

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

REPORTING PERIOD AND SCOPE

This Environmental, Social and Governance (ESG) Report of the Ten Pao Group (“Ten Pao” or the “Company”, together with its subsidiaries, the “Group”) covers the reporting period from 1 January 2019 to 31 December 2019 (the “reporting period”). Unless otherwise stated, this report applies to the Group’s production factory in Huizhou City, Guangdong Province, PRC. Because the Group’s other business units exert immaterial environmental and social impacts, they are not included in this report.

REPORTING STANDARD

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

REPORTING PRINCIPLES

This report is prepared by applying the three major principles, namely, materiality, quantitative assessments and consistency.

REPORTING THEME AND PURPOSE

The Group has focused on the power supply field for 40 years, striving for excellence and dedicating itself to serving the environment and society. Reflecting this commitment, the theme of this year’s report is “Four decades of dedication and perseverance for the prosperous accomplishment”.

For this report, the Group conducted a number of materiality assessments, supplemented by ongoing and occasional engagement with a wide swathe of stakeholders, in order to define the material aspects of this report. In terms of the material aspects, the reporting framework constitutes four major directions, namely, product quality, talent development, environmental protection and energy conservation, with the addition of social welfare, under the goal of providing a more comprehensive overview of the direction, strategy and performance of the sustainable development of our businesses.

Drawing On Strong Groundwork, Building On Accumulated Expertise

The Group’s research and development of electronic products adhere to the values of dedication and quality. The Group also implements stringent testing procedures in the production process to ensure that the quality of the products not only meets international standards, but also allays the safety concerns of the customers.

Unleashing the Full Potential of Talent, Nurturing and Fostering Progress

As an enterprise’s most important resource, employees are the linchpin of the Group’s evolution. Through standardized employment practices, the Group adheres to the principle of fairness and justice and recruits suitable employees relevant to the position. The Group understands that the appropriate utilization and nurturing of talent is vital for the business to flourish and consequently provides regular training and diversified development opportunities for its employees.

Green Development, Energy Conservation and Emissions Reduction

The Group’s business is inextricably linked to the use of energy. The Group has accordingly achieved energy conservation and water savings through the rectification of its operations and production models. In addition, the Group closely follows the national environmental protection laws and policies to realize green development.

Caring for the Community, Helping the Elderly and Providing Educational Sponsorship

Supporting social development and enthusiastically participating in community activities are fundamental principles of the Group which views itself as being an integral element of society. The Group advocates respect for the elderly, provides sponsorship opportunities for education and encourages employees to take part in social welfare activities.

DRAWING ON STRONG GROUNDWORK, BUILDING ON ACCUMULATED EXPERTISE

As a developer and manufacturer of electronic power supply products, the Group embraces the value of excellence and strives to expand through the promotion of quality and efficiency, as well as by emphasizing supply chain management and the quality of suppliers' performances. Over the past four decades, the Group has evolved with the understanding that anti-corruption and financial and ethical probity are not only the cornerstone of long-term sustainable development but that these tenets also facilitate the establishment of mutually trustworthy business partnerships.

Optimizing Supply Chain Management, Selecting Quality Materials

The Group implements stringent management measures in the supplier selection process to ensure the quality of products. In the course of this undertaking, the Group initiated a supply chain management programme with detailed and comprehensive requirements with respect to supplier selection, capability investigation and evaluation, supplier management and regular assessment.

For product development, the material-approval process is strictly administered by a number of departments, including the Group's Research & Development headquarters and various Research & Development departments, as well as the standardization centre, strategic procurement centre and quality management centre to confirm that the material quality of each product is stable and that the materials meet relevant standards.

The Group has set up a supply chain management system that requires strategic procurement personnel to conduct detailed assessments and reviews when selecting suppliers. It has established an honest, efficient and fair supplier mechanism. Through the procurement process, the Group selects the appropriate suppliers for material procurement and cooperates with the internal quality management centre and internal staff evaluation to verify the high quality of the suppliers.

In the management process, risk assessment and management of the Group suppliers are also considered critical. According to the Group's "Supplier Quality Risk Assessment Standards", the quality risk level of suppliers is regularly classified into four levels, from low to high, and corresponding preventive measures are taken to affirm the quality and stability of the supplier's products. In order to enhance monitoring of the environmental and social risks, the Group requests suppliers to sign the "Supplier's Corporate Social Responsibility Management Agreement" so that suppliers produce goods or provide services in compliance with the Group's corporate social responsibility standards. The standards cover a variety of scopes, such as child labour, forced labour and environmental protection. Furthermore, the Group would organize supplier annual meeting and invite the key suppliers to participate in, so that these key suppliers would understand the Group's development strategy.

