

# Environmental, Social and Governance Report 2017



**KunLun Energy Company Limited**  
(incorporated in Bermuda with limited liability)


**昆 侖 能 源 有 限 公 司**

(Stock Code: 00135.HK)



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# 1 ABOUT THIS REPORT

## 1.1 Basis of preparation

This report is the environmental, social and governance report of Kunlun Energy Co., Ltd. (“Kunlun”, “We” or “the Company”) for 2017, and has been prepared in accordance with the *Environmental, Social and Governance Reporting Guide (“the Guide”), Appendix 27 of the Listing Rules of the Hong Kong Stock Exchange*, to fairly report on the fulfilment by the Company of its economic, environmental and social responsibilities.

## 1.2 Reporting period and scope

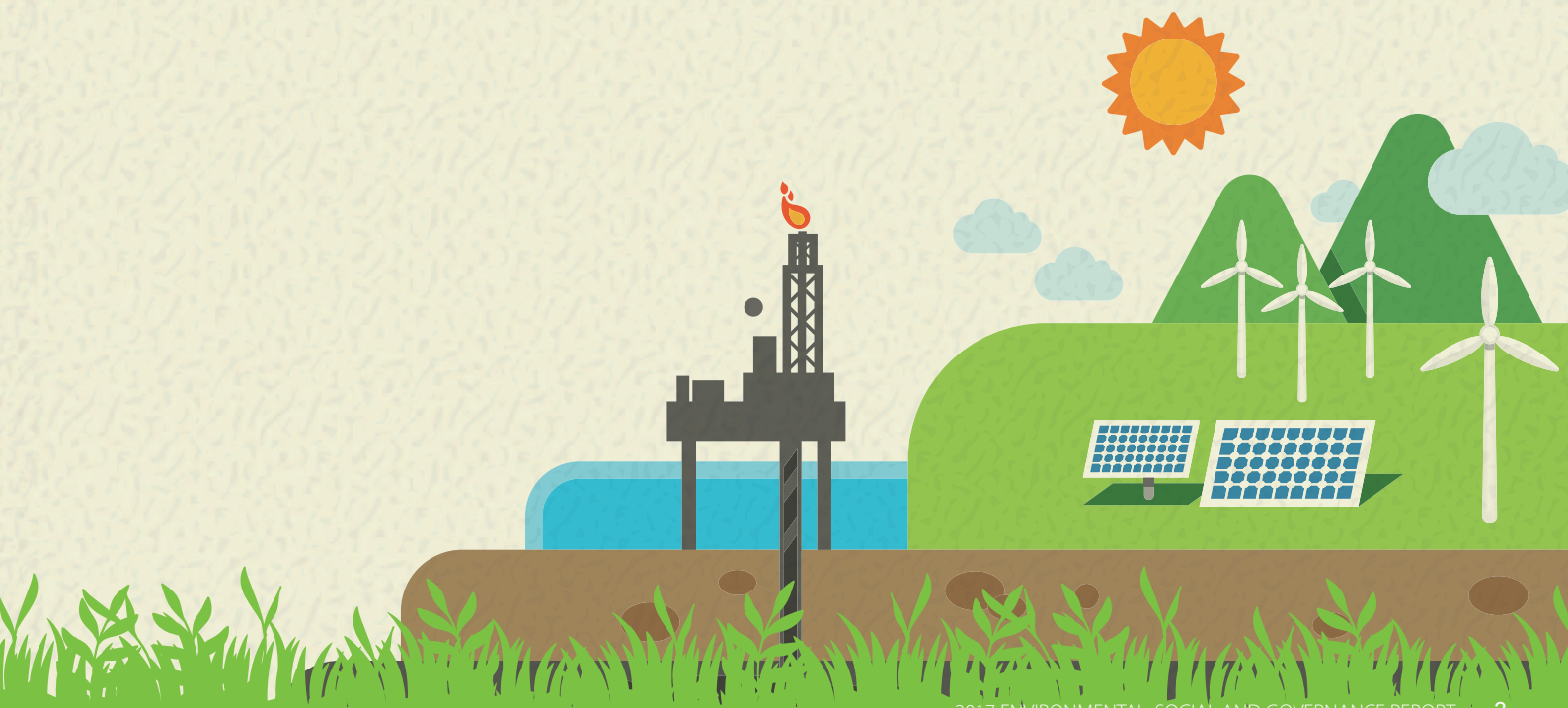
The reporting period for this report is the financial year 2017 (1 January 2017 to 31 December 2017). It covers all of the Company’s management policies, goals, commitments and key projects and measures related to ESG, and the Company’s operating activities. The environmental data reported mainly covers the natural gas sale business of the Company.

## 1.3 Sources of information

The main sources of the information disclosed in this report are the Company’s internal documents, statistical data and the summary and statistics of the performance by the subsidiaries of their responsibilities.

## 1.4 Responsibility of the board of directors

The information disclosed in this report has been reviewed and confirmed by the members of the board of directors.





## 2 MATERIALITY ASSESSMENT

Observing the principle of materiality in the Environmental, Social and Governance Report Guide, the company in 2017 evaluated environmental and social materiality of 11 aspects in the Guide and decides to present the most important matters in two subject areas: Importance to Kunlun's Commitment to Sustainable Development and Importance to Stakeholders and the Overall Environment and Society. We discuss not only the risk associated with such matters and their impacts on business operation, but also their importance to stakeholders. A materiality assessment will facilitate allocation of internal resources and highlight key matters relating to sustainable development.

The company has mobilised key departments to form an Environmental, Social and Governance Committee (hereinafter referred to as "the ESG Committee"). It interviewed management to gain an understanding of Kunlun's sustainable development strategies and direction, listened to and collected the views of stakeholders and performed a survey of directly hold subsidiaries to analyse and identify important issues, and determine disclosure focuses based on the results of the assessment.









The matrix diagram below shows how the company optimises different development aspects. Those closer to the upper-right corner are more important to the company, while those closer to the lower-left corner are less important to the company.



The materiality assessment identified a series of priorities that are of great significance to Kunlun. Among them, Health and Safety, Product Responsibility, Labour Standards, Supply Chain Management and Employment are important to both of Kunlun's subject areas. Development and Training, Use of Resources, Emissions and Anti-corruption, are less important to stakeholders and the overall environment and society, but critical to Kunlun's commitment to sustainable development. In light of this, the company considers the above nine aspects as important to the company.





