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稀鎂科技集團控股有限公司

Rare Earth Magnesium Technology Group Holdings Limited

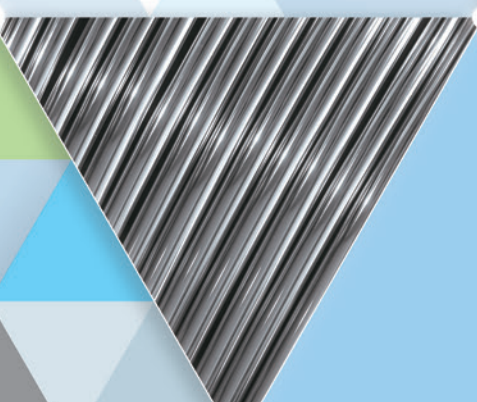
(Incorporated in Bermuda with limited liability)

(Stock Code: 00601.HK)

2021

ENVIRONMENTAL, SOCIAL AND
GOVERNANCE REPORT

Making our **LIFE** better





CONTENT

INTRODUCTION

2

A ENVIRONMENTAL

Aspect A1	Emissions	4
Aspect A2	Use of Resources	6
Aspect A3	The Environment and Natural Resources	7
Aspect A4	Climate change	8

B SOCIAL

Aspect B1	Employment	9
Aspect B2	Health and Safety	10
Aspect B3	Development and Training	11
Aspect B4	Labour Standards	13
Aspect B5	Supply Chain Management	13
Aspect B6	Product Responsibility	13
Aspect B7	Anti-Corruption	14
Aspect B8	Community Investment	15

OUTLOOK

15

REPORTING SCOPE

Rare Earth Magnesium Technology Group Holdings Limited and together with its subsidiaries (“REMT” or “the Group”), is principally engaged in the business of producing and selling magnesium products. Magnesium alloy products produced and sold by the Group have been known as the “most developed and widely used lightweight eco-friendly strategic new materials of the 21st century”, which contributes to the green and low-carbon high-quality development. Since there is no actual business in its Hong Kong and overseas subsidiaries, the scope of the environmental aspect of this report only covers the main business operations of the Group in Mainland China.

This report is prepared in accordance with the “Environmental, Social and Governance Reporting Guide” as specified in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. This report identifies and discloses material environmental and social impacts as well as environmental, social and governance (“ESG”) matters in relation to the Group’s business for the year ended 31 December 2021 (“the Reporting Period”).

BOARD STATEMENT

The Board is responsible for the ESG as a whole, and is committed to achieving key performance indicators. The Board believes that ESG risks are crucial to the efficient operation of the Group, and aims to integrate environmental and social aspects into its daily operations. The Group’s corporate governance is fundamental to ensure that the ESG topics of the Group are well considered and incorporated into the business agenda, and is of paramount importance to us to create value for our stakeholders continuously. The Board carefully assesses ESG risks to consider and reflect on their relative progress toward ESG objectives. The Board confirms that it has reviewed and approved this report.

In preparing this report, the relevant staffs of the Group have collected all relevant information on various ESG aspects, and checked and evaluated the performance of the Group, including environmental, health and safety, labour practices, and other ESG aspects. The Group has maintained talks with certain stakeholders under various circumstances to collect comments on a regular basis, including but not limited to meetings, interviews, surveys, feedback plans, letters, and other methods.

REPORTING PRINCIPLES

The Group attaches great importance to the reporting principles of materiality, balance, quantitative, and consistency when preparing this report:



Materiality

In order to identify material issues, the Group has conducted a materiality assessment in 2021, thereby adopting the identified material issues as the focus of this report.



Balance

This ESG Report aims to disclose data objectively, which aims to provide stakeholders with a balanced overview of the Group’s overall ESG performances.



Quantitative

The Group accounts for and discloses key performance indicators (“KPIs”) in quantitative terms for proper evaluation of the effectiveness of ESG policies and actions.