Stringent Quality Control, Technological Research and Advances in Innovation

The Group regards the environmental impact of each product, as well as its overall quality, as vital considerations. The Group has launched its own quality management system and has attained ISO 9001:2015 certification to ensure it meets global safety and environmental requirements. In the production and development process, the Group has successfully obtained a number of domestic and international certifications and has met the standards required for eligibility to use the following marks: CCC of China, UL and FCC of the United States, GS of Germany, CE (EMC/LVD) of the European Union, PSE of Japan, KC of Korea, BSMI of Taiwan, EAC of Russia and the Eurasian Economic Union (EAEU), and BIS of India¹.

The Group provides quality products and services to customers by adhering to the principles of focusing on quality and strictly executing quality standards. The Group has a 100% load test system (“burn-in”) before shipment to make certain that quality requirements are met. The Group has set up a national-level accredited laboratory, against a backdrop where laboratories at this level of competency are only owned by a handful of electricity enterprises in Guangdong Province. The Group’s laboratory is accredited by the China National Accreditation Service for Conformity Assessment (CNAS) ISO/IEC 17025. It has also achieved qualifications relating to Customer Testing Facilities (CTF), the Client Test Data Program (CTDP) and Testing at Manufacturer’s Premises (TMP) that are authorized by internationally renowned institutions such as TÜV Rheinland AG, UL LLC, Intertek Group plc, SGS SA and DEKRA SE. In addition, in the United States, the Group is compliant with standards set by the California Energy Commission’s (CEC) energy efficiency laboratory. The Group’s laboratory is equipped with around 300 sets of various testing instruments and equipment, which can swiftly provide customers with professional testing services covering such issues as safety, reliability, electromagnetic compatibility (EMC), material analysis, fire-retardant and water-resistance solutions and electrical noise, as well as conditioning chamber testing, in order to offer quality products and services to customers.

Furthermore, the European Commission promulgated a new regulation on eco-design requirements for external power supplies (Commission Regulation (EU) 2019/1782), laying down requirements relating to a “no-load condition” for electric power consumption, in which the input of an external power supply is connected to the mains power source, but the output is not connected to any primary load, with effective of 1 April 2020. The Group modified its design in preparation for the new regulation to ensure compliance with the prescribed requirements.

Technological innovation is the driving force for productivity. In order to improve productivity and market competitiveness, the Group applied for 17 patents for its products during the reporting period, including for structures with anti-creepage and waterproofing.

¹ International certification marks: China Compulsory Certification (CCC) of China; UL (formerly Underwriters Laboratories) and Federal Communications Commission (FCC) of the United States; Geprüfte Sicherheit (GS) of Germany; CE (Electromagnetic Compatibility Directive/Low Voltage Directive) of the European Union; Product Safety Electrical Appliance & Material (PSE) of Japan; Korea Certification (KC) of Korea; Bureau of Standards, Metrology and Inspection (BSMI) of Taiwan; Eurasian Conformity Mark (EAC) of Russia and the Eurasian Economic Union (EAEU); and Bureau of Indian Standards (BIS) of India.

Espousing Integrity, Eradicating Bribery and Corruption

In order to eradicate the possibility of corruption, the Group established an internal anti-bribery management system, and calls for each staff member to sign the anti-bribery agreement and follow the relevant requirements. Externally, the Group applies a supplier's integrity cooperation convention system. The obligations and responsibilities of both parties are set to eliminate lavish entertainment, rebates, gifts and so on when procuring raw materials and services. During festival periods, the Group will send letters to suppliers to remind them that trustworthy collaboration should not be created through gifts. In the process of selecting sustainable suppliers, both parties need to sign the agreement and conduct trade cooperation fairly.

UNLEASHING THE FULL POTENTIAL OF TALENT, NURTURING AND FOSTERING PROGRESS

Employees are pivotal to the Group's evolution. The Group employs suitable candidates in an open and fair way, appropriate for the specific job requirements, and provides regular training for employees, as well as development opportunities. The Group also cares for the health and safety of its employees, and is aligned to the standards set by an internationally recognized occupational health and safety management system. At the same time, the Group attaches great importance to nurturing a spirit of enthusiasm among employees and to integrating a good corporate culture into their lives.

Recruiting Talent, Fostering Non-Discrimination

Under the principle of "open recruitment and talent selection", the Group selects suitable candidates based on the qualifications, knowledge and skill required of the position so that human resources can be optimally allocated to the Group's various departments. The process strictly abides by national laws and regulations. The Group has devised an anti-discrimination policy that is fair and equitable for employees in terms of admission, salary, welfare, training opportunities, work arrangements and dismissal. In order to build a fair and just working environment, the Group provides an avenue for employees to resolve grievance issues such as unfair working conditions or their rights being undermined.