Key aspects	Descriptions
 Health and Safety	The company values people and is committed to ensuring work safety and reducing production-related risk.
 Product Responsibility	As a key operator of natural gas end-user for China, Kunlun is obligated to provide safe and clean energy, meet the natural gas liquefied petroleum gas (“LPG”) needs of urban and rural residents and industries, and maintain social stability and development.
 Labour standards and employment	As a listed company, Kunlun strictly applies the standards of national and local governments on work hours, age, compensation and benefits, and other areas, and strives to become a social model.
 Supply Chain Management	As natural gas products are hazardous chemicals that are flammable and explosive and liquefied natural gas (“LNG”) at a low temperature, Kunlun’s key supply chain risk originates from transportation. Therefore, it is committed to preventing and reducing the occurrence of accidents.
 Development and Training	Employee training and development is critical to driving Kunlun’s continuous reform and innovation and fulfilling Kunlun’s mission as a company. Kunlun is committed to creating a sound business and technical team to make sustainable development a reality.
 Use of Resources	The company shoulders an important responsibility of pushing for China’s energy transformation. Although natural gas itself is clean energy, the importance of energy conservation and emission reduction should not be overlooked in daily operation.
 Emissions	As a type of clean energy, natural gas produces far less environmental pollution than coal, petroleum and other fossil fuels. However, reduction and management of solid waste, waste water and exhaust gas from production processes are also Kunlun’s basic environmental responsibilities.
 Anti-corruption	Corruption may hinder corporate development and even affect the sound development of society and the economy. Kunlun believes that anti-corruption efforts are critical to improving competitiveness.

With the comprehensive end use of natural gas as its principal business, Kunlun focuses on the development of city gas, natural gas pipeline networks, LNG/compressed natural gas (“CNG”) terminals, gas power generation and distributed energy, LNG processing plants and sales of LPG. As it is not directly involved in natural gas exploration within China, its ecological impact is insignificant. As regards natural gas exploration outside China, it undertakes such efforts only through project investments. Therefore, the Environment and Natural Resources and other aspects are less important. In addition, Kunlun’s most important environmental impacts have been presented in Emissions and Use of Resources.

Kunlun is aspired to be a socially responsible enterprise. Kunlun considers Community Investment as a way to take on its social responsibilities of implementing China’s poverty alleviation policies and narrowing the urban-rural development divide. Community Investment can also help Kunlun shape its corporate culture and cultivate a volunteering spirit. Therefore, policies in this regard are expounded in this report.

Please refer to the Index Table to pinpoint in this report policies and management measures of each aspect in the Environmental, Social and Governance Report Guide of the Hong Kong Stock Exchange.







### 3 KUNLUN'S SUSTAINABLE DEVELOPMENT STRATEGY

In 2017, the second year of the 13th Five-Year Plan for China's National Economic and Social Development (the "13th Five-Year Plan"), the Company continued to follow the central government's broad framework of "Innovation, Coordination, Green, Openness, and Sharing". In response to the challenge of transforming the economic model under the new norm, the Company promoted energy production and the establishment of a low-carbon, high-efficiency energy system. When developing its business, the Company also takes into account the impacts on the society and environment, and the sustainability of operations.

The concept of green development is one of the focus area of China. It should be implemented across the country, and laid stress on the importance of the harmonious coexistence between man and nature. China firmly adheres to a path of development that is ecologically sound, and is committed to creating a good production and living environment for its people and contributing to global ecological safety.

Looking into the future, China will see its importance and responsibilities increase in the world economy. China's energy demand and emissions will steadily rise. China will assume a great responsibility for reducing emissions at the United Nations. It shall make sure that its emissions reach the peak in 2030, and reduce its CO<sub>2</sub> emissions per unit of GDP by 60-65% compared to 2005.

As one of the major operators for end-use natural gas in China, we will align with the national green development strategy. Under the guidance of the Chinese government's blueprint for development, we will vigorously develop our natural gas business as natural gas is being promoted by the government as green energy, and assist in China's endeavour to build a clean, safe, low-carbon and high-efficiency energy system. While promoting high-quality economic growth, we also advocate green development and play an active role in the country's transition to green energy and in the fulfilment of the country's greenhouse gas reduction commitment.

Kunlun will remain committed to "providing clean energy to assist in the building of a harmonious society". With regard to "providing clean energy", we continuously promote "Gas in Substitution of Oil" to maximize the benefits of natural gas and LPG value chains, and promote the use of natural gas fuels in road transport, shipbuilding, power generation and industrial fuels. We capitalise on the strengths of the industrial structure, actively support the construction of ecological civilization and promote low-carbon economic and social development. With regard to "assisting in the building of a harmonious society", we stick to the Company's people-oriented approach, and strive to support regional development and maintain social harmony and stability through steady natural gas supply. We abide by laws and regulations, give back to society, build a good platform for our employees to grow, and work together with various stakeholders to build a harmonious society.

In line with the corporate missions, we adhere to the principle of driving innovation-driven growth, actively fulfil our social responsibilities, continue to build and improve the health, safety, and environmental protection systems, commit ourselves to reducing environmental and safety risks in our operations, comply with the law, and do our best to fulfil the basic responsibilities of listed companies. In terms of human resources, we aim to build an excellent business and technical team to promote Kunlun's growth and move toward a sustainable future.



## 4 CLEAN OPERATIONS AND PRODUCTION SAFETY

As one of the major operators for end-use natural gas in China, Kunlun sees environmental protection and safe operations as its most important tasks. We attach great importance to the impact of business activities on the surrounding environment and stick to the principles of “people-oriented, environmental protection first, prevention-oriented, and comprehensive control”. Kunlun’s business activities are distributed densely over a large area. It serves a variety of customer groups in a complex operating environment. The Company identifies and evaluates the risks of different businesses to implement targeted security measures:

**Natural gas pipeline business:** once the pipeline leaks after being damaged by a third party, it may lead to environmental pollution, resulting in fire, explosion or injuries.

**Urban gas business:** the gas pipeline network is located in densely populated urban areas in very complicated conditions which it is difficult to manage and involve high risk factors.


**LNG and LPG businesses:** the main risk is that the medium of storage is flammable, explosive and is liable to damages arising from cold.

In terms of Kunlun’s business characteristics, gas leakage, fire and explosion are the highest safety and environmental risks. Therefore, we attach special importance to daily inspections and client-side inspections, and comply with relevant national laws and regulations and the Company’s environmental safety system. So far, no major fire, explosion or leakage incidents have occurred that result in environmental or property losses or casualties.

Through the implementation of a sound health, safety and environment (HSE) management system, we actively promote clean production, protect the health and safety of our employees, and create a balanced relationship between business development and the environment. We pursue the goals of “zero quality deficiencies, zero health injuries, zero safety accidents, zero environmental pollution, and reduced energy consumption in production”, and strive to become a resource-saving and environment-friendly company.