Consistency

The statistical methods applied in the ESG report are substantially consistent with those adopted last year. Elaborations are provided when the data has changes in disclosure and calculation methodologies. If any change may affect the comparison with previous reports, the Group will comment on the corresponding content of the ESG report.

The aspects presented below are an elaboration of the operating practices in the main ESG subject areas.

A. ENVIRONMENTAL

The Group’s production bases are located at the Hami Industrial Park in Xinjiang Region and the Baishan Industrial Park in Jilin Province. The Group has a series of environmental management policies in place in an endeavor to minimise its impact on the surrounding communities’ environment of production bases. The Group aims to maintain or reduce emissions from the production process given the similar operational level across years by implementing energy-saving measures and improving energy efficiency.

A1: Emissions

During the Reporting Period, the Group has complied with all the related local environmental laws in the country we operate. The emission of particulates and sulfur dioxide (SO2) are lower than the national standard of 150 mg/m³ and 400 mg/m³ respectively. During the Reporting Period, no material instances of non-compliance concerning the environment were identified within the Group.

The Group has implemented a series of measures to reduce the gas emission:

- 1) In an effort to reduce gas emission, rotary kilns are equipped with vertical preheaters to make full use of residual heat, reducing the temperature of emitted smoke and gas to below 200 degrees celsius. The vertical cooler is used to cool down the temperature of calcined dolomite, supplying hot air for the rotary kiln to increase combustion efficiencies and reduce energy consumption.
- 2) Regenerative combustion technology is adopted in refining furnaces and reduction furnaces. Heat accumulators are used for recovering and storing the heat from the exhaust gas of reduction furnaces, which induce explosive combustion of coal gas in furnaces to achieve energy saving and emission reduction.
- 3) Utilising recirculating water through reduction furnaces for heating in winter and staffs’ showering.
- 4) Reduced voltage starting and variable frequency operations are adopted for certain motors.
- 5) Enhancing the promotion, education and training about energy conservation for workers.

The energy consumption of fuels, and the emission of waste gases and greenhouse gases are reduced, while staffs’ energy-saving awareness is enhanced as a result of the adoption of energy-saving and emission reduction measures as mentioned above.

Types of pollutants

During the production process, the hazardous wastes generated by the Group mainly are waste engine oil and tar. The non-hazardous wastes mainly include solid wastes, recycled dust and domestic wastes. The treatments of hazardous and non-hazardous wastes in 2021 are as follows:

Types of hazardous waste	Emission: tonnes	Treatment
 Waste engine oil	5.5	Sales to the qualified enterprises for integrated utilisation
 Tar	6.6	Sales to the qualified enterprises for integrated utilisation

Types of non-hazardous waste	Emission: tonnes	Treatment
 Solid waste	22,571	Sales to the enterprises in nearby areas for integrated utilisation
 Recycled dust	147	Sales to the enterprises in nearby areas for integrated utilisation
 Domestic waste	60	Centralised treatment by the environmental hygiene department on a regular basis

Treatment and management of hazardous and non-hazardous wastes

The Group disposes of hazardous and non-hazardous wastes in strict accordance with the “Law of the People’s Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste (2020 Revision)”. Wastes are temporarily stacked in designated places, sold to enterprises in nearby areas, or appropriately recycled and reused by qualified enterprises.

Apart from the above-mentioned waste treatment measures, the Group is also equipped with advanced equipment to reduce the generation of hazardous wastes. In addition, we procure high-quality coal for clean production in order to minimise hazardous and non-hazardous wastes.

The Group targets to maintain or reduce wastes given the similar operational level across years by implementing various recycling policies and strengthening education to employees, while reducing wastes from the production process.

During the Reporting Period, no material instances of non-compliance concerning the treatment of emissions were identified within the Group.

A2: Use of Resources

The operation and production of the Group mainly consume resources such as electricity, diesel oil, coal and water. During the production process, the Group endeavors to enhance the energy use efficiency and achieve comprehensive utilisation, while gradually reducing energy consumption.

