

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The board of directors (the “**Board**”) of China Weaving Materials Holdings Limited (the “**Company**”) is pleased to present the Environmental, Social and Governance (“**ESG**”) Report of the Company for the year ended 31 December 2021.

The Company and its subsidiaries (together, the “**Group**”) believe that good business practices and corporate social responsibility are essential to the Group’s long term sustainable development and success. In addition to striving to achieve business goals and financial returns, the Group is also committed to supporting the well-being of its employees and their families, the community and efficient use of resources.

## INTRODUCTION

The Group is principally engaged in the business of manufacturing and trading of yarns products and related raw materials. The manufacturing facilities of the Group are based in Fengxin County, Jiangxi Province, the People’s Republic of China (the “**PRC**”). As at the end of 2021, the production capacity of the Group was approximately 730,000 spindles. The production and sales volume of the Group for the year ended 31 December 2021 were approximately 124,996 tonnes (2020: 114,032 tonnes) and 119,901 tonnes (2020: 116,242 tonnes) respectively.

## BOARD STATEMENT

The Board firmly believes that good ESG practices are not just essential to the Group’s long term sustainable development and success. They also contribute to a better environment and fairer societies which benefit the well-being of humanity. In addition to striving to achieve business goals and financial returns, the Group is also committed to supporting the well-being of its employees and their families, the community and environmental protection.

The Board acknowledges that it has the ultimate responsibility for the Group’s ESG matters. The Board reviews ESG policies and strategies, progress in goal achievement, and ESG information disclosure every year. The Board has delegated its responsibilities in relation to the execution of ESG matters to the executive

management of the Group (the “**Executive Management**”). The Executive Management is comprised of the executive director and heads of various relevant departments. The Executive Management identifies and assesses ESG opportunities and risks and reports to the Board. It is also responsible for implementing ESG policies and strategies, executing ESG plans, and helping to promote the sustainable development of the Group.

## **REPORTING PRINCIPLES**

The Group performed an assessment over the relevant subject areas and key performance indicators (“**KPI**’s) in terms of the applicability and materiality in accordance with the ESG Reporting Guide as set out in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**ESG Reporting Guide**”). The Group follows the following reporting principles in the preparation of this ESG report.

**Materiality:** The Group determines material ESG issues by considering stakeholders’ engagement and materiality assessment.

**Quantitative:** The ESG report states the Group’s applicable environment and social KPIs on a quantitative basis.

**Consistency:** The relevant disclosure methodology and KPIs used for the ESG report remain consistent with those used in the ESG reports for the previous years.

## **REPORT AVAILABILITY**

This ESG report is published in electronic edition, which is available on the website of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) (<https://www.hkex.com.hk>) and the Group’s website (<http://www.chinaweavingmaterials.com>) under the notices for investors section. The hard copy of this report is available upon request by email to [chinaweavingir@163.com](mailto:chinaweavingir@163.com) or by post to the attention of the Company Secretary at the business address of the Company in Hong Kong.

## REPORTING PERIOD AND REPORTING SCOPE

This report, which was prepared according to the ESG Reporting Guide, covers the period from 1 January 2021 to 31 December 2021 (the “**Reporting Period**”).

This report covers the following subsidiaries of the Company only (the “**Reporting Entities**”):

Jinyuan Textile Co. Ltd. Jiangxi (“**Jinyuan**”)

Jiangxi Huachun Color Spinning Technology Development Co. Ltd. (“**Huachun**”)

During the year ended 31 December 2021, the Reporting Entities accounted for over 96% (2020: 91%) of the turnover and 97% (2020: 97%) of the headcount of the Group.

## STAKEHOLDERS ENGAGEMENT

During the year, the Group identified its key stakeholders based on their influences and their interaction with the Group. The Group considers its key stakeholders include government and regulators, shareholders, customers, employees, suppliers and the local community. The Group greatly values communication with different stakeholders and has established effective channels to understand stakeholders’ expectations and to discuss and respond to their concerns on ESG matters.