## 4.1 Kunlun's health, safety and environmental protection management system

### 4.1.1 HSE Committee

Kunlun has formed a top-down, mature HSE (Production Safety) committee that is responsible for managing the work related to employee health, safety and environmental protection. The HSE Committee is headed by the general manager while the deputy general manager of Production Safety serves as deputy director. Other members are department and section heads. The HSE committee holds quarterly meetings to discuss and review the performance of environmental protection work, and decide on key safety and environmental matters. The committee exercises unified leadership over and centralised management of all safety and environmental protection affairs, while its affiliates are responsible for the safety and environmental protection affairs within their respective jurisdictions. Kunlun's directly/indirectly holds subsidiaries have set up safety and environmental protection departments to allocate safety and environmental protection management personnel, enhance safety and environmental protection management and supervision, and hold monthly meetings to keep track of the latest status of safety and environmental protection affairs. In addition, Kunlun has set up a safety supervision centre governing six safety supervision stations to perform supervisory roles by region, and review, supervise, check and guide the HSE performance of Kunlun's business operations.

Kunlun has set up and improved a sound safety and environmental management system. Kunlun's entities at all levels have signed an agreement on safety and environmental protection responsibilities that specifies safety and environmental protection indicators and performance review mechanisms. They are also subject to annual assessments. The company put in place an accountability system for safety and environmental protection affairs, subjecting safety and environmental protection responsibilities to entities with jurisdiction, and integrated safety into daily and business operations. This helps the company execute the accountability system to the greatest extent possible, whether horizontally or vertically, build a safety and environmental protection culture and effect joint, comprehensive management.



In order to ensure top-down execution of the HSE system, the company carried out a six-level safety supervision and inspection mechanism that consists of semi-annual inspections, quarterly inspections, monthly inspections, weekly inspections, team inspections and tour inspections. Inspection results are linked to performance reviews to facilitate the execution of the accountability system for safety and environmental protection. The company analyses key safety and environmental risks in each operating site and requires those sites to propose improvement measures and supervise the performance of such measures. CNPC, Kunlun's parent company, conducts two inspections on the company each year, and following the inspections, submits a report with proposed subsequent treatment and improvement measures to Kunlun and the safety and environmental protection function of CNPC. In addition, relevant government authorities also conduct random inspections on Kunlun's safety and environmental protection performance on a regular basis.

During the year, the Company has strengthened its emergency management system to deal with major safety and environmental risks, such as environmental pollution, fire and explosion or casualties caused by natural gas leakage. We have set up emergency plans at various levels, clearly defined procedures and measures for emergency response, established an emergency command system, regularly organized emergency drills, and continuously enhanced emergency response capabilities. Employees' awareness of the Company's approach to emergency management and "Guidelines for Emergency Response" has been enhanced, and guidance on emergency response and employees' abilities to deal with emergencies have been strengthened.

#### 4.1.2 Approach to the management of the HSE system

Kunlun's HSE guidelines are centred on people, prevention, management commitment, full participation, clean production and continued improvement. By putting such guidelines into practice, Kunlun aims to achieve the goals of zero quality deficiencies, zero health injuries, zero safety accidents, zero environmental pollution, and reduced energy consumption in production.

- **People-oriented:** HSE matters should be considered before any decisions are to be made. The health and safety of employees and local residents take precedence over everything else.

#### HSE objectives:

- **Zero quality deficiencies**
- **Zero health injuries Zero safety accidents**
- **Zero environmental pollution**
- **Reduced energy consumption in production**





- **Prevention first:** Kunlun makes it its priority to prevent accidents, setting goals and providing adequate resources for the purpose of ensuring total compliance with HSE guidelines and objectives.
- **Management commitment:** Abiding by state laws and regulations, as well as relevant standards, Kunlun strives to achieve clean and safe production, practice “Caring Leadership”, fulfil “Top-down Responsibilities”, effect “Jurisdictional Management” and adhere to the “Nine HSE Administrative Principles” of the Company to ensure continued improvement of the company’s overall performance in respect of quality, professional health, safety and environmental management affairs.
- **Full participation:** All employees are required to observe the HSE guidelines in their work; Kunlun strives to raise the commitment awareness of its employees, residents and contractors through educational activities and training, and create a HSE culture.
- **Clean production:** Kunlun is committed to energy conservation and emission reduction, as well as pollution reduction, and provides customers with green and environmentally-friendly energy to continue to improve its HSE performance.
- **Continued improvement:** Hidden perils of accidents must be eliminated in a timely manner; all accidents and incidents must be reported, analysed and handled in a timely manner.

### Key tasks for ensuring production safety in 2017

#### Strengthen the production safety management system

The Company adheres to the principles of “four key players, four critical actions” to ensure production safety. As a core measure, HSE standards are established for grassroots stations and teams to enhance safety at grassroots level and improve the capabilities of grassroots employees for performing their duties safely and preventing risks. During the year, we focused on strengthening the production safety management system by taking the following three major actions.





#### **Four key players:**

**Leadership, grassroots people, site operations and employees**

#### **Four critical actions:**

**Awareness enhancement, risk identification, performance of duties and implementation of plans and measures**

### **1) Strengthen the management mechanism**

The Company has set up leading groups, promotion groups and working groups to strengthen leadership and management mechanisms, and promote the implementation of the Implementation Rules for Establishing HSE Standards for Grassroots Stations and Teams (Trial). The Company's headquarters has set up a leading group to supervise the implementation of the HSE standardization, carry out acceptance assessments and clarify the requirements for rewards and punishments in establishing HSE standards. Provincial branches and project companies have set up promotion groups to establish and promote objectives, organize publicity activities and training sessions on HSE standards, and conduct assessments so as to continuously improve employees' abilities to perform their duties safely. All employees are mobilised to participate in the standardization construction and improve their capabilities during the implementation process.

### **2) Standardize the management procedures for grassroots stations**

The contents of the HSE standardization for the grassroots stations and teams are clearly defined, and all units are required to carry out regular safety inspections to identify hidden safety hazards and problems and take remedial actions and continuously improve the level of safety control in accordance with standardization manuals and operating standards.



### **3) Improve the assessment system**

The Company has improved the assessment mechanism and defined the assessment objectives in the safety and environmental protection liability statement. The headquarters conducts spot checks to review the progress of grassroots stations in HSE standardization. Additional inspections are carried out on non-compliant stations and teams so as to promote the continuous improvement of the HSE standards for grassroots stations and teams.

