



Environmental, Social and Governance Report

2016

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1. Introduction

This is the first Environmental, Social and Governance Report (this “Report”) of China Energy Development Holdings Limited compiled in accordance with the Environmental, Social and Governance Reporting Guide published by The Stock Exchange of Hong Kong Limited (“SEHK”). This Report aims to disclose relevant environmental, social and governance (“ESG”) information, including information on the policies and compliance with relevant laws and regulations that have a significant impact on the group, to the stakeholders of the headquarter of China Energy Development Holdings Limited and its subsidiaries.

Reporting Specification

To improve readability, the headquarter of China Energy Development Holdings Limited will be referred to as “CEDHL” or “the Company”, Zhong Neng Finance Limited will be referred to as “ZNFL” and the Company and its subsidiaries will be collectively referred to as “the Group”.

Reporting Standard

This Report is prepared:

- in accordance with Appendix 27, Environmental, Social and Governance Reporting Guide, of the Rules Governing the Listing of Securities on the Main Board of SEHK; and
- with reference to the Global Reporting Initiative G4 Sustainability Guidelines published by the Global Reporting Initiative.

Reporting Boundary

The scope of this Report includes:

- the operation in Hong Kong of the headquarter of China Energy Development Holdings Limited incorporated in the Cayman Islands with limited liability; and
- the operation in Hong Kong of Zhong Neng Finance Limited incorporated in Hong Kong with limited liability (one of the major subsidiaries of the Group).

Reporting Period

The reporting period of this Report is from 1 January 2016 to 31 December 2016, which is same as the annual report of the Company.

Reporting Cycle

This Report is to be published annually.

Access to the Report

The English and Chinese versions of this Report can be browsed or downloaded from:

- investor relations section of the Company's website
<http://www.cnenergy.com.hk/>
- HKEXnews website by Hong Kong Exchanges and Clearing Limited
<http://www.hkexnews.com>

Contact Us

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2. Preface

The Group notices increase in public's expectation of sustainable development and disclosure of ESG information. Stakeholders, including government, stock exchange, investors, professional service providers, customers, employees and other social groups, expect to understand the Group's ESG policies and non-financial risks more thoroughly.

The Group is committed to contributing to the sustainability of the environment and maintaining a high standard of corporate social governance essential for creating a framework for motivating staff, and contributes to the community in which we conduct our businesses and creating a sustainable return to the Group.

Acting in an environmentally responsible manner, the Group endeavours to comply with laws and regulations regarding environmental protection and adopt effective measures to achieve efficient use of resources, energy saving and waste reduction. The Group also places high value on the corporate governance practices such as employment, labour practices and operating practices, and the Board of Directors (the "Board") firmly believes that a good corporate governance practice can improve accountability and transparency for the benefit of the Group and its stakeholders. The Group will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review its corporate governance practices from time to time to ensure they comply with the statutory requirements and regulations and the Corporate Governance Code and align with the latest developments.

The Group understands the importance of maintaining a good relationship with its professional service providers, customers and other stakeholders to meet its immediate and long-term goals. The Group commits to operate in a sustainable manner and at the same time maintains the balance of rights and interests between different stakeholders. By regular stakeholder engagements via different channels, the stakeholders are encouraged to express their opinions on the Company's ESG policies. The Group understands a better future depends on everyone's participation and contribution. It has encouraged employees, customers, professional service providers and other stakeholders to participate in environmental and social activities which benefit the community as a whole.

To prepare and compile this Report, the Group has specifically formed a reporting team consisting of the management and external consultant, which updates the Board on a regular basis regarding the reporting progress. When preparing and compiling this Report, the Group has reviewed its existing policies and achieved a better understanding of the values of ESG reporting. During the reporting process through the approach of measurement, management and changes, the Group hopes to drive improvement and innovation while minimizing the Group's non-financial risks.

The Board of the Company is pleased to present the ESG Report for the period from 1 January 2016 to 31 December 2016, which outlines the Group's policies and performance in four areas which are environmental, employment and labour practices, operating practices and community investment.

3. Environmental

The principal activity of CEDHL is investment holdings, while the principal activity of ZNFL is money lending.

The major sources of emissions of CEDHL and ZNFL are from their office in Hong Kong.

Due to limited number of employees in Hong Kong, the amount of emission is extremely limited. The major sources of emissions are from air conditioning, electricity and water used in the office.

In the reporting period, CEDHL and ZNFL have complied with all relevant laws and regulations relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.

3.1 Air and Greenhouse Gas Emissions

In the reporting period of CEDHL and ZNFL, the source of direct air and greenhouse gas emissions from gaseous fuel consumption is from a private car. The air emissions of the private car include nitrogen oxides (NO_x), sulphur oxides (SO_x) and respiratory suspended particles, while the greenhouse gas emissions of the private car include carbon dioxide (CO₂), methane (CH₄) and nitrous oxide (N₂O).

Other major direct greenhouse gas emissions are hydrofluorocarbons (HFC) and perfluorocarbons (PFC), which are resulted from the use of air conditioning equipment in the office.