The energy and the packaging materials consumed by the Group in 2021 were as follows:

Resources		Unit	Emission	Density (calculated based on the production of 14,291 tonnes magnesium products in 2021)
	Electricity	kWh	39,749,499	2,781 kWh/tonne
	Diesel oil	liter	203	0.014 liter/tonne
	Coal	tonne	24,580	1.7 tonnes/tonne
	Water	m³	98,638	6.9 m³/tonne

Packaging materials used on finished products		Unit	Emission
	Wrap	tonne	3

Energy use/water efficiency targets and management

1. The coal gasification is used by the Group to eliminate outdated equipment, in a bid to generate clean energy for production. With the application of regenerative high-temperature combustion technologies, the exhaust gas temperature is significantly reduced and the overall thermal efficiency is increased by over 50%, thereby mitigating air pollution.
2. The water consumption within the plants is mainly due to the water replenishment of the recirculating cooling system for the equipment and the domestic water consumption by our staffs. Recirculating cooling water, mainly the equipment cooling water, is pumped into the production water supply pipeline for reuse after cooling in a cooling tower. The domestic water consumption (mainly washing water, flushing water for offices, and recirculating cooling water within the plants) is recycled and not discharged. The environmental hygiene department regularly collects the domestic wastewater for centralised treatment at sewage treatment plants.

The Group is committed to enhancing energy use efficiency and recycling of resources. The Group aims to maintain stable energy efficiency or even better, to improve it, given the similar operational level across years. In addition, the Group maintains stable or lower water consumption of the main business given the similar operational level across years by implementing various water conservation measures and regular inspection on the water supply system.

During the Reporting Period, no material instances of non-compliance concerning the use of resources were identified within the Group.

A3: The Environment and Natural Resources

The Group places great emphasis on the impact of our business on the environment and natural resources. In addition to the appropriate initiatives taken in protecting the natural environment in conformity with the environment related regulations and standards, the Group also integrates the environmental protection into the internal management and execution.

Actions taken concerning the environment and natural resources:

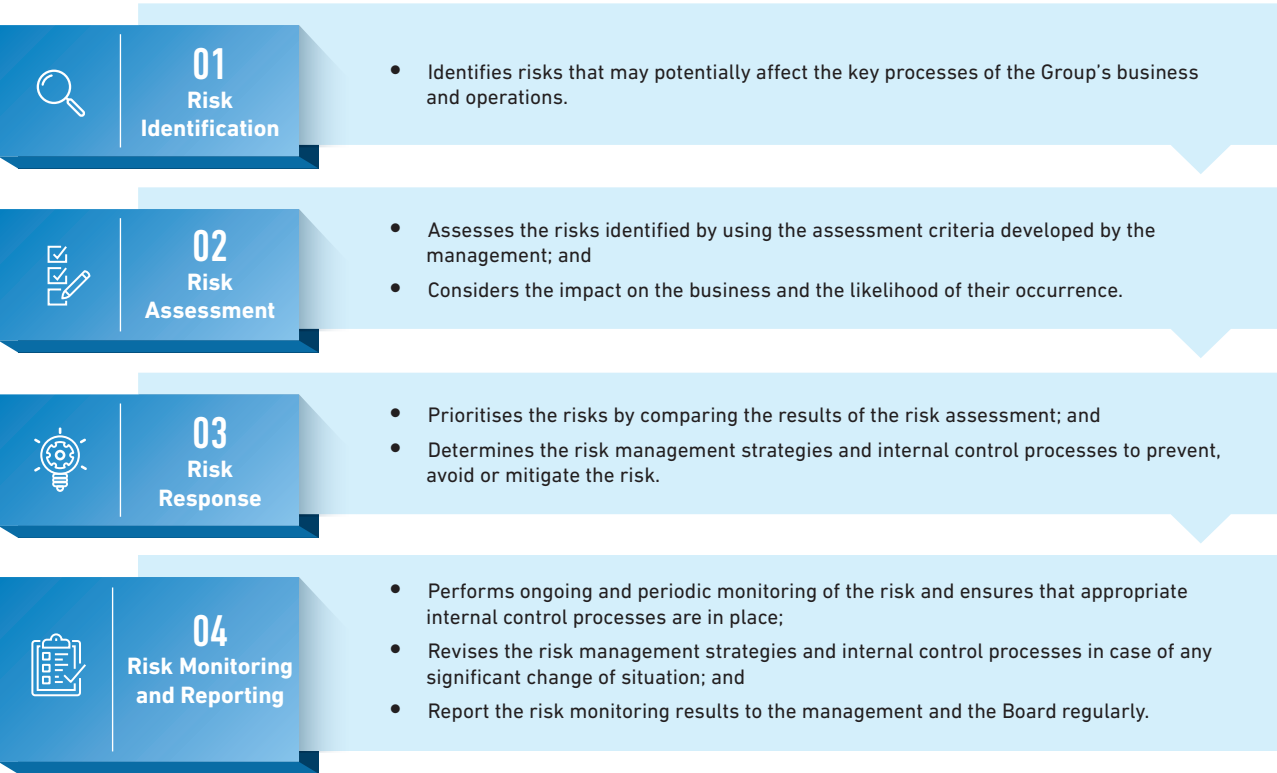
1. With respect to energy use, the efficiency is maximised. The vertical preheat system is used in the production process to enhance the utilisation of fuels and reduce electricity consumption by making full use of the preheating.
2. With respect to resources, measures for emission reduction and utilisation improvement are rolled out to avoid a waste of resources.
3. Regarding resources such as solid waste, the waste is recycled and reprocessed as resources or products to reduce the emission.