### **Deepen occupational health and safety management and control**

The Company operates gas business in cities and towns. The occupational health risks are mainly noise, welding dust, frostbite and high temperature. We actively adopt various measures such as noise reduction, isolation, and use of effective protective equipment and tools to reduce the impact of occupational hazards on employees. We have taken the following measures: establish dynamic mechanisms for the identification and prevention of occupational hazards; improve the occupational health monitoring records for employees, formulate annual plans for occupational health checkup, supervise implementation of the plans; strictly implement pre-employment and post-employment occupational health checkup systems, and strictly implement a management system for construction projects in which occupational health protection facilities and main works are designed, constructed, and put into production at the same time; set up warning signs and warning instructions in Chinese in important and eye-catching places; conduct regular education campaigns on occupational health, strengthen emergency rescue training and drills, and improve employees' capabilities for identifying and preventing occupational hazards; provide protection supplies and personal protective equipment on a timely basis, and distribute earplugs, dust shields, protective gloves, and heat-reducing articles; implement a six-level safety supervision and inspection mechanism, supervise the effective implementation of various measures to protect the legitimate rights and interests of employees.

In 2017, we achieved our goal of controlling the accident death rate per million work hours equal or below 0.01%. More than 99% of our employees underwent occupational health examinations and more than 99% of occupational hazards were detected.





## 4.2 Resource conservation initiatives

### 4.2.1 Resources used by Kunlun

The main energy and resources consumed by Kunlun are: electricity, natural gas, gasoline, diesel, LPG and water. In 2017, its total energy consumption was 659,923 tons of standard coal. It consumed a small quantity of LPG and 3.77 million cubic meters of water in 2017.

#### 2017 A Summary of Data on the Use of Resources Kunlun<sup>2</sup>

Resources consumed			
Category		Unit	Quantity
Energy	Electricity	Ten thousand kwh	219,555
	Gasoline	Tons	5,098
	Diesel	Tons	754
	Natural gas	Million cubic meters	285.84
	LPG	Tons	23
	Total energy consumption	Tons of standard coal	659,923
Water	Water consumption	Million cubic meters	3.77

### 4.2.2 Leading group for energy saving and water saving

The Company has a leading group for energy saving and water saving headed by the company's deputy general manager of Production Safety of their respective functions. Senior assistant manager serves as deputy head. The leading group for energy saving and water saving of which the heads of relevant business units are members organizes and leads the Company's work for energy saving and water saving. Meetings are held based on the Company's circumstances to make arrangements for work related to energy saving and water saving. The second and third-level units have set up leading groups for energy saving and water saving. All second-and third-level units and grassroots stations have been equipped with special and part-time energy saving and water saving management personnel, forming a three-level supervision and four-level management network.

2 For the scope of environmental data reported, please refer to the section "Reporting period and scope" in "About this report".








#### 4.2.3 Energy saving and water saving management

Kunlun's energy and water consumption policies focus on the Company's production and operation goals. Kunlun attaches equal importance to development and conservation with priority given to the latter. The Company strengthens energy saving and water saving management and supervision, controls the consumption of various energy sources and resources, and promote the application of new energy saving and water saving technologies, equipment, and materials. It saves energy by applying concepts, mechanisms and technologies to ensure the continued growth of the Company.

In 2017, the Company issued the revised versions of Energy Saving and Water Saving Management Rules and Energy Saving and Water Saving Statistics Management Regulations, which clarified the responsibilities for energy saving and water saving management, interface division, management standards, energy consumption quota and energy measurement, etc. They introduced systematic and comprehensive standards for energy saving and water saving management, and laid a solid foundation for efficiently carrying out energy saving and water saving work.

In order to provide guidance for all units to reduce loss and increase efficiency, the Company has formulated a special plan for energy saving and water saving during the "13th Five-Year Plan" period, and compiled a special energy saving rolling plan for the period from 2017-2021. In the plans, the Company set the target of saving 4,500 tons of standard coal of energy and 12.5 thousand cubic meters of water during the "13th Five-Year Plan" period.





## Key tasks for energy saving and water saving in 2017

***With the joint efforts of all units, as of December 31, 2017, we have successfully completed the annual target of energy and water saving.***

During 2017, Kunlun took the following actions:


### **Strengthen goal-based evaluation and accountability**

- Based on its actual production activities, the Company established assessment criteria for pipeline gas, CNG/LNG refuelling stations, LNG storage and processing plants, and LPG sales business. The goals were broken down at each level and implemented step by step to ensure that they were fully achieved in the year;
- Increase the weight of water saving and energy saving in performance evaluation and include a weight of 3% as KPI in the performance contracts of subsidiaries;
- Strengthen supervision and inspection. The management personnel of the Company and all units combine regular inspections and irregular sampling inspections, comprehensive inspections and special inspections, and follow the annual work arrangements to supervise the implementation of inspections step by step. Units in which problems are identified are required to take remedial actions within a stipulated period to effectively promote energy saving and water saving.

### **Strengthen energy measurement management**

- In line with the requirements of Energy Measurement Instruments and Management Guidelines for Units Using Energy, a China standard, the Company takes measures to acquire a basis understanding of and establish accounts for energy management in restructured units to provide a reliable basis for energy conservation, consumption reduction, and optimisation;
- Implement national energy management and control requirements, and include uploading of energy metering data, replacement of meters, and application of dynamic metering technologies as construction standards into Kunlun Energy's Technical Regulations for the Construction of Safety Monitoring Systems;
- With the objective of balancing gas purchases and sales, strengthen the measurement supervision of key users, and strictly control the difference between purchases and sales of natural gas. Thanks to these measures, the overall rate of difference between purchases and sales has seen continuous improvements.





### **Reduce emissions from LNG receiving stations and improve energy efficiency**

With respect to LNG terminal, we have optimized process operations to avoid abnormal flare emissions. As our mastery of and familiarity with terminal and our experience increase, we ensure that the BOG compression system runs smoothly throughout the year, achieving full recovery of steam, avoiding accidental emissions of BOG, and achieving zero emissions from the flare system. While achieving its goal for environmental protection, the Company has also achieved its energy saving indicators.

Jiangsu LNG Company put into operation a cold energy utilization project in November 2017, reducing electricity consumption for LNG gasification by 15 million kwh per year, and increasing the utilization fee income from cold energy by RMB 4 million. Tangshan LNG Company sold 400,270 tons of cold energy in 2017, reducing the cost of electricity consumption for LNG gasification and of gas consumption by RMB 12 million.

### **Enhance the monitoring of CNG compressors**

Regarding natural gas compression, as the Company expands and enters into a higher stage of development, there are problems such as aging of gas production facilities, mismatch of operating conditions, and reduced equipment efficiency. In view of this, the Company continuously strengthened the monitoring of CNG compressors during the year. During the training on energy saving and water saving in July, we invited technical personnel of the pipeline energy saving technology center to explain energy saving monitoring technology, system optimisation, and energy consumption monitoring based on the problems identified in compressor monitoring activities in recent years. Through monitoring, we can accurately measure the energy consumption of various links in CNG stations, identify weak links in energy use, find out the reasons for high energy consumption, put forward suggestions for improvement measures or rationalization, and implement targeted energy saving technological transformations to improve the utilization rate.