Their major indirect greenhouse gas emission is carbon dioxide (CO₂) resulted from the generation of electricity which is used in the office.

Other minor and indirect greenhouse gas emissions sources are:

- carbon dioxide (CO₂) emissions resulted from disposal of office solid waste at landfills;
- carbon dioxide (CO₂) emissions resulted from the electricity used for processing fresh water and sewage by Water Supplies Department; and
- carbon dioxide (CO₂) emissions resulted from business air travel by employees.

3.2 Discharge into Water and Land, and Generation of Hazardous and non-Hazardous Waste

In the reporting period for CEDHL and ZNFL, the major source of discharge into water is from use of water in the office and the amount of discharge is extremely limited.

Due to their business natures, there is no generation of hazardous waste.

The major source of non-hazardous waste is from the solid waste of the office.

3.3 Policies and Use of Resources

As enterprises with social responsibility, CEDHL and ZNFL encourage their employees to use their best endeavours to reduce waste and emissions, with a view to contributing to the community and the environment. CEDHL and ZNFL believe in ‘many a little makes a mickle’, despite the fact that the amount of emission is very limited due to their business natures and relatively passive position in reducing waste and emissions. Regarding emission policies, all emissions are handled by relevant government agencies and property management companies in ways that are in accordance with local laws and regulations. In addition, CEDHL and ZNFL consider the efficient use of resources, such as electricity and water, is of equal importance to emission policies. Efficient use of resources not only can reduce waste and emissions from the sources, but also reduce operating expenses, which is mutually beneficial to the Group and the environment.

Policies relating to reduction of waste and emissions, and efficient use of resources include:

- encourage employees to use their best endeavours to take public transport during business trip;
- encourage employees to reduce unnecessary overseas business trip, thus reducing indirect carbon emissions;
- consider energy efficient products when procuring and replacing equipment, e.g. replacing incandescent lighting with LED lighting;
- turn off electrical appliances or switch them to standby mode when they are not in use, thus reducing the amount of electricity used;
- use duplex printing, recycle papers and use electronic means to reduce paper usage;
- reuse office stationaries (e.g. envelopes and folders);
- turn off all unnecessary lighting, air conditioning and electrical appliances before leaving the office;
- encourage employees to recycle paper, plastic bottle and tin can; and
- encourage employees to recycle equipment such as computers and communication devices through the recycling programme of Environmental Protection Department.

4. Social – Employment and Labour Practices

CEDHL and ZNFL believe employees are essential assets in driving corporate sustainable development and long term success, thus maintaining a good relationship with employees is of utmost importance. By regular communication through different channels, the employees are encouraged to express their opinions on the policies relating to employment and labour practices.

In the reporting period, CEDHL and ZNFL have complied with all relevant laws and regulations relating to employment.

4.1 Employment

4.1.1 Remuneration

CEDHL and ZNFL have formulated employment policies and guidelines that comply with the employment laws of Hong Kong.

The initial salaries of the employees are based on prevailing local market rate and subject to adjustment based on experiences, qualifications and job positions. To ensure CEDHL and ZNFL can attract and retain outstanding employees, the employees are provided with year-end double pay and remuneration package review on a regular basis.

4.1.2 Benefits

CEDHL and ZNFL operate Mandatory Provident Fund Scheme (the “MPF scheme”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees’ relevant income, subject to cap of monthly relevant income of HK\$30,000. Contributions to the plan vest immediately.

4.1.3 Working Hours

The employees of CEDHL and ZNFL implement 5-day work week with 8 hours a day and 40 hours a week.

Due to operational requirement, employees may be required to work outside the normal working hours. CEDHL and ZNFL encourage the management and employees to maintain a work-life balance, avoid unnecessary overtime and maintain a good corporate culture.

4.1.4 Holidays

CEDHL and ZNFL provide holidays and leaves for the employees including public holidays, annual leave, sick leave, maternity leave and paternity leave:

- public holidays of 17 days per annum, set by Chapter 149 General Holidays Ordinance of the Laws of Hong Kong. The dates are published in the Government Gazette;
- paid annual leave of not less than 14 days per annum;
- sick leave in accordance with the Hong Kong Employment Ordinance; employees have to provide proper medical certificate;
- 10 weeks of maternity leave, in accordance with the Hong Kong Employment Ordinance; and
- 3 days of paternity leave, in accordance with the Hong Kong Employment Ordinance.

4.1.5 Recruitment, Dismissal, Equal Opportunity, Diversity and Anti-Discrimination

During recruitment, promotion and daily operation, CEDHL and ZNFL adopt policies relating to equal opportunity which aim to eliminate discrimination of gender, nationality, marital status, religious belief and disability in workplace.

CEDHL and ZNFL have established a complete complaint mechanism. Employees can file complaints to the administration department if discrimination or sexual harassment behaviours are discovered. All complaints filed are confidential and CEDHL and ZNFL are responsible for protecting the legitimate rights and interests of the whistle blower.

