



Nanfang Communication Holdings Limited

南方通信控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1617)

ENVIRONMENTAL, SOCIAL & GOVERNANCE REPORT 2016

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ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

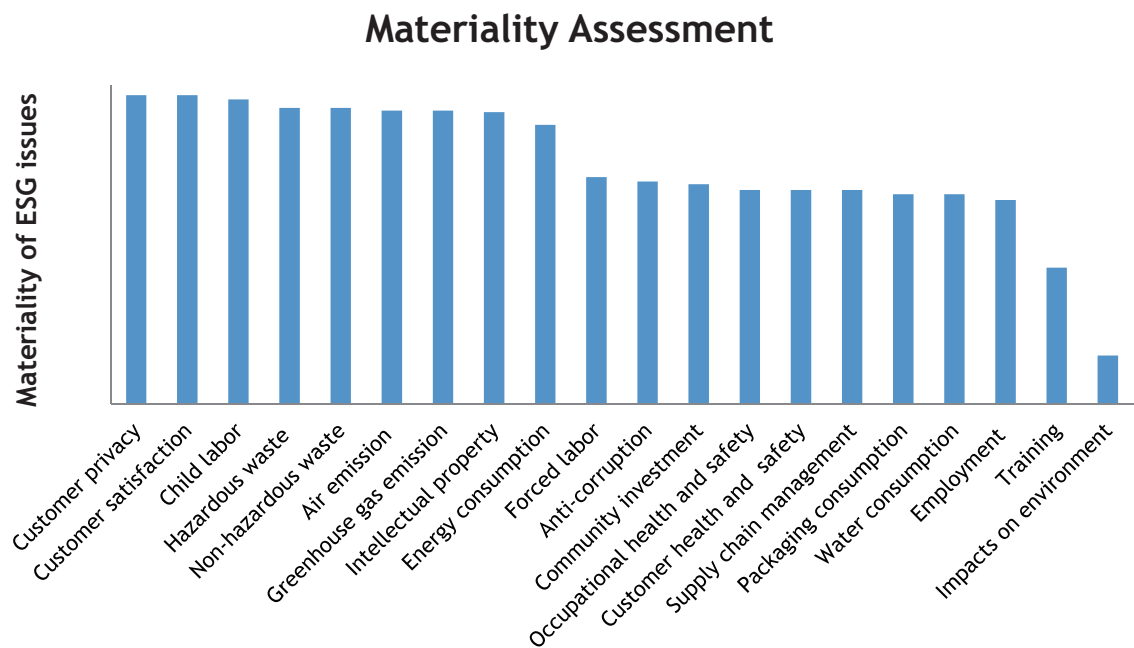
This is the first Environmental, Social and Governance (“ESG”) Report prepared by Nanfang Communication Holdings Limited (hereinafter referred to as “We”, “Nanfang Communication”, the “Company”), with reference to the Appendix 27 Environmental, Social and Governance Reporting Guide (the “ESG Reporting Guide”) published by The Stock Exchange of Hong Kong Limited for the reporting period from 1 January 2016 to 31 December 2016. The Report covers the major operations of our Company – two production sites for the manufacturing of our optical fibre cable products in Wu Jin and Jin Tan of the People’s Republic of China (“PRC”), and two offices in the PRC and Hong Kong (collectively the “Group”).

Adhering to our enterprise value “Honesty, Respect, Cooperation, Innovation and Bravery”, we have grown into a well-established optical fiber cable supplier and ranked No. 10 in the communication type optical cable market in PRC in 2015. We also received numerous awards and recognitions for our product quality from government authorities, customers and industry associations over the years. To continue our success, we believe that pursuing sustainable development is not limited to product quality. Our sustainability strategy focuses on five areas – Environment, Value chain, Employees, Business integrity and Community. With different expectations and priorities, various approaches are formulated to tackle these ESG issues.

We will continually improve our sustainability practices and incorporate key performance indicators for quantifying our environmental performance in the future ESG reporting. Your comment and feedback on this ESG Report and our sustainability performance is valuable to us. Please leave us your opinion via email at info@jsnfgroup.com.