Stakeholders	Expectations and concern	Means of communication
Government and regulators	<ul style="list-style-type: none"><li>• Compliance with laws and rules</li><li>• Payment of taxes and levies in accordance with the laws</li><li>• Support local development</li><li>• Industrial safety</li><li>• Environmental protection</li></ul>	<ul style="list-style-type: none"><li>• Day to day supervision</li><li>• Official correspondence</li><li>• Site visits</li><li>• Meetings and conferences</li></ul>
Shareholders	<ul style="list-style-type: none"><li>• Investment returns</li><li>• Risk control</li><li>• Information disclosure</li></ul>	<ul style="list-style-type: none"><li>• Shareholders general meetings</li><li>• Website of the Company</li><li>• Mail, telephone and fax</li><li>• Website of the Stock Exchange</li></ul>

Customers	<ul style="list-style-type: none"> <li>• Product quality</li> <li>• Service quality</li> <li>• Product innovation</li> </ul>	<ul style="list-style-type: none"> <li>• Day to day communication with Accounts managers</li> <li>• Customers site visits</li> <li>• Websites of the Company</li> </ul>
Employees	<ul style="list-style-type: none"> <li>• Wages and benefits</li> <li>• Occupational health and safety</li> <li>• Training and promotion opportunities</li> <li>• Democratic communication</li> </ul>	<ul style="list-style-type: none"> <li>• Meetings with Labour Union</li> <li>• Employees training</li> <li>• Staff activities</li> </ul>
Suppliers	<ul style="list-style-type: none"> <li>• Integrity and keeping promises</li> <li>• Advocate openness and fairness</li> <li>• Promote cooperation and development</li> <li>• Share success</li> </ul>	<ul style="list-style-type: none"> <li>• Regular meetings and communication</li> <li>• Reciprocal site visits</li> <li>• Industry trade fairs and conferences</li> </ul>
Local Community	<ul style="list-style-type: none"> <li>• Support local development</li> <li>• Promote social harmony</li> <li>• Environmental protection</li> </ul>	<ul style="list-style-type: none"> <li>• Charitable donations</li> <li>• Cultural and sports events</li> </ul>

## MATERIALITY ASSESSMENT

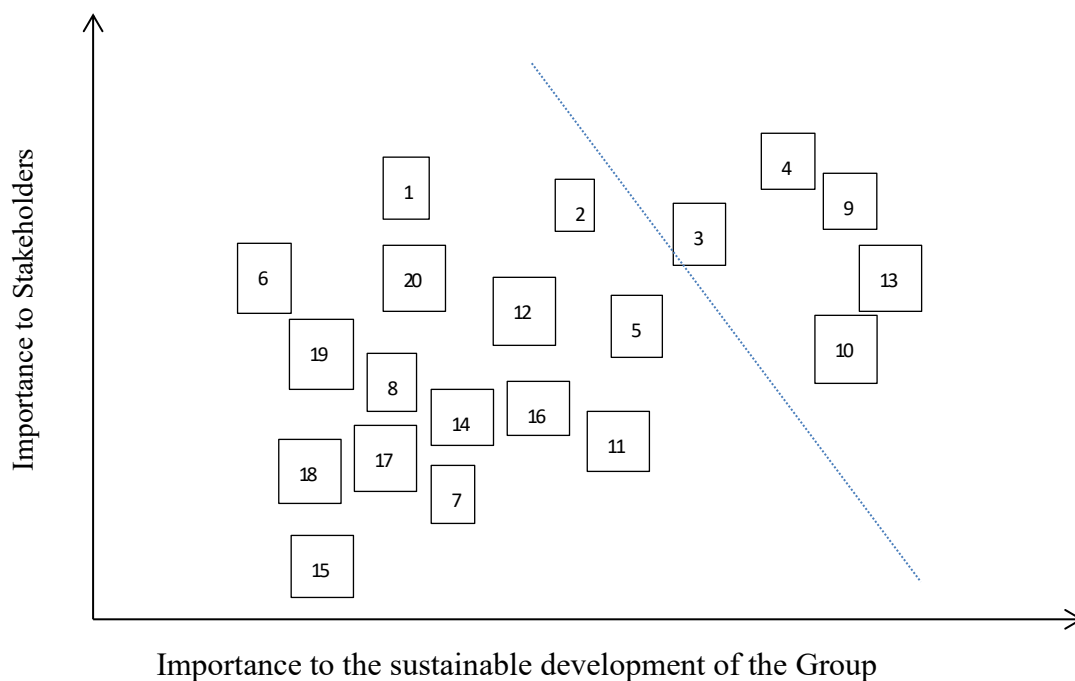
In order to better understand the issues that stakeholders are concerned about, to guide the development of ESG plans and the preparation of the ESG report, the Group has conducted materiality assessment to identify ESG issues of importance to the Group business and stakeholders. The materiality assessment of the Group involved the following procedures:

**Identification of issues:** In order to identify the relevant ESG issues, the Group considered factors including the stakeholders expectations, the Group business-related risks and opportunities, the characteristics of the industry and risks and opportunities.