The Group has strictly complied with the PRC's laws and regulations about energy consumption, and implemented its internal policies. During the Reporting Period, the Group had no material instances of non-compliances in this regard.

A4: Climate Change

Climate change has become one of the top concerns for people, and a global challenge affecting communities and businesses as a whole. The acute physical risk can arise from extreme weather conditions such as hurricanes, floods and storms. The chronic physical risk can arise from sustained high temperature. While the transition risk may result from changes in environment-related regulations or customer preferences. The Group assesses the above-mentioned potential risks that may cause main business interruption, and formulates corresponding prevention measures.

The Group's procedures for identifying, assessing and managing significant risks, including significant climate-related matters, are summarised below:



The Group believes that climate change has no significant direct impact on its main business of the Group. As mentioned above, the Group is committed to promoting environmental protection and rational use of resources in its business operations in order to respond to the global climate change. In the future, we will continue to identify business operations that may have an impact on the environment, and formulate corresponding improvement measures to prevent the further possible negative impact of our operations on climate change.

B. SOCIAL

B1: Employment

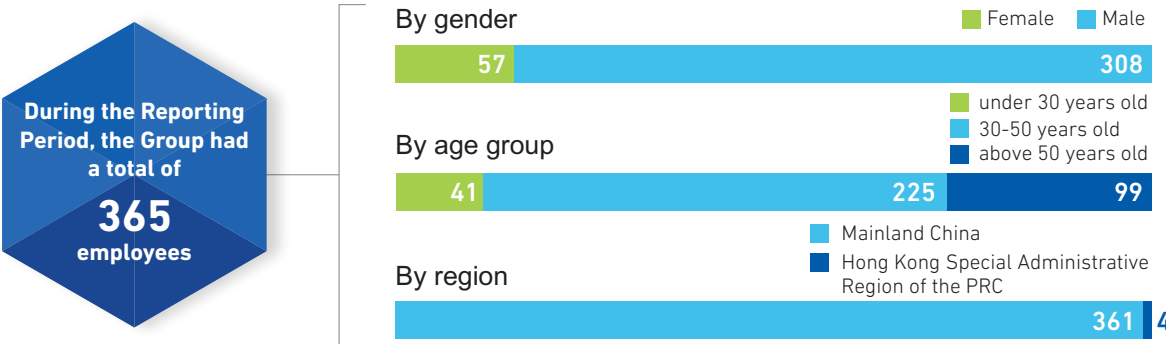
In line with the rapid development of the Group's business, human resources management and the recruitment of talents are of particular importance to the Group. The Group regularly analyses the existing remuneration system and incentive mechanism to optimise the remuneration structure. It ensures employees' remuneration packages are on par with reasonable market rates and stay competitive. Meanwhile, the Group has been expanding recruitment channels, continuously enriching the pool of senior management candidates, stepping up systematic training for employees, providing employees with promotion opportunities, broadening their career prospects, and encouraging the good corporate culture.