STAKEHOLDER ENGAGEMENT AND MATERIALITY ASSESSMENT

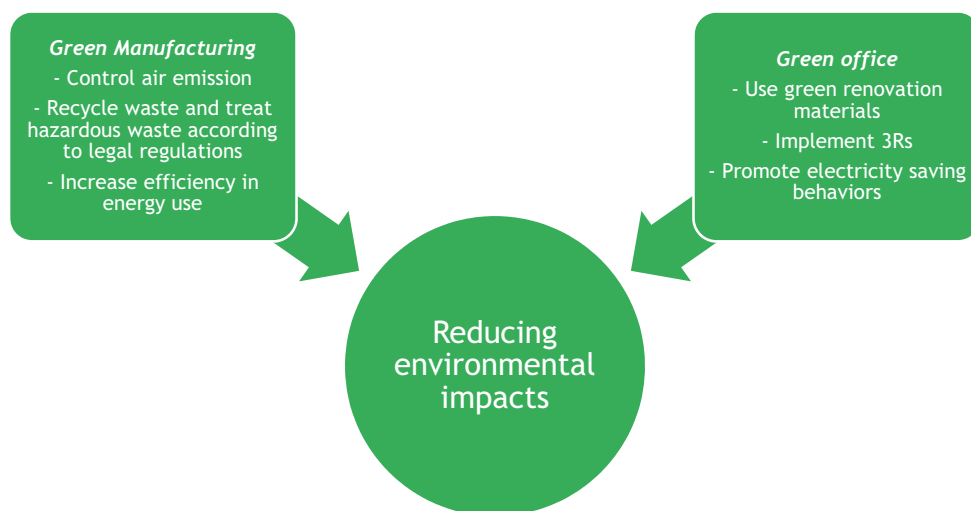
In order to understand the concerns and expectations of our stakeholders on environmental and social issues, it is important for Nanfang Communication to engage with both the internal and external stakeholders. The approach used by our Group to communicate with key stakeholders, including the board of directors, employees and suppliers, was through an online questionnaire. The key stakeholders were invited to rate twenty ESG topics, and the results were used to conduct a materiality assessment, as presented below:



From the materiality assessment, we are able to understand the importance of each ESG matter. The main matters are related to our customers and the environment. We strive to provide quality products and services to satisfy customers’ expectation, and reduce our impacts to the environment; details of our efforts are presented in the later sections. Our Group will continue the stakeholder involvement activities to understand their needs, and to shape our strategy for ESG performance improvement in the future.

ENVIRONMENT

We are dedicated to reducing our impacts to the environment from our factories and offices by two main approaches – mitigating the environmental pollutions and utilizing resources efficiently – in which we emphasize complying with related environmental laws and legislations, and continual improvement on our performance.



Green manufacturing

Environmental management system is in place to manage the environmental impacts in our factories. We continuously evaluate the significant environmental risks in our manufacturing processes and ensure the effectiveness of our measures to manage such risks. Our Wu Jin Factory is certified with the international standard ISO 14001. As for our Jin Tan Factory, since it has just started production during the financial year, it is still under our consideration in obtaining the ISO 14001 certification.

Air emission control

As an optical fiber cable supplier, we do not have significant amount of air pollutants emitted from our manufacturing process. Volatile organic compounds from the coloring processes is the major type of pollutant. We ensure proper ventilation for the safety of employees and for fulfilling the legal standard of emission to the atmosphere.

For all our company vehicles, we opt for lead-free fuel and conduct emission test annually to ensure that they comply with the national standards. Exhaust gas purification devices are installed for vehicles that do not meet the standards.

Waste management

Our waste management strategy emphasizes the compliance with the environmental laws and regulations and strives to recycle waste to its greatest extent. Wastes are sorted into three major types and are handled separately:

- Recyclable waste, such as paper, plastic and metal, is given to a third-party for recycling;
- Non-recyclable waste, most of which is domestic waste, is handled by the environment and hygiene department of the government accordingly; and
- Hazardous waste, including waste oil, empty oil barrels, and other chemicals, is handled either by the raw material suppliers for reusing or qualified third-party for legal compliance.