**Sorting and Scoring:** Once the relevant ESG issues were identified, in order to determine their importance, the Group sorted and scored them by taking into consideration factors including relevant laws and regulations, industry standards, challenges and opportunities based on our own business, and the priorities of expectations communicated by the relevant stakeholders.

**Confirmation of assessment:** The preliminary results were reviewed, discussed and confirmed by the Executive Management in order to get the final results of materiality assessment.

## Materiality Matrix for 2021



<ol style="list-style-type: none"> <li>1. Compliance with laws and rules</li> <li>2. Payment of taxes and levies in accordance with the laws</li> <li>3. Support local development</li> <li>4. Industrial safety</li> <li>5. Environmental protection</li> <li>6. Investment returns</li> <li>7. Risk control</li> <li>8. Information disclosure</li> <li>9. Product quality</li> <li>10. Service quality</li> </ol>	<ol style="list-style-type: none"> <li>11. Product innovation</li> <li>12. Wages and benefits</li> <li>13. Occupational health and safety</li> <li>14. Training and promotion opportunities</li> <li>15. Democratic communication</li> <li>16. Integrity and keeping promises</li> <li>17. Advocate openness and fairness</li> <li>18. Promote cooperation and development</li> <li>19. Share success</li> <li>20. Promote social harmony</li> </ol>
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### A. ENVIRONMENTAL

Echoing the national policy of “constructing an energy saving and environment-friendly society”, the Group strives to reduce impact on environment and climate changes through energy saving and emission reduction policies and measures.

The Reporting Entities are not engaged in a highly-polluting industry and our production processes primarily involve technical processing and manufacturing. Our operations are mainly subject to, among other relevant environmental protection laws and regulations, the following: (i) the *Environmental Protection Law*; (ii) the *Prevention and Control of Water Pollution Law*; (iii) the *Prevention and Control of Atmospheric Pollution Law*; and (iv) the *Prevention and Control of Solid Waste Pollution Law*.

## **A1. Emissions**

The Board believes that the operations of the Reporting Entities currently do not generate any pollutants which may cause significant adverse impact on the environment. During the Reporting Period, since no dyeing was involved in the production processes of the Reporting Entities and the production had not created any environmentally harmful by-products, no special waste treatment had been considered necessary. Where applicable, the Reporting Entities have implemented environmental standards for our production processes and have set out environmental procedures, such as those related to recycling of loosened cotton/polyester tufts with impurity from the blowing process. With regard to the operations, the Group is committed to strict and full compliance with the relevant PRC environmental protection requirements. To prevent the environment being negatively affected as a result of the operations of the Reporting Entities, technologies that conserve and efficiently use resources are adopted in our production processes so as to reduce any adverse impact on the environment. During the Reporting Period, the Reporting Entities did not engage in operations that produced environmentally harmful by-products or otherwise polluted the environment.

During the Reporting Period, there was no incident of non-compliance with the relevant environment laws and regulations that had a significant impact on the Reporting Entities and the Reporting Entities had not been subject to any material environmental claim, lawsuit, penalty or disciplinary actions.

The greenhouse gas emitted from the production processes was carbon dioxide (“CO<sub>2</sub>”), which arose indirectly from electricity consumption. The Group always aims at reducing the intensity (emission per ton of production) of indirect CO<sub>2</sub> emission. The Group will adapt energy efficient technology in the production processes whenever possible. The amount and the intensity of CO<sub>2</sub> emitted during the

Reporting Period were approximately 223,671 tonnes (2020: approximately 201,953 tonnes) and approximately 1,789 kg (2020: approximately 1,771 kg) respectively. During the Reporting Period, the electricity generated by the rooftop solar photovoltaic panels of Huachun was 2,386,000 kWh (2020: 2,201,680 kWh) and the resulting reduction in the amount of CO<sub>2</sub> emission was approximately 1,909 tonnes (2020: approximately 1,761 tonnes).