Corporate human resources policy: the Group determines employees' remuneration packages based on the employees' performance, work experience and labour skills with reference to prevailing market conditions. The labour insurance and welfare for employees include annual leaves, workers' compensation, social insurance, provident funds, the distribution of labour protection supplies, refund of social security contributions, training subsidies, compensation for working under high temperatures, and pre-employment health checkups. There are neither labour disputes that affect regular business operations, nor material changes in employees' relationships within the Group.

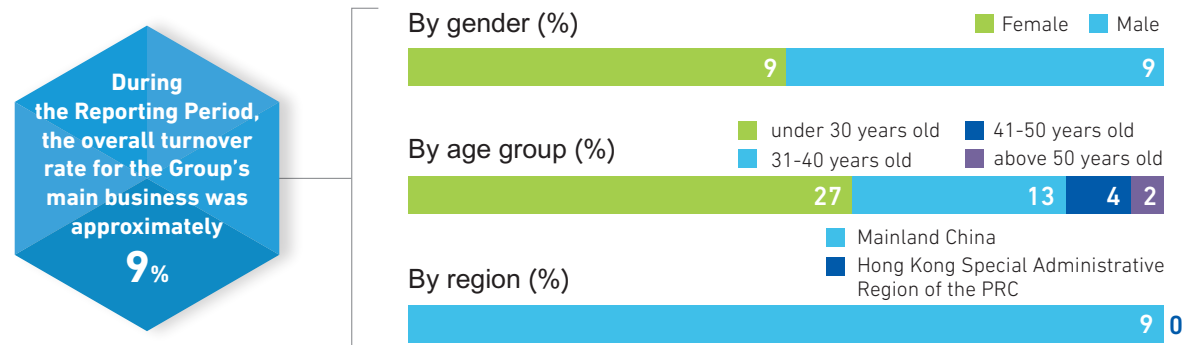
Non-discriminatory and equal opportunities: the Group values employees' entitlement to equal employment opportunities, and adheres to gender equality and ethnic equality in the employee recruitment.

Trade Union: according to the regulations of Federations of Trade Unions for both All-China and the Xinjiang Region levels, the Group is required to set up trade unions, and to maintain the independence of trade unions.

Distribution of employees



Employee turnover



The Group strictly complies with the “Labour Law of the People’s Republic of China (Labour Law)”, the “Labour Contract Law of the People’s Republic of China (Labour Contract Law)”, and other relevant regulations. During the Reporting Period, no material instances of non-compliance concerning the labour practices were identified within the Group.

B2: Health and Safety

The Group abides by relevant laws and regulations, such as the “Labour Law”, the “Labour Contract Law”, the “Social Insurance Law of the People’s Republic of China”, and the “Law of the People’s Republic of China on the Prevention and Treatment of Occupational Diseases”. The Group is committed to formulating and implementing corporate’s internal health and safety policies, continuously enhancing and improving employees’ working conditions and living environment, and safeguarding employees’ life and physical health. The Group has installed the wireless Internet and cable television at employees’ workplaces and dormitory rooms, and made contributions to the social insurance (including primary medical, work-related injury and maternity insurance, etc.) for each employee. It ensures that employees’ work and living conditions comply with the regulations concerning environmental safety, and the prevention and control of occupational disorders.

During the COVID-19 epidemic, the Group publicises the preventive actions of the COVID-19 epidemic through multiple channels, and educates employees to strengthen their awareness of preventive measures. The Group promotes the online-office mode, where business personnel uses phone calls and WeChat to carry out work. According to the requirements of the local governments where the production bases are located, the Group has reduced the number of visitors and workers walking across regions. Employees wear masks at all times during production and keep a safe social distance when eating and living. The Group has actively cooperated with relevant departments to organise regular COVID-19 testing and make sure employees are fully vaccinated to minimise the risk of virus transmission, and to ensure the health and safety of employees.

