be treated according to the Control Procedures for Defective Products. We also conduct a simulated recall exercise every year to assess its effectiveness. During the Year, 中山利發 has recorded no incidents of product recalls due to safety and health reasons.

ATTENTION TO CUSTOMERS

ADVERTISING AND LABELLING

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 advertisement contents made by the Group have to be approved by our management in order to ensure that no regulations are violated. The use of labels and packaging conforms to the characteristics and technical requirement of the products, as well as the requirements of customers, 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 customer service management team to better understand our customer level of satisfaction and needs. Customers may express their opinions or make complaints about our products via phone or written means. Upon receiving a complaint, we will designate personnel to communicate with the customers to handle the complaints, and conduct an inspection and analysis of the relevant products. If quality or safety issues of the products are discovered after inspection and analysis, we will recall the batch of products to stop the sale in the market. During the Year, 中山利發 did not receive any material complaints regarding its products and services.

CONFIDENTIALITY

The Group strictly abides by the local laws and regulations in relation to information confidentiality to ensure information security for 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 written means. 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 importance of information confidentiality.

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 the Law of the People's Republic of China on Bid Invitation and Bidding. We also require our employees to follow the Group's policy on professional ethics and business conduct strictly during work. Commercial bribery of any kind, such as receiving gifts and money from interested parties or attending banquet outside work, is prohibited.

We have 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, strengthening bribery precaution at source, and performing the duties of discipline inspection and supervision. Meanwhile, we have also provided 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 combat any misconduct while protecting the identity of the complainants. During the Year, neither the Group nor any of its employees was involved in any corruption lawsuits.

COMMUNITY ENGAGEMENT

The Group actively participates in charitable activities while striving to develop its business. We maintain communication 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. We also encourage employees to make donations to charitable organisations, help those in need in the communities and meanwhile support the development of social welfare undertakings.