## **A2. Use of Resources**

The Group always aims at reducing energy consumption per yield (Kwh per ton of production) and contributing to conservation of natural resources. The Group will adapt energy efficient and green technology in its production processes whenever possible. The Group also encourages staff members to be more serious and responsive to energy conservation and efficient use of resources.

As no dyeing has been involved in the production processes of the Group, there has been only minor consumption of water. The Reporting Entities' indirect use of resources mainly results from electricity consumption. No other natural resources are used in the production processes. During the Reporting Period, water consumption was approximately 424,200 tonnes (2020: approximately 398,420 tonnes). Electricity consumption (kWh) and electricity consumption per yield during the Reporting Period were 281,974,615 kWh (2020: 254,642,930 kWh) and 2,256 kWh (2020: 2,233 kWh) respectively. During the Reporting Period, the electricity generated by the rooftop solar photovoltaic panels of Huachun was 2,386,000 kWh (2020: 2,201,680 kWh) and the resulting reduction in the amount of CO<sub>2</sub> emission was approximately 1,909 tonnes (2020: approximately 1,761 tonnes).

The finished goods of the Reporting Entities are yarns, of which the production involves use of paper cylinder for winding and nylon bags for packaging. The total volume of paper cylinder and nylon bags packing materials used during the Reporting Period were approximately 3,008 tonnes (2020: approximately 2,754 tonnes) and approximately 500 tonnes (2020: approximately 458 tonnes) respectively.

## **A3. The Environment and Natural Resources**

Save for the consumption of electricity and water as disclosed in section A2 above,

the production activities of the Reporting Entities do not have a significant impact on the environment and natural resources.

The Reporting Entities have obtained the ISO 14001 certificate on environmental management. Jinyuan has over 25,000 square meters of green area within its factory premises and Huachun has installed solar panels on its workshop rooftop to supply electricity for workshop lighting.

#### **A4. Climate Change**

In recent years, different parts of the world have experienced extreme weather conditions and natural disasters brought about by climate change. It is prominent that the impact of climate change hits faster than expected. The United Nations describes climate change as a global emergency that goes beyond national borders and an issue that requires coordinated solutions at all levels and international cooperation to help countries move toward a low-carbon economy. In 2016, the PRC became a signatory to the 2015 Paris Agreement, which is a legally binding international treaty on climate change. In 2021, the PRC has pledged to achieve carbon emission peak before 2030 and carbon neutrality before 2060 respectively.

The Group acknowledges that climate change impacts humanity and firmly believes that it is the responsibility of every corporate citizen to contribute towards the fight against climate change. The Group also acknowledges that: 1) climate change could induce extreme weather conditions like typhoons, rainstorms and flooding which would affect business of the Group; 2) the fight against climate change requires actions taken by the states which would lead to more laws and regulations on environmental protection and emissions control, and those laws and regulations might affect the business of the Group.

The Group constantly identifies and analyses the risks and opportunities associated with climate change and takes those factors into consideration in the formulation of business strategies. It is the policy of the Group to adopt energy efficient and environmental friendly means of production whenever possible.



## **B. SOCIAL**

### **B1. Employment**

The Group is committed to complying with relevant laws and regulations, including the *Labor Law of the PRC*, the *Contract Law of the PRC* and other applicable laws and regulations. The Group endeavors to provide a fair and equitable work environment to its employees. The Group has enforced a range of human resources management policies and procedures such as Recruitment Process, Regulations on Employment, Dismissal and Transfer Process and the Employee Handbook with a view to providing a fair and equitable work environment.

The Group has set up a fair and reasonable remuneration regime, adhering to the principles of fairness, competitiveness, incentive, reasonableness and legality. Employees' compensation consists of basic salary, performance salary, overtime pay, position subsidy and other subsidies and bonuses, which are adjusted annually based on national policies, price level, industrial and geographical difference and the Group's overall performance.