### **The project for replacing gasoline with natural gas in transportation vehicles**

Transportation vehicles account for most of the Company's use of gasoline and diesel. We continued to implement the project for replacing gasoline with natural gas in office vehicles within the Company. By the end of 2017, a total of 98 vehicles have switched to natural gas, which has saved 87 tons of gasoline. During the year, the Company also implemented a system requiring anyone that needs to use vehicles should seek prior approval.



### **Reuse sewage that meets standards to save water**

During the year, the Company actively put in sewage treatment systems designed to bring treated sewage up to the standard of Class I water to meet the needs of water for planting purposes in plants and reduce the consumption of water. The Tangshan LNG receiving station carried out the sewage system renovation project which was put into operation in December 2017. By the end of the year, the technical measures taken helped save 2600 cubic meters of water.

### **Improve the energy efficiency of offices and gas stations**

In offices and gas stations, we gradually replace the lighting system with LED energy saving lamps, and optimize automatic devices to strictly control the time of switching lights. In daytime, natural light is used as much as possible to prevent indoor lights from turning on all day long. For lights and high pole lamps in stations, on the condition of meeting production purposes, the time of turning on and off lights is adjusted with the seasons to save energy.

### **Promote the green concept**

In addition to the optimisation of hardware and management methods, we also continue to promote the green concept and provide training for all employees. During the year, the Company focused on the theme of the National Energy Conservation Awareness Week and the activities organised by the Company itself to promote the concept of energy conservation, popularize energy conservation knowledge, and mobilize all employees to participate in energy conservation and emission reduction. During the energy conservation awareness week, all the subsidiaries carefully arranged, organized, and implemented a highly operative propaganda program, and all units organized 109 lectures on energy conservation attended by more than 6,000 employees. The gas customer service centres in more than 140 cities carried out the "Energy Conservation for Green Development" campaign in main streets and large communities, with 94 banners put up, made more than 160 electronic exhibition boards made on energy saving, 103 posters produced and 26 publicity reports published.



### Energy and water saving plan in 2018

In line with the Company's "13th Five-Year Plan" for energy and water saving, we have formulated and implemented a work plan for 2018 and continue to promote the following key tasks:

1. Implement the assessment task for saving 1500 tons of standard coal and 3000 cubic meters of water in 2018. Based on the characteristics of water use and energy use for production purposes, we will formulate assessment indicators for various businesses, and break down the energy consumption and water consumption indicators for grassroots stations and workshops to implement.
2. Implement the Research on Energy Benchmarks, Performance Parameters, and Indicators Framework for the Gas Business to establish an evaluation system for energy and resource utilization for the gas business.
3. Step up energy saving technological transformation. We will actively promote energy saving renovation projects such as energy saving lamps, inefficient motors and electric heating facilities to fulfil the Company's water saving commitment for 2018 and promote the implementation of technical water saving improvement projects.
4. Implement the Company's newly released Interim Measures for Energy Conservation Evaluation and Review of Fixed Asset Investment Projects, strengthen energy conservation assessment on new projects to save energy in engineering projects.
5. Enhance the efforts to publicize the experience and practices of outstanding units, actively carry out company-wide energy saving activities, and further mobilize all employees to save energy and reduce consumption.





### Facilitate the mission of Gas in Substitution of Oil in China


Not only did Kunlun devoted to reduce the emissions of its business, we also actively facilitated the progress of Gas in Substitution of Oil in the country, led the green development in different cities, built a cleaner energy base so as to fulfil the corporate mission of “providing clean energy to assist in the building of a harmonious society”. Here are two examples for illustrations:

- Harbin is one of the earliest cities to use gas in the country. The era of natural gas was officially entered following the completion of natural gas conversion in 2009. The accumulated gas supplied by the Company to Harbin was over 2.65 billion cubic meters which raised the urban gasification rate of Harbin to over 98%. This has contributed significantly to reduced PM2.5 emissions, eased haze issues in cities and improved air quality.
- Kunlun CNPC Shennan Company was established in 2002 and has supply gas for 16 consecutive years to the Boao Forum for Asia which was established in the same year. It was one of the earliest companies that engaged in natural gas business on the island and also the largest operator of Hainan province CNG refuelling stations. The Company owned 1 LNG storage house, 1 CNG mother station and 1 LNG plant, 19 terminal refuelling stations distributed along the island, 22,000 promoted natural gas vehicles and has constructed natural gas vehicles inspection centers, CNG vehicles inspection centers and the safety management and charging system of natural gas vehicles IC card for industrial support. The accumulated natural gas supplied by the Company to the island was approximately 1.018 billion cubic meters. Approximately 3.08 million tonnes of CO2 emissions was reduced, which was equivalent to planting 28 million trees. The Company has played an irreplaceable role in the gasification process of Hainan and facilitating Hainan to become an international tourists’ destination.

### 4.3 Pollutant emission management

The main production activity of Kunlun is LNG processing. The main hazards arising from the process are noise, sewage, and solid waste. In order to minimise operation-induced environmental pollution, Kunlun expressly requires all subsidiaries to comply with environmental laws and regulations of the countries and regions in which they operate when planning and executing any projects, and meet the overall requirements of environmental, health and safety management systems, policies on clean production technologies, and measures for environmental risk management and total emissions control of Kunlun and its parent company, CNPC. The selection and use of LNG processing equipment is basically in compliance with the relevant regulations. The noise is controlled below 85 decibels; there is a sufficient distance between the location and the residential area so as not to harm the nearby residents.





The Company has required that potential environmental impacts should be considered for project and development planning. Project analysis, prognosis and evaluation should be carried out so that actions and measures aimed to prevent or mitigate adverse environmental impacts can be developed. With regard to projects that are subject to environmental impact assessments pursuant to state regulations, the company will mobilise resources to perform such assessments, and follow relevant rules and instructions to file for approval for such projects. In addition, with respect to overseas investment and M&A projects, Kunlun requires environmental analyses to be performed as the basis for the approval of feasibility reports.

The following are the measures taken by the Company to reduce pollutants.

#### **4.3.1 Wastewater and solid waste management**

##### **Wastewater**

Kunlun's waste water mainly originates from domestic waste water. Kunlun ensures that its discharge of waste water meets certain standards by taking such measures as discharging waste water through municipal pipelines sanctioned by local governments. A small amount of production-related waste water is transported to and treated by local qualified water treatment plants with which Kunlun has entered into water treatment agreements. This ensures that the discharge of production-related waste water is in line with laws and regulations. In the case of waste water that may be produced during a potential accident, Kunlun has built a firewater pond in line with state specifications, and prohibits unregulated discharge of waste water.