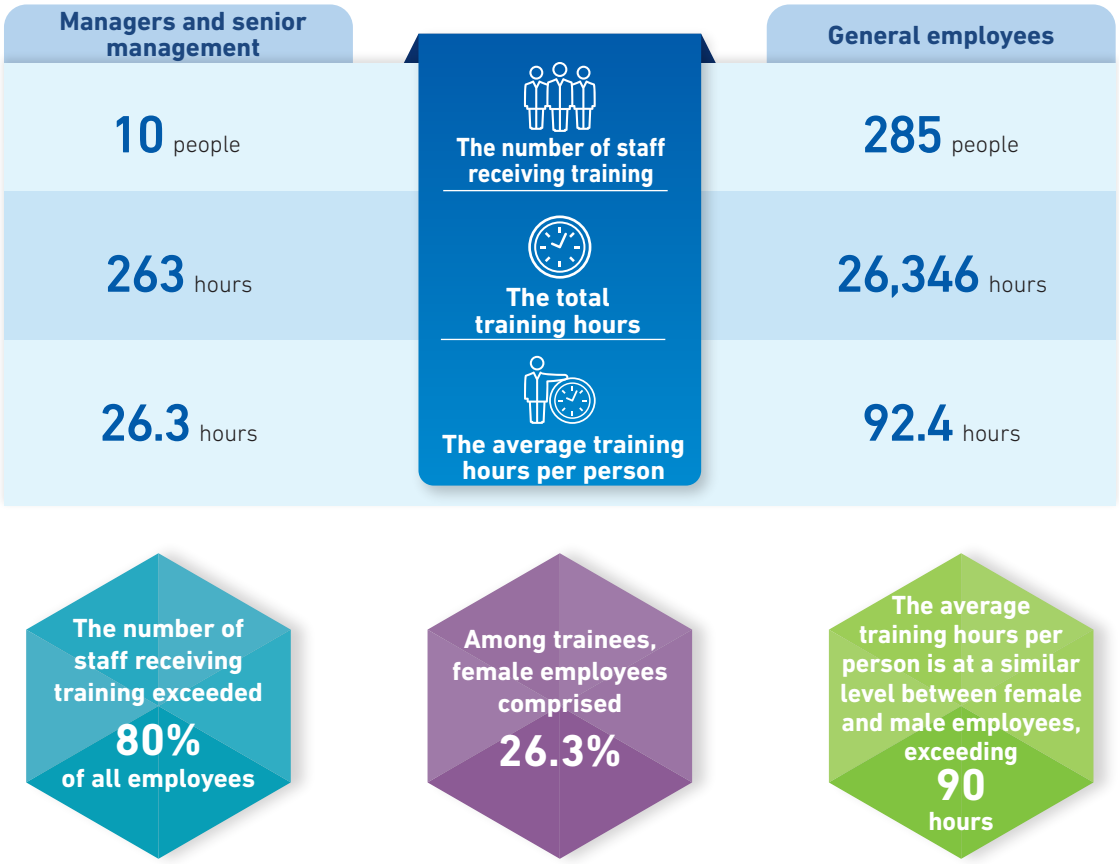
The Group had no work-related fatalities in the past three financial years. During the Reporting Period, there were no lost working days due to work-related injuries. No material instances of non-compliance concerning health and safety laws and regulations were identified.