The Group is committed to the protection of legitimate rights and labor interest. The Group respects employees' entitlement to rest, holidays and regulated working hours in accordance with national and local laws and regulations.

The Group tolerates no discrimination against any employee on the basis of race, gender, color, age, family background, ethnic tradition, religion, physical appearance and national origin, etc. and treats every employee fairly in every aspect of recruitment, remuneration, training and promotion as set out in the national and local laws and regulations.

During the Reporting Period, there was no incident of non-compliance with the relevant labor laws and regulations that had a significant impact on the Reporting Entities and the Reporting Entities had not been subject to any material labor laws claim, lawsuit, penalty or disciplinary actions.

The Reporting Entities are based in the PRC. As at 31 December 2021, the composition of the workforce of the Reporting Entities was as follows, as compared to that as at 31 December 2020:

Gender	Number of Employees		Percentage	
	2021	2020	2021	2020
Male	1,258	1,263	44%	42%
Female	1,589	1,740	56%	58%

Type	Number of Employees		Percentage	
	2021	2020	2021	2020
Full time	2,847	3,003	100%	100%
Part time	-	-	-	-

Age	Number of Employees		Percentage	
	2021	2020	2021	2020
Below 30	548	624	19%	21%
30 to 50	1,829	1,908	64%	63%
Over 50	470	471	17%	16%

Turnover Rate	Gender		Age Group		
	Male	Female	Below 30	30 to 50	Over 50
2021	54%	50%	106%	40%	30%
2020	55%	49%	89%	45%	23%

## **B2. Health and Safety**

The Group is committed to ensuring the health and safety of its employees by, among other things, providing and maintaining healthy and safe workplaces to them, especially in the manufacturing facilities. The Group aims at achieving zero

workplace fatality and minimizing loss of work time due to injury. The Group adheres to the principle of “Production safety comes first; Participation of all staff” and encourages employees to be serious and responsive to production safety. The Group has established safety procedures and policies to ensure that the working environment is safe for its employees. All new staff will be given induction training with emphasis on production safety prior to assumption of duties. The Group implements and ensures that all of its employees are aware of the safety procedures and policies, which include guidelines for safety management of emergency situations and proper operation of equipment and machinery. The workshop managers have the overall responsibilities for the safety operation of the workshops under their respective management; the team leaders of each workshop are responsible for the safety training and supervision of their respective teams. Training sessions for production safety are conducted on a regular basis in the workshops.

The Reporting Entities are subject to certain PRC laws and regulations on occupational health and safety, including the *Production Safety Law of the PRC*, the *Law of the PRC on Administrative Penalties for the Illegal Acts regarding Safe Production*, the *Regulations on Production Safety Permits* and the *Laws of the PRC on the Prevention and Treatment of Occupational Diseases*. The Reporting Entities have assigned staff to be responsible for safety production by overseeing compliance with relevant laws, conducting regular safety performance reviews, identifying safety risks, organizing accident prevention and management training, and issuing internal safety procedures and policies.

During the Reporting Period, there was no work-related fatality (2020 & 2019: Nil) and the number of lost days due to work injury was approximately 465 days (2020: 490 days).

### **B3. Development and Training**

The Group believes that employees’ personal development and well-being are of great importance. Hence, the Group aims at providing a quality community and environment that motivate the employees, so as to enhance staff development and staff retention. The Group provides diversified trainings such as orientation, management personnel training, technical personnel training and pre-job training to accommodate the needs of employees of various types and levels.

The Group’s training activities, including lectures and workshops, business coaching, field exercises and self-study materials, are mainly internal training organized according to business needs. New recruits receive orientations and pre-job training which enable them to adapt to the working environment and perform their duties.

The training statistics for the Reporting Period were as follows, as compared to those for the year ended 31 December 2020:

Gender	Number of Employees trained		Percentage of Employees trained		Average training hours completed per employee	
	2021	2020	2021	2020	2021	2020
Male	1,843	1,955	100%	100%	79	80
Female	2,334	2,468	100%	100%	70	69

Category	Number of Employees trained		Percentage of Employees trained		Average training hours completed per employee	
	2021	2020	2021	2020	2021	2020
Management	443	443	100%	100%	17	12
Production	3,734	3,980	100%	100%	81	81

#### **B4. Labor Standards**

The Group strictly complies with the *Labour Contract Law of the PRC*, the *Labour Law of the PRC* and *Provisions on Prohibition of Child Labour of the PRC*. The Group tolerates no child labor or forced labor and makes it clear in the recruitment notices that only those over 18 years old are considered as legitimate candidates. The Group ensures that no child is recruited by checking the candidates’ ID cards. Besides, the Reporting Entities adopt an “8 hours x 3 shifts” working hour’s pattern and voluntary overtime system to avoid forced labor.