Resource management

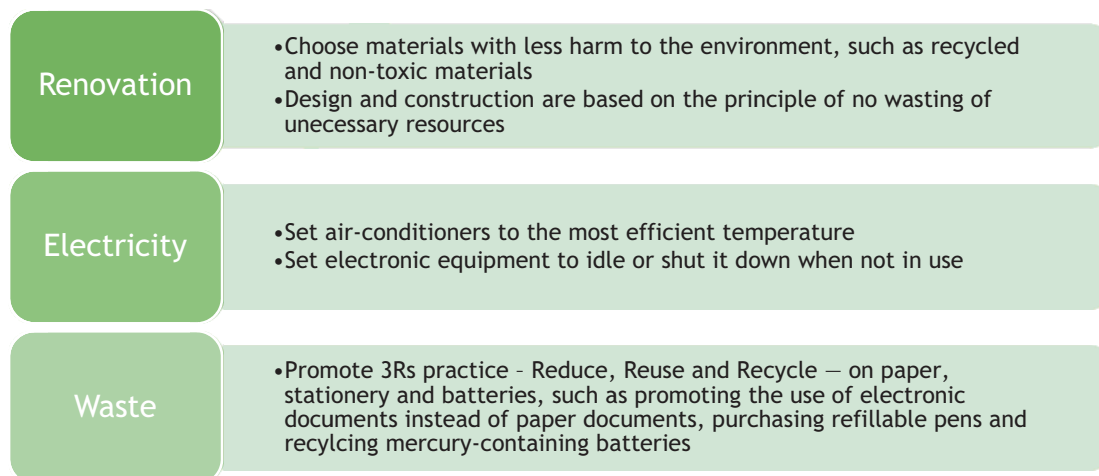
Our resource management focuses on the use of electricity and water which are indispensable to our operation. We strive to increase the efficiency of their uses and hence, reduce our carbon footprint.

The amount of electricity and water uses are closely monitored and evaluated through collecting monthly consumption data. Quotas are set to limit the consumption amount, and we carry out investigation for any abnormal/excessive consumption to find out the reason and look for rectification measures.

We also identify the opportunities to reduce electricity and water use. Rules are established to promote electricity-saving behaviors such as turning off the facilities or equipment when they are not in use. Water from the wastewater treatment facility is reused in the manufacturing process. In addition, we also take into consideration the equipment efficiency before purchasing. Assessment is conducted to ensure equipment with low energy efficiency will not be purchased.

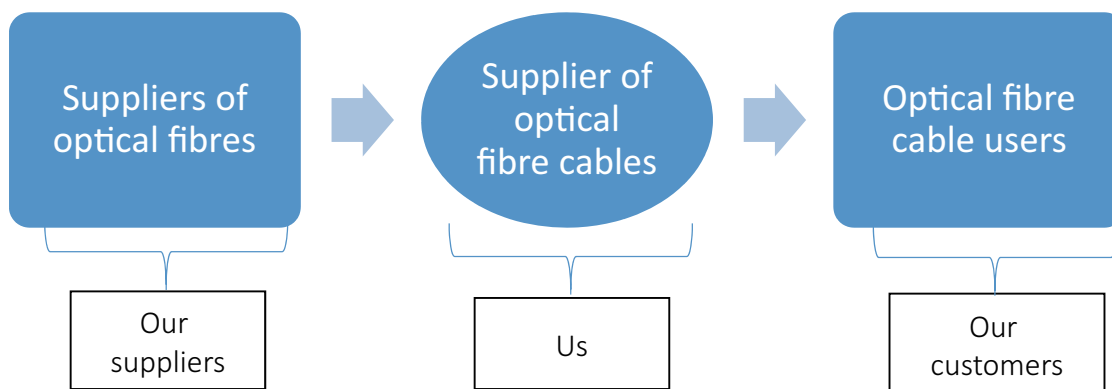
Green office

Promoting green office is one of our vital strategies to reduce impacts to the environment, as well as to provide a pleasant working environment to our employees. In the Green Office Policy, guidance is provided to govern the management of renovation, waste and electricity.



VALUE CHAIN

We aim to produce quality products and services to satisfy our customers' expectations through managing our value chain.



Our customers

It is our mission to create outstanding and quality services and products to our customers. We have strict quality control procedures to guide us in controlling quality issues of our products, customer care service to satisfy customers, and research and development (“R&D”) plan to continuously develop new production techniques and new products.

Under our quality control procedures implemented by our professional quality control team, we follow the ISO standard and perform quality control inspection and testing from raw materials procurement to finished products, ensuring that the product quality standards can be met and minimizing defectives finished products to be delivered to customers. Both of our factories are certified under ISO 9001 for the quality management system.



We also plan to cooperate with Nanjing University on the quality detecting online system for optical fiber cable production to upgrade our quality control system.