The Group prohibits the recruitment of child labour and forced labour by any department, and does not tolerate the use of child labour or forced labour by suppliers. During the reporting period, the Group complied with all relevant laws and regulations — notably the Labor Contract Law of the People's Republic of China and the Social Insurance Law of the People's Republic of China — that govern remuneration and dismissal, recruitment and promotion, working hours, holidays, equal opportunities, diversity, anti-discrimination, benefits and welfare, and the prevention of child labour and forced labour.

Caring for Employee Welfare, Demonstrating a Culture of Family

To enhance corporate cohesion and productivity, the Group makes every effort to motivate and inspire employees to experience a spirit of job dedication and perseverance, as well as to feel a sense of "family culture" in the workplace. In practical terms, the Group provides benefits such as meal allowances, married quarters and subsidies for mobile phone charges. The Group also provides statutory paid leave, including for marriage leave, maternity leave and breastfeeding leave, pursuant to local laws and regulations. Moreover, the Group has prohibited overtime work on statutory holidays. In the Huizhou staff accommodation hostel, the Group provides a gym, clinic, library and computer training room. During the reporting period, the Group held two cultural events on average each month, enriching the lives of employees with diverse activities. In addition, the Group's "Sunshine Project" and "Care Fund" are available to provide counselling and financial assistance to employees with difficulties.

Planning Staff Development, Promoting Training

The Group regards employees as the cornerstone of sustainable development and seeks to provide employees with the opportunity to realize their potential. With this in mind, the Group has devised an annual training plan based on the needs of different departments. The Group provides a wide range of training programmes to enhance the professionalism, skills and productivity of employees, while cultivating the sustainable development of employees and the Group. Employees are required to attend a specified minimum number of training hours. During the reporting period, the Group organized more than 2,000 hours of training, and each employee received professional skills training and management-knowledge enhancement every month. At the same time, the Group has developed a training system process based on the needs of employees so as to improve their skills and performance. Examples of this include project management basic and method, and production process training, targeting the improvement of specific job skills. Apart from raising employees' knowledge and techniques, this fosters the Group's business development and management, as well as production research and development.

Boosting Occupational Health, Demonstrating Workplace Safety

The Group is committed to protecting the health and safety of employees during production and operation. The Group strictly abides by the Production Safety Law of the People's Republic of China and other applicable laws and regulations pertaining to occupational health and safety, and has established an internal occupational health and safety management system. During the reporting period, the Group's production and R&D base, situated in Huizhou, Guangdong Province, continued to operate according to the framework set by the BS OHSAS 18001:2007 Occupational Health and Safety Management (OHS) standard. Relevant safety production training was organized every quarter, involving case-sharing about manufacturing, traffic safety, first aid and hazardous chemicals. In order to enhance the employees' capability to handle fire accidents, several fire drills have been arranged. The Group rigorously carries out daily safety inspections, as well as weekly safety inspections of the production line and internal fire services equipment.

During the reporting period, the Group appointed professional laboratories to conduct analysis of the drinking water, in accordance with the PRC's national Standards for Drinking Water Quality GB 5749-2006. Additionally, as stipulated by the Law of the People's Republic of China on the Prevention and Control of Occupational Diseases, "Provisions on the Supervision and Administration of Occupational Health at Work Sites and Regulations for the Periodical Inspection" and "Management of Occupational Disease Hazards in Employers", the Group appointed external professional organizations to analyse and test the chemicals in use, workplace noise, dust, temperature and protection equipment during the production process. Improvement measures have been carried out to protect employees' occupational health. Through a series of risk identification and evaluation procedures, the Group devised a management plan for enhancing employee safety awareness in order to continuously improve health and safety performance.

GREEN DEVELOPMENT, ENERGY CONSERVATION AND EMISSIONS REDUCTION

Defining Environmental Direction, Implementing Resource Saving

The Group is diligent in taking measures with respect to environmental protection and the mitigation of pollution in various production and operation activities. Based on the environmental management system ISO 14001:2015, the Group has established its own environmental management system and has formulated a number of policies regarding environmental protection. These policies mainly include energy conservation plan formulation and target setting, quantification and monitoring of emissions projects, determined use of renewable energy and the requirement that all employees obey relevant policies and measures to achieve the goal of energy conservation and emissions reductions.

Introducing Renewable Energy, Utilizing Water and Energy Resources

In order to maintain the effective execution of the environmental management system, the Group's internal audit team is proactive in conducting environmental operation monitoring and the random checking of those parts that do not require external monitoring. The Group monitors key features of activities that may cause significant environmental impacts and draws up an annual plan to ameliorate such impacts.

In 2013, the Group built a solar energy system, which was then placed on the rooftops of the production building and the idle outdoor areas of the Huizhou production base, as a means to harness clean energy.

