

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The board of directors (the “**Board**”) of China Weaving Materials Holdings Limited (the “**Company**”) is pleased to present the Environment, Social and Governance (“**ESG**”) Report for the year ended 31 December 2017 of the Company.

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 our 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 2017, the production capacity of the Group was approximately 690,000 spindles. The production and sales volume of the Group for the year ended 31 December 2017 were approximately 119,699 tonnes (2016: 118,709 tonnes) and 120,197 tonnes (2016: 122,351 tonnes) respectively.

REPORTING PERIOD AND REPORTING SCOPE

This report, which was prepared according to 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, covers the period from 1 January 2017 to 31 December 2017 (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 2017, the Reporting Entities accounted for over 99% (2016: 99%) of the turnover and 96% (2016: 98%) of the headcount of the Group.

STAKEHOLDERS COMMUNICATION

The Group believes communication with different stakeholders including employees, customers, suppliers, local government bodies and investors is important as a fair and comprehensive evaluation on the Group's performance on environmental, social and governance aspects relies on the feedback from the stakeholders. Hence, the Group continues to communicate with different stakeholders on these aspects through various channels during its daily operations.

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*.

A1. Emissions

The Board believes that the operations of the Reporting Entities currently do not generate any pollutant which may cause significant adverse impact on the environment. During the Reporting Period, since no dyeing was involved in the production process 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 process 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 (“CO₂”), which arises from the electricity consumption. The amount and the intensity (emission per ton of production) of CO₂ emitted during the Reporting Period were approximately 196,447 tonnes (2016: approximately 198,013 tonnes) and approximately 1,641 kg (2016: approximately 1,667 kg) respectively. During the reporting period, the electricity generated by roof top solar photovoltaic panels in Huachun was 2,425,120 kwh (2016: 2,306,160 kwh), the resulting reduction in the amount of CO₂ emission was approximately 1,816 tonnes (2016: approximately 1,727 tonnes).

A2. Use of Resources

The Group aims at maximizing the effect of energy conservation during the manufacturing process by promoting efficient use of resources and adopting green technologies. The Group also encourages staff members to be more serious and responsive to energy conservation and efficient use of resources.

The Reporting Entities’ use of resources mainly results from electricity consumption and minor water consumption. During the reporting period, the water consumption was approximately 739,570 tonnes (2016: approximately 587,881 tonnes). No other natural resources are used in the production process. The electricity consumption

(kWh) and the electricity consumption per yield (kWh per ton of production) during the Reporting Period were 251,092,180 kWh (2016: 252,246,753 kWh) and 2,097 kWh (2016: 2,124 kWh) respectively. During the reporting period, the electricity generated by roof top solar photovoltaic panels in Huachun was 2,425,120 kwh (2016: 2,306,160 kwh), the resulting reduction in the amount of CO2 emission was approximately 1,816 tonnes (2016: approximately 1,727 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 2,874 tonnes (2016: approximately 2,861 tonnes) and approximately 481 tonnes (2016: approximately 474 tonnes) respectively.

A3. The Environment and Natural Resources

Save for the consumption of electricity and water as disclosed in section A2 of this report, 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.

B. SOCIAL

B1. Employment

The Group is committed to complying with relevant laws and regulations, 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. 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

principle 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 the 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.

As at 31 December 2017, the composition of the workforce of the Reporting Entities was as follows, as compared to that as at 31 December 2016:

Gender	Number of Employees		Percentage	
	2017	2016	2017	2016
Male	1,227	1,365	41%	42%
Female	1,817	1,903	59%	58%

Age	Number of Employees		Percentage	
	2017	2016	2017	2016
Below 30	728	936	24%	29%
30 to 50	2,026	2,102	67%	64%
Over 50	290	230	9%	7%

During the Reporting Period, the staff turnover rate of the Reporting Entities was approximately 33% (2016: 34%).

B2. Health and Safety

The Group is committed to ensuring the health and safety of our employees by, among other things, providing and maintaining healthy and safe workplaces to them, especially in the manufacturing facilities. 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 the employees. The Group implements and ensures that all of our employees are aware of our safety procedures and policies, which include guidelines for safety management emergency situations and the proper operation of equipment and machinery.

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 our 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 one work-related fatality (2016: Nil) and the number of lost days due to work injury was approximately 549 days (2016: 516 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 the 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 2016:

Gender	Number of Employees trained		Percentage of Employees trained		Average training hours completed per employee	
	2017	2016	2017	2016	2017	2016
Male	1,987	1,914	100%	100%	77	80
Female	2,558	2,465	100%	100%	69	70

Category	Number of Employees trained		Percentage of Employees trained		Average training hours completed per employee	
	2017	2016	2017	2016	2017	2016
Management	518	489	100%	100%	12	12
Production	4,027	3,890	100%	100%	80	82

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. Our assessment procedures include product sample examination, market enquiries, reference seeking and occasional site visits.

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 2017, the Group had over 80 (2016: 50) major suppliers of raw materials, production equipment and production accessories. 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*, *Law of the PRC on Protection of the Rights and Interests of Consumers*, *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. Our 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 rights and the protection of customers' data and privacy. During the Reporting Period, the Group

was not involved in any actual or potential dispute relating to the infringement of intellectual property rights.

B7. Anti-corruption

The Group has implemented internal policies and guidelines for our employees and suppliers to comply with the relevant laws in the PRC on anti-bribery and anti-corruption. Once 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. During the Reporting Period, the Group has complied with the relevant laws and regulations.

B8. Community Investment

The Group believes business investment will create job opportunities and improvement in infra-structures 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 infra-structures of Fengxin County.

The Reporting Entities have contributed to the environment by setting aside substantial areas of greenery within the factory premises and planted over 2,000 trees. The Reporting Entities have also supported the establishment of labor union by providing office space and funding.