In our after-sales service, we provide extensive support to customers in handling the issues they encounter in our products and assisting emergency situations that could happen in customers' companies, such as system failure. To continuously improve our products and services, we obtain customers' opinions and expectations through conducting interviews and customers' satisfaction survey.

In addition, we actively conduct R&D on our products and manufacturing processes to continuously improve our current products and offer new products and solutions that meet our customers' needs. For more details, please refer to our website: <http://www.jsnfgroup.com/en.php/Advantage/research/>.

Our suppliers

Optical fiber suppliers are the crucial business partners to our business. We have supplier onboarding assessment and monthly evaluation on existing suppliers' performance to ensure that they meet our standards, which, ultimately, would ensure the satisfaction of our customers. Apart from the criteria on quality of raw materials, we also take the environmental and social performances of suppliers into consideration. For instance, we restrict the hazardous substances in raw materials and hence, require our suppliers to comply with the Restriction of Hazardous Substances Directive ("RoHS"), as well as require suppliers to comply with our anti-forced labour and child labour policy for protecting the welfare of their workers and children.

EMPLOYEES

The success of our Group relies greatly on our employees. We provide the basic employment conditions that are in compliance with the related laws and regulations, including remuneration, insurance, compensation and dismissal, recruitment and promotion, working hours, rest periods, and benefits and welfare. In addition, we have adopted labour unions for our employees to protect their rights, as well as constantly listen to the opinions from employees and encourage them to involve in the management of our business.

To further maintain good relations and retain our staff, we strive to create pleasant working conditions and provide employees with development opportunities.

Occupational health and safety

As a responsible employer, it is our responsibility to provide a healthy and safe working environment, in particular for the employees who work in our factories and face higher Occupational Health and Safety (“OHS”) hazards. We have developed the OHS management system that meets the international OHSAS 18001 standard and our Wu Jin Factory obtained the OHSAS 18001 certification.

We ensure that our workplaces comply with all applicable labour and safety laws and regulations. Health inspections are provided to all new employees as well as to existing employees annually. For those employees who are subject to higher OHS risks working environment, we provide them with additional health inspections related to the corresponding OHS risks.

In addition, a number of measures have been implemented to promote OHS to employees. These measures include providing compulsory safety training to all new staff, conducting annual OHS inspection on the production workplaces, especially on the indoor air quality, and establishing a series of safety procedures to guide employees on performing different production activities in a safe manner.

Training and development

Through providing development and training opportunities to our employees, we believe it not only helps the professional development of employees, but also, in return, supports the growth of our Group. A wide range of internal training programs and induction training are provided to employees to ensure that they are equipped with relevant knowledge and skills in their work. We also cooperate with Nanjing University of Post and Telecommunication to provide the latest knowledge and updates in our industry to employees, as well as provide subsidies on external training, such as foreign language and professional qualification courses.

BUSINESS INTEGRITY

When doing business, we always follow a set of ethical standards to ensure integrity in our business. In the compliance management system, we monitor and identify potential violations of laws and regulations, in areas such as conflict of interest, commercial bribery and customer complaints, through inspection, internal control platform and recording compliance reports submitted by every department. Various whistle-blowing channels are set up for employees to report on any violation cases on the ethical standards our Group pursues anonymously.

Anti-corruption

Any form of corruption is prohibited in our business. We strictly monitor the conduct of our Group to ensure compliance with the related laws and regulations. In addition, code of conduct is stipulated in the employee handbook with rules on how employees should behave when conducting business – to control employees in receiving gifts or benefits and to prevent any conflict of interest and bribery in the daily work of employees.

Fair employment practices and market competition

We uphold the principle of fairness in our operation to create a respectful workplace and promote competitive markets.

During the recruitment and promotion of employees, we provide equal opportunity to all candidates, and our consideration is only on the performance and ability regardless of their sex, race, or religion belief.

Fair competition is a basic principle in our code of conduct. We pursue a fair competition with our competitors in the market and prohibit any illegal activities such as manipulating the price or conditions of the competitive products and exchanging the price or sales information with competitors.

Prevention of child labour and forced labour

Child labour and forced labour are strictly forbidden in our workplace. We have procedures, which were established in accordance with related laws, regulations and international standards such as SA8000, in place to prevent these cases from happening.