During the year, the sewage treatment system was upgraded to improve the efficiency and effectiveness of the sewage treatment. The Company built additional multi-media filters, zeolite filters, adjustment tanks, hydrolysis and acidification tanks, contact oxidation tanks, sludge digestion tanks, secondary sedimentation tanks and mechanical grids to bring treated sewage up to the standard fit for planting purposes.

##### **Solid waste**

Solid waste mainly comes from construction waste, other solid waste comes from dehydration, desiccant, decarbonised solid liquid for which Kunlun entered into agreements with local qualified treatment plants to effect centralised treatment or other measures so that solid waste can be disposed in a responsible manner.

#### **4.3.2 Waste gas management**

Kunlun exercises strict control over exhaust gas emissions and is strengthening gas loss examination. Under general circumstances, Kunlun produces no exhaust gas in its production processes; its exhaust gas mainly originates from inspection, maintenance and repair processes, emissions caused by accidents and fugitive emissions. In order to reduce gas loss, the company strengthened process management and made efforts to recycle exhaust gas; enhanced inspection and surveillance and used pipeline inspection vehicles to improve leak detection; enhanced old pipeline safety through internal anticorrosion coating; deployed cooking oil fume purification devices to treat kitchen oil fumes and reduce emissions of pollutants; and placed gas emission monitoring equipment at torch vents to provide feedback as to whether emission standards are met.

With regard to project construction, the company ensures that environmental protection facilities and main engineering works are designed, constructed and put into operation at the same time, and that HAZOP protocols are observed to the extent necessary for improving efficiency and executing clean production processes. The company strives to eliminate and treat hidden hazards, building a system for multi-level management and severity-specific prevention and control to ensure that the emissions of exhaust gas meet certain standards.

##### **Status of compliance**

During the year, Kunlun has not identified any violations of any environmental protection and occupational health and safety laws and regulations that have a significant impact on the Company.



## 5 ENVIRONMENTAL AND SOCIAL RESPONSIBILITY IN NATURAL GAS SUPPLY AND WIN-WIN SUPPLY CHAIN MANAGEMENT

### 5.1 Consolidate energy base and stabilize market supply

In line with the requirements of energy revolution, Kunlun continues to work hard to build a safe, stable, diversified, and clean energy supply system with the concepts of innovation, coordination and green, and continues to consolidate its energy base, expand cooperation with international gas suppliers, optimize business structure, and provide continuous power for social and economic development in a cleaner, more environmentally friendly way.


As an energy supplier for urban and rural areas, Kunlun shoulders an important social responsibility for providing a reliable energy supply, especially in winter, when energy consumption peaks. A reliable and non-stop supply of natural gas is vital to people's livelihood and social stability, but is a major challenge as well.

In order to provide a reliable supply of natural gas, Kunlun and its subsidiaries strive to optimise their operational models at LNG production and sales sources. With regard to production, they have built a preliminary mechanism to regulate peak demand in a manner conditioned to pipeline capacity. They enhanced the production and storage capacity during slack seasons to ensure the market availability of LNG products in winter, thus warranting reliability of natural gas supplies for enterprises and households. In terms of sales, they entered into agreements with their own plants and traders to ensure reliable supply through various sources. Leveraging their own LNG terminals, they were able to balance domestic and overseas LNG purchases to achieve supply reliability and improve air conditions.

As of now, Kunlun has seen no major energy supply accidents. This is the result of the company's commitment to fulfilling its environmental and social responsibilities in its products.







## 5.2 Promote clean energy to assist in China's efforts for green development

Fossil fuels are still the main energy sources for global economic development for some time now and in the future. China and the world at large shall work to find the cleanest and low-carbon energy source among them.

Natural gas is a high-quality, high-efficiency, clean, low-carbon energy source and is the most realistic choice for clean energy. Increasing the proportion of natural gas in primary energy consumption is the only way to accelerate the development of a clean, low-carbon, safe, and efficient modern energy system. It is also an effective way to improve air quality and achieve green and low-carbon development, and is of great significance for promoting energy conservation, emission reduction, steady growth and people's wellbeing.

As an advocate and practitioner of low-carbon economic growth, the Company will actively and continuously expand the operations, sales, and application of natural gas to provide driving force for the implementation of China's overall energy strategy.

The Company's LNG and LPG businesses are distributed across the country. LNG and LPG are transportation fuels ("Gas in Substitution of Oil") and industrial fuels, and are an important part of the Company's natural gas business. They are an important direction for high-end utilisation of natural gas. The large-scale application of LNG and LPG in the above two fields will effectively replace fuel and coal, further increase the proportion of clean energy use, bring significant progress in energy conservation and emission reduction, and play a key role in China's transition from coal to natural gas.

The Company continues to implement the construction plan for natural gas pipelines to realize the vision of energy transformation, clean development and improvement of local economies.

### **Status of compliance**

During the year, Kunlun has not identified any violations of any product liability laws that have a significant impact on the Company.





## 5.3 Supply chain management taking into account social responsibility

### 5.3.1 Transportation safety management

Transportation poses the greatest supply chain risk to Kunlun. As LNG at a low temperature and LPG are both hazardous chemicals that are flammable and explosive, Kunlun faces high safety risk during transportation. An accident may significantly affect local environments and residents.

In order to ensure transportation safety, Kunlun relies on its own logistics companies and external logistics companies to transport LNG and LPG products. It selects qualified and experienced logistics companies and leverages electronic bolt sealing, GPS satellite positioning and other means to safeguard logistical safety and reliability. With regard to railway transportation, the company maintains strict compliance with China Railway's safety rules to ensure safe transportation of its products. Subsidiaries enter into logistics agreements with transportation companies or traders in the market based on their own needs, and shoulder safety responsibilities during transportation.

### 5.3.2 Responsible purchasing management

Procurement is a key component in an enterprise's compliance management. The quality of purchased goods has direct ties with service capabilities and quality at the group level, and is an environmental issue as much as an operational safety issue. Given its impacts on local environments and society, it is imperative that Kunlun ensures the quality of its purchased goods and services, builds and improves a supplier management system and puts in place a trustworthy product supply chain.