B3: Development and Training

The Group believes that providing training to personnel is a very important task for the long-term corporate development. The Group regularly gives employees on-the-job training, and provides training to employees at different positions and job duties according to their relevant knowledge and skills. It constantly enhances the quality of employees, and assures that employees’ professional skills, techniques, and knowledge are kept up-to-date. Relevant training is arranged regularly in compliance with the requirements of the “Safety Education and Training Management System” for corporates engaged in production. The training scheme encompasses:

1. Corporate development strategy planning and relevant corporate management system;
2. Basic knowledge of production techniques and procedures;
3. Procedures of, and professional skills for technical operations at work;
4. Safe production laws and regulations, and contingency plans for safety-related accidents;
5. Occupational hazards and prevention;
6. Fire safety knowledge and contingency plan mock exercises;
7. On-the-job training for special operating personnel; and
8. Training and tests regarding the practical implementation of employees’ skills.

The number of employees receiving training and the training hours:



The employee training scheme has effectively improved employees' professional skills, which in turn gives more significant support to the Group's long-term business development. The Group has consistently implemented a transparent assessment and promotion system to encourage employees' self-development. The Group's senior management and department managers maintain effective communication with employees, and provide feedback and suggestions on employees' work performance promptly.

B4: Labour Standards

The Group strictly abides by the laws and regulations of the PRC government, including the "Labour Law" and the "Labour Contract Law". When the human resources department conducts recruitment work, it shall strictly verify the personal identity of the applicant and perform background checks well to avoid child labour. Employees at production bases are recruited of their own accord. The staff induction process is carried out in line with corporate systems and procedures where no child labour is employed. The ages of all employees satisfy the requirements of local laws. The phenomenon of forced labour does not exist. If any illegal employment of child labour or forced labour is discovered, the Group will immediately terminate the employment contract, identify the cause and pursue responsibility, and impose appropriate penalties on the employee and related person in violation.

In addition, the Group imposes stringent labour audit requirements on its major suppliers. It guarantees that no child labours or forced labours are employed by suppliers. It also ensures that our suppliers' occupational health and safety performances comply with the relevant regulations.

During the Reporting Period, no material instances of non-compliance concerning the labour standards stipulated by relevant laws and regulations were identified within the Group.

B5: Supply Chain Management

The Group procures raw materials from the market for producing magnesium metal and magnesium alloys. The Group has developed corresponding inspection, assessment and selection procedures for raw materials suppliers. Upon receipt of bids from raw materials suppliers, the Group assesses comprehensively from the aspects of brand, quality, payment, schedule of delivery, reputation, and after-sales service, and seriously considering their energy and environmental policy to maximise environmental protection and minimise pollution. The most appropriate product supplier is determined based on a comprehensive score and ranking assessment by comparing individual suppliers. It ensures that premium-quality raw materials can be sourced at competitive prices, and the values of the selected supplier on environment, community and ethics are embraceable. All of the Group's suppliers are located in mainland China. There are about 10 major suppliers. During the Reporting Period, there were no material instances of non-compliance concerning the supply chain management.

B6: Product Responsibility

Quality assurance

Confronted with the competition in the magnesium market, the Group believes that in an effort to sustain a certain level of competitiveness, and the product quality and after-sales services quality play important roles in fortifying client relationships. The Certificate of ISO9001:2008 Quality Management System was awarded to the Group's production bases. The Group's customer service team provides premium products and after-sales services by maintaining close communication with customers and regular follow-ups by various means, including telephone, WeChat, video conferencing and on-site visits. The sales staff will immediately deal with a customer complaint or an incident that requires the recall of products. However, the specific or complex situation will be transferred to the person in charge of the relevant department for concrete handling. During the Reporting Period, the Group had neither material non-compliance of relevant regulations concerning product responsibility or product description, nor experience with the recall of products for safety and health reasons, nor customer complaints regarding products and services.

Commercial morality

The Group attaches great importance to the protection and management of intellectual property rights, and strictly abides by laws and regulations, including the Trademark Law of the People's Republic of China(《中華人民共和國商標法》), the Copyright Law of the People's Republic of China(《中華人民共和國著作權法》) and the Patent Law of the People's Republic of China(《中華人民共和國專利法》). We will engage legal counsel to take necessary actions against the third party (i.e., issuing a lawyer's letter or filing a lawsuit, etc.) if there is any infringement on the intellectual property rights of the Group, including but not limited to trademarks, patents, and others.