During recruitment, we check the identities of candidates to prevent any under-age employment. In case child labour is found at our workplace, we will follow the procedure to ensure that their legal rights are protected. During daily operations, we ensure that all employees work consensually, and no form of forced labour such as by intimidation or physical abuse is allowed.

Confidentiality and intellectual property protection

Maintaining confidentiality is important to protecting our customers' properties as well as ours. Our confidentiality policies and procedures are established to guide us as to how we should handle confidential information and intellectual properties of our customers and our Group. For all the customers' information involved in our operation, only authorized personnel is allowed to handle the information and such personnel is required to follow our procedure to prevent any leakage of privacy information.

To strengthen the protection of intellectual property, we have procedures to deal with both internal and customer intellectual properties. For all new products developed by the R&D department, we would firstly check if the products had any conflict with existing patents, if not, trademarks and patents are applied for our original products. For the intellectual properties of our customers, besides being handled according to our confidential work control procedure, they are also protected under the agreement signed with our customers.

COMMUNITY

Community investment is one crucial element in fulfilling our corporate social responsibility and a donation management policy has been established. Governed by the policy, we set budget on donations annually with the following focuses:

- Public welfare: Support social development such as education, culture, hygiene and medical and environmental protection.
- Relief: Support the minorities, the poor and those who suffer from natural disasters.

Over the years, we have been supporting the China Guangcai Program to alleviate poverty and achieve prosperity. In 2013, an agreement was signed with the Wujin District People's Government to donate RMB1 million within the period of 2013 – 2017, in contributing to the local poverty alleviation projects and economic and social development.

ESG REPORTING GUIDE INDEX

HKEx ESG Reporting Guide General Disclosures		Policies & Procedures	Explanation/Reference section
Aspect A Environmental			
A1 Emission	Information on: <ul style="list-style-type: none"> – the policies; and – compliance and material non-compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, generation of hazardous and non-hazardous wastes, etc. 	Emission control procedure Waste control procedure	Environment <ul style="list-style-type: none"> – Green manufacturing
A2 Use of Resource	Policies on efficient use of resources including energy, water and other raw materials.	Energy management control procedure Green office policy	Environment
A3 The Environment and Natural Resources	Policies on minimizing the operation's significant impact on the environment and natural resources.	Environmental management system	Environment
Aspect B Social			
B1 Employment	Information on: <ul style="list-style-type: none"> – the policies; and – compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare. 	Human resource policy Recruitment management policy	Employees Business Integrity – Fair employment practices and market competition

HKEx ESG Reporting Guide General Disclosures		Policies & Procedures	Explanation/ Reference section
B2 Health and Safety	<p>Information on:</p> <ul style="list-style-type: none"> – the policies; and – compliance and material non-compliance with relevant standards, rules and regulations on providing a safe working environment and protecting employees from occupational hazards. 	OHS management system	Employees – Occupational health and safety
B3 Development and Training	<p>Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.</p> <p>Training refers to vocational training. It may include internal and external courses paid by the employer.</p>	Training management	Employees – Training and development
B4 Labour Standard	<p>Information on:</p> <ul style="list-style-type: none"> – the policies; and – compliance and material non-compliance with relevant standards, rules and regulations on preventing child or forced labour. 	<p>Anti-child labour procedure</p> <p>Anti-forced labour procedure</p>	Business Integrity – Prevention of child labour and forced
B5 Supply Chain Management	Policies on managing environmental and social risks of supply chain.	<p>New supplier management procedure</p> <p>Supplier performance management procedures</p>	Value Chain – Our suppliers

HKEx ESG Reporting Guide General Disclosures		Policies & Procedures	Explanation/ Reference section
B6 Product Responsibility	Information on: <ul style="list-style-type: none"> – the policies; and – compliance and material non-compliance with relevant standards, rules and regulations on health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress. 	Quality management system	Value Chain – Our customers Business Integrity <ul style="list-style-type: none"> – Confidentiality and intellectual property protection
B7 Anti-corruption	Information on: <ul style="list-style-type: none"> – the policies; and – compliance and material non-compliance with relevant standards, rules and regulations on bribery, extortion, fraud and money laundering. 	Compliance management policy	Business Integrity <ul style="list-style-type: none"> – Anti-corruption
B8 Community Investment	Policies on community engagement to understand the community's needs where it operates and to ensure its activities take into consideration communities' interests.	Donation management policy	Community