In managing the procurement of supplies, Kunlun effects centralised management and assigns clearly-defined responsibilities to functions at different levels. It carries out centralised procurement at the group level for various types of supplies. The company has set up a tendering management committee that coordinates and guides the supplier selection and management work of the Supply Management Department. The committee issued the Measures on Performance Reviews of Supply Management Indicators to carry out reviews in respect of relevant objectives. The results of such reviews will then determine performance bonuses of the heads of Kunlun's secondary entities. In addition, this practice can intensify supplier management to the extent necessary for selecting excellent suppliers and strengthening quality supervision over purchased products. For important supplies, Kunlun will involve third parties to supervise production. In terms of supply regulation, Kunlun carries out dynamic process monitoring through an information platform on supply procurement management.

With respect to equipment procurement, all affiliates of the company are required to honour China's industrial policies on environmental protection and technical specifications on clean production. Upgrades of and alterations to major equipment should be subject to clean production verification. Equipment in violation of industrial policies of the state or any governing authorities is not to be purchased. The company has a preference for toxic-free or low-toxic raw materials with high resource efficiency, as well as clean production methods, technologies and equipment that produce minimal pollutants.

In 2017, we continued to optimize business processes and standards, pay on-site visits to suppliers, strengthen dynamic supplier management, source global suppliers through open tendering and qualification review, and provide suppliers with equal opportunities for participation.



## 6 PEOPLE-ORIENTED STAFF MANAGEMENT

Employees are the cornerstone of enterprise development. In line with the concept of the parent company, we adhere to the principle of people-oriented staff management, treat every employee with respect, protect the legitimate rights and interests of employees, and strive to solve issues that employees are most concerned with, so that employees can benefit more from the results of development in a more equal manner.

As a large state-owned enterprise and a leader in terms of business and management models and corporate behaviours, CNPC is highly influential in society. As one of its subsidiaries, Kunlun is obligated to play a leading role in labour management by abiding by state laws and regulations, as well as industrial administrative rules, fully respecting and protecting the legitimate rights and interests of employees, creating an equal, diverse and non-discriminatory employment environment, and avoiding employment of child labourers, overtime working and other negative acts that violate relevant laws and regulations. The Company regards promoting the all-rounded development of its employees as one of its major development goals. It protects employees' rights and interests, promotes their physical and mental health, builds a platform for them to grow, promotes employment of local residents, strengthens overseas security, and strives to create a work environment that is inclusive, equal, trustworthy and collaborative in order to integrate the Company's corporate values and employees' personal values.

The Company focuses on the following areas with regard to employment:

1. Build an equal recruitment system
2. Establish a comprehensive compensation and benefits system
3. Build a platform for employees to grow, and promote occupational health
4. Respect employees' opinions
5. Comply with labour laws







### 6.1 An equal recruitment system

We implement a transparent and equal recruitment system that is people-oriented and respects human rights. The Company invariably treats employees of different nationalities, ethnicities, races, genders, religions, and cultures equally, prohibits the employment of child labourers, and resists all forms of forced and compulsory labour. We focus on promoting the employment of local residents, women, ethnic minorities and university students, and strive to increase employment opportunities in the local community. We strictly implement the provisions of maternity and lactation leave for female employees to protect the rights and interests of female employees. The Company recruits employees openly and does not attach any conditions as to race, gender, religion etc.

### 6.2 Employee compensation and benefits system

The Company has further improved the performance appraisal and remuneration system, promoted performance-linked pay, and established a compensation and benefits system that takes into account job value, performance and innovation results and meets the business characteristics of various employees, ensuring that pay rises are aligned with the Company's business results and productivity. The Company has defined policies and regulations for employment, staff turnover management, salary and benefits, insurance, leave, working hours and attendance.

#### Status of compliance

During the year, Kunlun has not identified any violations of any employment and labour-related laws that have a significant impact on the Company.

### 6.3 Build a platform for employees to grow, and enhance training

Development and training are at the core of human resources management. Kunlun provides employee training and improves incentive mechanisms and career development paths to help employees achieve their personal value. Through training, the company aims to enhance business competence of its employees and nurture talents to meet its various needs. It provides coaching, further study, learning tours and other opportunities to cultivate and train employees in an organised and well-planned manner, so that they can adapt to emerging needs and update their knowledge base, remain competent for job duties of today and tomorrow, and stay responsive to profound changes in knowledge, technological and managerial structures brought by a new round of technological revolution. The ultimate goal is to create a beneficial interaction between employee growth and the development of the company.

During the year, we have optimized the guidelines for personnel training. The following are the two priorities in 2017.





## 1 Multi-level training

## 2 Accountability

### **Personnel training optimisations:**

#### **Multi-level training**

The Company organizes training in accordance with the management authority, taking into consideration the special needs of employees of different categories, levels and positions, delivers training more systematically and endeavors to cover all employees. The headquarters' training program focuses on management personnel and key personnel. The subsidiaries mainly deliver technical training for front-line staff at the grass-roots level to effectively improve their operation skills.

#### **Accountability**

The departments and subsidiaries are responsible for delivering training. The Company's human resources department will strengthen the supervision of trainings and conduct random checks on training courses at irregular intervals with a focus on supervision of the implementation and management of trainings by the responsible departments and subsidiaries, and strengthen the guidance for and supervision of trainings delivered by the subsidiaries.

In 2017, Kunlun held more than 40 training courses covering energy market planning and analysis, project research and development, accounting and finance, analysis of the world economy and China's macroeconomic situation, production technology, occupational health and safety, and leadership skills. The employees attending are from all levels, including senior management personnel, department heads of secondary subsidiaries, and production personnel.

The Company has also continued its capacity building for sustainable development. In December 2017, the ESG Committee attended a training delivered by a third-party advisor on ESG trends and information disclosure. It helps the Company understand the current direction of sustainable development and formulate future ESG development strategies.







## 6.4 Respect employees' opinions

The Company has established a comprehensive communication platform. Top management makes use of meetings, performance communications, project discussion workshops etc. to listen to employees' opinions, and encourages them to make suggestions for improving corporate management.

## 6.5 Comply with labour laws

With regard to exploitation and child labour issues, we strictly abide by all local labour-related laws such as: Labour Law of the People's Republic of China, Labour Contract Law of the People's Republic of China, Social Security Law of the People's Republic of China, and regulations on the prohibition of child labour. We have formulated internal rules and regulations that are in line with national laws and have established policies to prevent forced labour and the employment of child labour.

There is a strict system in place in the Company for controlling overtime work. Where there is the need to work overtime, employees should be provided with compensatory rest. If it is not possible to arrange compensatory rest for employees due to special circumstances, the employer shall submit an application and pay overtime pay after the application is approved.

### Status of compliance

During the year, Kunlun has not identified any violations of any labour-related laws that have a significant impact on the Company.