#### **B5. Supply Chain Management**

In order to ensure the quality of the incoming materials and encourage the protection

of labor rights and natural environment across the supply chain, the Group has set up procedures to assess the qualifications of suppliers. The assessment procedures include product sample examination, reference seeking, occasional site visits and collection of market intelligence.

Due to the nature of the raw materials and the large quantities required by the Group, not too many raw materials suppliers with sufficient scale could cater the Group's requirements. As at 31 December 2021, the Group had over 60 (2020: 60) major suppliers of raw materials, production equipment and production accessories. Purchases from the Group's five largest suppliers accounted for 44.7% of the total purchases of the Group for the year ended 31 December 2021 (2020: 51.1%). The major suppliers of the Group include state-owned enterprises, A shares listed companies and provincial top 100 companies. The Group considers those companies generally have a high degree of awareness in respect of ESG priorities. The suppliers are all located in the PRC.

## **B6. Product Responsibility**

The Group believes that product quality and customers' satisfaction are vital to business success. The Group complies with the *Product Quality Law of the PRC*, the *Law of the PRC on Protection of the Rights and Interests of Consumers*, the *Advertisement Law of the PRC* and other applicable laws and regulations.

The Reporting Entities have adopted a set of quality control procedures in some production stages to ensure product quality. The quality control system ensures that our finished products meet various standards set by us as well as industrial standards. The Reporting Entities have obtained ISO 9001 and ISO 14001 certificates on quality control.

During the Reporting Period, there were no products sold or shipped that were subject to recalls for safety or health reasons; there were no written complaints related to product quality. Customers with concern or queries in relation to products sold or shipped are primarily handled by the relevant account manager in the Sales Department through telephone communication while any further complaint will be escalated to the General Manager for further handling.

The Group is also committed to the protection of intellectual property (“IP”) rights and the protection of customers' data and privacy. However, the yarn products of the

Group are traditional mass market industrial basic materials which generally do not involve the use of IP rights in the production processes. During the Reporting Period, the Group was not involved in any actual or potential dispute relating to infringement of IP rights. Due to the nature of the products of the Group and the Group mainly conducts cash sales with customers, who are industrial users or traders of yarns products, there is no need for the Group to collect customers' information for credit or marketing purposes.

#### **B7. Anti-corruption**

The Group has implemented internal policies and guidelines for its employees and suppliers to comply with the relevant laws in the PRC on anti-bribery and anti-corruption. If proven to be involved in any bribery or corruption, the services of those who involved will be terminated immediately. Reporting of any corruption or bribery to the senior management is encouraged. All staff have direct physical access to senior management, including the executive director of the Company. The directors of the Company have been briefed on the principles of anti-corruption laws and practices in Hong Kong prior to their appointment. During the Reporting Period, the Group has complied with the relevant laws and regulations and the Group has not involved in any bribery or corruption cases.

#### **B8. Community Investment**

The Group believes business investment will create job opportunities and improvement in infrastructures in the long term, which will eventually lead to prosperity in the local community. Jinyuan and Huachun have commenced investment in the Industrial Zone of Fengxin County since 2005 and 2010 respectively. Their continued investment in the community has contributed substantially to the employment, tax revenue and development of infrastructures of Fengxin County. The Group regularly interacts with the Management Committee of the Industrial Park of the Fengxin County Government, which also acts as an important communication interface between the Group and the local communities. The Group will endeavor to cater for the needs and concerns of the local communities whenever possible. The Group is also closely monitoring the business environment with a view on further investing in the local communities should opportunities arise.

The Reporting Entities have contributed to the environment by setting aside substantial areas of greenery within the factory premises and planted over 2,500 trees. The Reporting Entities have also supported the establishment of labor union by providing office space and funding.