The trust from our customers is the cornerstone of our business development. Protecting customer information and trade secrets is the foundation for us to establish credibility and trust. Except in certain circumstances stipulated in the Personal Information Protection Law of the People's Republic of China(《中華人民共和國個人信息保護法》) (required to disclose by statutory obligations), the Group will not disclose customer information and trade secrets to third parties without the consent of the customer. During the Reporting Period, the Group did not observe any case involving the disclosure of customer privacy information or violation of relevant privacy protection laws and regulations, such as the Personal Information Protection Law of the People's Republic of China(《中華人民共和國個人信息保護法》).

B7: Anti-Corruption

The Group has developed internal anti-corruption ordinances and attaches importance to employees' personal integrity, preventing employees' misconducts in terms of corruption. The Group strictly abides by the "Interim Provisions on Prohibiting Commercial Bribery"《關於禁止商業賄賂行為的暫行規定》, and advocates the code of honesty and integrity whereas employees are obligated to follow relevant guidance when performing all job duties within the Group and with external collaborative business partners. Meanwhile, the "Code of Professional Conduct with Honesty and Integrity for Xinjiang Tengxiang Magnesium Products Co. Ltd."《新疆騰翔鎂製品有限公司廉潔從業行為準則》was formulated to educate management personnel and employees holding important positions on professional practices with honesty and integrity. An "Honesty, Integrity and Self-discipline Assurance Statement"《廉潔自律承諾書》was also signed by them. Moreover, any employee (including contract, part-time and temporary employees) is obliged to report any perceived misconduct or malpractice within the Group to the Chief Executive Officer, the Executive Director or the Managing Director. The Group has organised training and developed various policies, procedures, codes and guidelines to enhance its' employees' ethics and integrity standards.

The Group has always strictly abided by laws and regulations concerning anti-corruption, including the "Contract Law of the People's Republic of China" and the "Law of the People's Republic of China Against Unfair Competition". During the Reporting Period, there were no claims concerning corruption against the Group and its employees, and no material instances of non-compliance concerning corruption were identified within the Group.

B8: Community Investment

The Group believes that establishing good relationships with communities where the production bases are located, is a critical factor for successful corporate operations. The Group is keen to provide the necessary support to the locale in which its production bases are located, including giving aids to disadvantaged groups, prioritising in hiring local job applicants, and participating in volunteer work. The base companies give active support to public welfare undertakings in surrounding communities, such as participating in local governments and residents' culture exchange, and co-organising arts and culture performances with them to enrich employees' cultural life.

Integration of enterprises and localities boosts development

As a medium and large-scale enterprise amid the circular economy chain in Hami High-Tech Industrial Development Zone, Xinjiang Tengxiang Magnesium Products Co. Ltd has been the focus of the local government since its establishment. The enterprise has increased household incomes of local staffs by employing local surplus labours. Meanwhile, workers can handle domestic farming when they are off-duty, thus achieving a win-win situation. In addition, under the active support of the local government, the labour resource is guaranteed.

In the past few years, Xinjiang staffs accounted for approximately 59% of the total staffs of the Tengxiang Company. On the one hand, Tengxiang Company has won critical acclaim from the local government for its construction and development. On the other hand, it has enjoyed preferential policies of Xinjiang Autonomous Region, such as refunding social insurance and subsidies for retaining employees.



OUTLOOK

The Group continues its innovation efforts, and has increased its investments in research and development. It also optimises the production procedures and operation regulations. We will consolidate our resources and pay attention to the development of the magnesium alloy business, striving to become China's largest leading magnesium product enterprise and building the premier magnesium technology industrial platform. Against the backdrop of "Green Economy", magnesium new materials will have greater development potential amid the lightweight trend in automobile production. The Group will also strive to contribute to energy-saving and lightweight development. In the post-epidemic era, we believe that magnesium products will continue to show its charm and further establish solid confidence amongst consumers. It is foreseen that the magnesium industry is launching a new era with good prospects for development!



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Rare Earth Magnesium Technology Group Holdings Limited