Energy Performance

Grid power consumption (MWh)	43,637.90
Electricity generated by solar panels (MWh)	1,110.21
Fuel consumption (MWh)	425.76
Total energy consumption (MWh)	45,173.86
Energy consumption intensity (MWh/million revenue)	12.42

The Group's water consumption is mainly for household use and the local municipal government provides potable water. In 2019, the Group formulated a "Water Management System" aimed at regulating water management to meet production needs, as well as those for the staff accommodation hostel, and for ascertaining drinking water safety and water supply for production purposes. The Group adopted manual cleaning of the solar panels, replacing the automatic water spray, resulting in a saving approximately 360 m³ of water. The Group's water use figures for the reporting period are shown as follows:

Water consumption (thousand m ³)	456.93
Water consumption intensity (thousand m ³ /million revenue)	0.13

The Group is committed to saving natural resources, as well as reducing energy and water use. During the reporting period, the Group examined the daily operational procedures. With sufficient lighting, modification has been made to the lighting system, gradually reducing the number of light tube. Moreover, the air conditioning system of our office would be turned off half hour prior to get off work.

Encountering Climate Change, Controlling Emissions

Air pollution and greenhouse gases (GHGs) have attracted attention and concern from all walks of life. In response, the Group has adopted corresponding emissions reduction measures. Exhaust gases are filtered before being discharged, and activated carbon filter equipment is installed at the discharge outlet to meet prescribed emission standards and to mitigate environmental pollution. In addition, the Group has replaced its diesel oil-consuming forklifts with those using electricity, as a means of reducing harmful air emissions.

In terms of combustion emissions, these are mainly caused by vehicles and generator sets. Based on the Group's fuel consumption records and mileage records, as well as the harmful gas emission factors involved in fuel type and combustion equipment, air emissions for the reporting period are listed as below:

Air Emissions

Nitrogen oxide emissions (kg)	74.76
Sulphur oxide emissions (kg)	0.63
Suspended particulate emissions (kg)	14.85

The Group's GHG emissions are mostly generated through direct electricity consumption (Scope 2), while fuel combustion also causes GHG emissions. In accordance with Greenhouse Gas Protocol, a Corporate Accounting and Reporting Standard, published by the World Resources Institute and the World Business Council for Sustainable Development, the Group calculates the GHG emissions, where the figures are shown as follows:

GHG Emissions

GHG emissions (Scope 1) (tonnes of CO ₂ e)	910.85
GHG emissions (Scope 2) (tonnes of CO ₂ e)	23,001.54
GHG emissions (Scope 1 and Scope 2) (tonnes of CO ₂ e)	23,912.39
GHG emissions intensity (Scope 1 and Scope 2) (tonnes of CO ₂ e/million revenue)	6.58

Classifying Waste, Endorsing Recycling

The Group classifies waste generated in the production process in line with the relevant waste disposal process and transfers recyclable waste to certified recyclers. The current production process unavoidably gives rise to an amount of hazardous waste, which is handled by a People's Republic of China Government qualified organization.

In order to effectively monitor the Group's paper consumption, the Group prepares monthly statistics with respect to the paper consumption of each department and, compare the consumption of the previous year. Thus, the Group's paper consumption during the reporting period has been reduced by 20% compared with the previous year. Additionally, the Group has implemented waste reduction measures and has placed recycling bins to encourage the recycling of non-hazardous waste. The Group's waste figures for the reporting period are shown as follows:

Total hazardous waste produced (tonnes)	7.42
Intensity of hazardous waste produced (tonnes/million revenue)	0.002
Electronic equipment waste (kg)	505
Total non-hazardous waste produced (tonnes)	718.09
Intensity of non-hazardous waste produced (tonnes/million revenue)	0.20
Recycling amount of non-hazardous waste (tonnes)	718.09

Packaging Materials

Paper and plastic are the main raw materials used for the packaging of products, with figures shown as below:

Total packaging materials (tonnes)	3,403.50
Paper (tonnes)	2,778.14
Plastic (tonnes)	625.36

CARING FOR THE COMMUNITY, HELPING THE ELDERLY AND PROVIDING EDUCATIONAL SPONSORSHIP

Community activities and donations from the Group focus on caring for the elderly, community engagement and the provision of educational sponsorships. The Group has conducted more than a dozen charitable donations in Hong Kong and other regions, including donations to Hong Kong Baptist University and Hong Kong-based charitable organization Yan Oi Tong. In Huizhou, the Group has also supported a number of charities, including the Shuikou Senior Care Home and Hong Kong-Huizhou Care Fund.

Not only does the Group provide donations and sponsorship funds to a range of charities and organizations, but it also warmly encourages employees to take part in community activities, believing firmly that the support and participation of employees is a crucial aspect of corporate social responsibility. Individual employees start from the heart and connect on a more personal level with the communities in which the Group operates. During the reporting period, Hong Kong employees participated in Sin Tak Walk for Millions, while Huizhou employees took part in the Eighth Charity Bazaar.