## 6.6 Anti-corruption

### 6.6.1 Anti-corruption policy

Not only is corruption detrimental to corporate development, but it also affects economic and social development in every aspect. Kunlun honours each and every business partner with honesty, respect and a responsible commitment, giving full respect and fair consideration to its customers, suppliers, contractors and competitors. It opposes all forms of commercial bribery, requires its business partners to comply with its anti-bribery and anti-corruption policies, and prohibits abuses of power aimed at, for instance, seeking private business agreements or providing benefits and gains for relatives.





Pursuant to the policies and regulations on bribery and dishonest acts of CNPC, its parent company, Kunlun pressed ahead with its actions to discipline party conduct and build an honest enterprise, as well as its anti-bribery initiatives. It formulated a series of measures and rules to promote integrity and the code of conduct; mobilised supervisory resources to perform ad hoc audits and inspections of major projects and popularised the use of electronic surveillance; and deepened the anti-bribery institutional reform and maintained a high screening momentum to augment deterrence against corruption.

#### **Status of compliance**

During the year, Kunlun has not identified any violations of any anti-corruption laws that have a significant impact on the Company. Nor has it identified any cases of corruption.

#### **6.6.2 Training and supervision measures**

New employees are already trained on bribery, extortion, fraud and money laundering from on-boarding. Employees are required to be clean and honest and not to use their positions to receive bribes of any kind. They are required not to use the resources of the Company for personal gains. In addition, the Company has made it clear that anyone in serious breach of any relevant regulations will be referred to the judicial authorities.

The Company has set up the Supervision Department and the Discipline Inspection and Supervision Centre under it to carry out work related to party conduct, integrity and anti-corruption. The Discipline Inspection and Supervision Centre is mainly responsible for investigating cases of corruption. The Company holds annual meetings on such work, as well as discipline inspection meetings, and has mobilised management personnel at various levels to make written commitment to upholding party conduct and integrity.





In 2017, the Company carried out a series of educational activities on professional integrity and ethics for 60 newly-promoted middle management personnel to remind them of the importance of integrity when they take up their new roles. The activities involve having a collective talk on professional integrity, giving a book on professional integrity and ethics as a present to someone, paying a visit to an educational base dedicated to the cause of anti-corruption and integrity, holding an honesty and self-discipline test, signing a written commitment to upholding professional integrity and ethics, and writing a letter to a family members. A special lecture on anti-corruption was delivered during the training course for the financial controllers. The Company makes use of the anti-corruption propaganda platform of its parent company PetroChina and the official account on social media networks to guide its staff to study relevant rules and regulations on a timely basis.

In addition, the Company has put in place several anonymous whistleblowing channels, including a hotline, an email box, a postal mailbox and an anti-corruption account. If employees or external stakeholders take notice of any suspicious behavior, they can report them using those channels. The clues will be followed up and verified. Any cases of corruption identified will be filed for disciplinary inspection and are subject to further proceedings. The Company has no identified cases of corruption in 2017.



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## 7 CSR ACTIVITIES



We strive to promote both corporate development and sustainable development of the locations where we operate, and value the importance of the community and people's livelihoods. In order to promote social sustainable development, we participated in volunteer activities and engaged in public welfare activities, providing, among other things, poverty alleviation support and financial aid for students. Such activities helped us establish good relations with relevant government authorities, show a good corporate image and increase our corporate reputation. In addition to those external benefits, they instilled an enhanced sense of social responsibility and cohesive affinity among our employees.

The public welfare and community investment activities were organised by the company's Corporate Culture Department. All secondary and tertiary entities have set up special functions for this purpose, and hold quarterly meetings to summarise work results and make plans for future work. The company has formulated guidelines on donation management and the organisation of such activities, which were carried out by its subsidiaries in line with their own conditions under the principles that emphasised the need to save cost, remain practical and improve efficiency. The company focuses its community investment programmes on poverty alleviation, donations for students, and local needs.

In 2017, the Company organised a company-wide tree-planting activity and 15,762 plants were planted. In addition, the Company organised 112 volunteer activities of various kinds and invested a total of 13,015 hours in community service, such as personnel assistance in the fields of production and business operation, safety and environmental protection, major activities and emergencies, support for disadvantaged groups through living care, information service, psychological counselling and recreational activities, tree planting and gardening, waste disposal, removal of illegal stickers, cleaning and disinfecting public places and green and civilised engineering.






## ANNEX 1 – INDEX FOR THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE OF THE HONG KONG STOCK EXCHANGE

	Subject area	Section in the report	Note
<b>A</b>	<b>Environment</b>		
<b>A1</b>	<b>Emissions</b>	4.3	–
A1.1	The types of emissions and respective emissions data.	–	The Company is establishing a system for collecting emission data and hopes to disclose information in this regard as soon as possible in the future.
A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	–	The Company is establishing a system for collecting greenhouse gas emission data and hopes to disclose information in this regard as soon as possible in the future.
A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	–	Hazardous waste is relatively not the most important environmental issue. No information has not been disclosed in this regard.
A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	–	Non-hazardous waste is relatively not the most important environmental issue. No information has not been disclosed in this regard.



	Subject area	Section in the report	Note
A1.5	Description of measures to mitigate emissions and results achieved.	4.3	–
A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	4.3	–
<b>A2</b>	<b>Use of Resources</b>	4.2	–
A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	4.2.1 A Summary of Data on the Use of Resources	The Company will disclose the total amount first, and will disclose the density in the future after determining the appropriate unit.
A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	4.2.1 A Summary of Data on the Use of Resources	The Company will disclose the total amount first, and disclose the density in the future after determining the appropriate unit.
A2.3	Description of energy use efficiency initiatives and results achieved.	4.2	–
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	4.2.3	–
A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	–	In the Company's business activities, few packaging materials are used. Therefore, the issue is not significant and relevant data has not been disclosed.
<b>A3</b>	<b>The Environment and Natural Resources</b>	–	The Company is committed to reducing the impact of its business activities on the environment and other natural resources. During the reporting period, it did not cause any significant pollution or damage to the nearby air, land, water resources and ecological environment. The Company's policies and measures for use of resources and emissions are detailed in Parts A1 and A2.
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	–	–





	Subject area	Section in the report	Note
<b>B</b>	<b>Social</b>		
<b>B1</b>	<b>Employment</b>	6.1, 6.2, 6.4	–
<b>B2</b>	<b>Health and Safety</b>	4.1.2	–
<b>B3</b>	<b>Development and Training</b>	6.3	–
<b>B4</b>	<b>Labour Standards</b>	6.5	–
<b>B5</b>	<b>Supply Chain Management</b>	5.4	–
<b>B6</b>	<b>Product Responsibility</b>	5.1, 5.2, 5.3	–
<b>B7</b>	<b>Anti-corruption</b>	6.6	–
<b>B8</b>	<b>Community Investment</b>	7	–