CEDHL adopted the Board Diversity Policy in accordance with the requirement set out in the Corporate Governance Code. The Company recognizes that the Board diversity is an essential element contributing to the sustainable development of the Company. In designing the Board's composition, the Board diversity has been considered from a number of aspects, including but not limited to the skills, knowledge, gender, age, cultural and educational background or professional experience. A Board Diversity Policy, with the aim of enhancing the quality of the Board's performance by diversity, was adopted on 27 August 2013 and revised on 31 March 2016.

Dismissal or voluntary termination of employee's contract shall be enforced in accordance with the employment laws of Hong Kong.

4.2 Health and Safety

CEDHL and ZNFL are committed to provide employees a safe working environment to protect them from occupational hazards.

During the reporting period, CEDHL and ZNFL have secured employees' insurance policies in accordance with the laws of Hong Kong.

CEDHL and ZNFL have implemented smoke-free workplace policy, which prohibits employees from smoking inside the office including lift lobby and toilet. Employees should ensure that their guests also adhere to the same policy.

If an accident occurs resulting in injury or fire breaks out in the workplace, employees should handle such incident by referring to the companies' internal guidelines with common sense and report to the administration department. First aid box and fire extinguishers are stored in accessible places in the office for emergency.

To prevent influenza from spreading in the workplace and affecting the health of employees, CEDHL and ZNFL remind employees to pay attention to personal hygiene practices, including:

- wash hands frequently;
- cover nose and mouth when sneezing or coughing;
- dispose tissue papers properly in rubbish bins;
- put on a surgical mask when having respiratory symptoms; and
- seek medical attention and apply for sick leave if suffering from severe influenza, so as to prevent spreading of infection to colleagues.

Due to employees' prolonged use of computer, CEDHL and ZNFL have provided employees with desks of suitable height and task chairs of adjustable height, and encourages them to pay attention to their usual sitting posture, take breaks and do stretching exercises regularly, thus reducing occupational strain. Employees are also reminded to take safety precautions and use suitable tools when lifting heavy goods or reaching items at height.

In the reporting period, CEDHL and ZNFL have complied with all relevant laws and regulations relating to health and safety.

4.3 Development and Training

CEDHL and ZNFL value employees' development of skills and knowledges, believing that talent retention can drive innovations and business development, expecting to grow and create values together with the employees.

CEDHL and ZNFL encourage their staff to participate in external seminars and lectures to keep abreast of changes and updates on areas of legal, compliance, financial accounting and reporting, and market industry practices. Through these types of training, CEDHL and ZNFL believe that the Group can increase its efficiency and productivity while overall reduction of risk and uncertainties of the Group can be reduced.

CEDHL encourages continuous professional development training for the directors and senior management to develop and refresh their knowledge and skills which includes seminars and workshops, updates on regulatory requirements and development and corporate governance practices.

In the reporting period, all directors of the Company have participated their own professional training by attending seminar/programme/reading relevant materials in relation to the business on directors' duties, in accordance with the Corporate Governance Code. The company secretary of the Company undertook over 15 hours of professional training to update his skills and knowledge.

On the subject of employees' career prospects, if vacancies or new positions are available, CEDHL and ZNFL shall consider internal promotion or transfer, thus encouraging upward mobility of employees.

4.4 Labour Standards

CEDHL and ZNFL strictly comply with the policies and guidelines in the employment laws of Hong Kong, including elimination of child and forced labour. All professional service providers are required to ensure no child nor forced labour are employed. During the recruitment process, the administration department requires candidate to provide identification document to check if the age of candidate complies with the laws.

In the reporting period, CEDHL and ZNFL have complied with all relevant laws and regulations relating to labour standards.

5. Social – Operating Practices

5.1 Supply Chain Management

CEDHL and ZNFL continue to monitor closely on their daily operation and encourages professional service providers to join force in promoting performance of sustainable development. The professional service providers are bound by contracts and the laws and regulations of Hong Kong, ensuring their compliance with laws and regulation relating to environmental and social policies. For instances, they are forbidden to employ under-age labour.

5.2 Product Responsibility

CEDHL and ZNFL have formulated regulations relating to software security, network security and privacy, to ensure confidential information are protected and secured.

Employees must strictly comply with anti-virus protection regulations, the highlights are:

- all computers must be installed with licensed software; Employees are strictly prohibited from installing any pirated software;
- anti-virus software must be installed on all computers;
- update the operating system and anti-virus software on a prompt and regular basis, thus fixing security vulnerabilities;
- backup employees' computers and servers on a regular basis, hence protecting possible data loss caused by hardware or software failures; and
- when computers or servers showing signs of anomaly, promptly notify the administration department, and conduct quarantine and inspection based on relevant protocols, so as to minimize potential risks.

To protect confidential information, privacy and interests of CEDHL, ZNFL and their stakeholders, employees must strictly comply with regulations relating to information handling, the highlights are:

- disclosure of the companies' information relating to copyrights, intellectual property rights and other confidential information, to unrelated third parties or employees, is prohibited;
- employees will have to keep such information confidential after resignation;
- To avoid potential leak of information, meeting with clients and visitors should be carried out in conference room, instead of in working area of the office;
- proper networking and server permissions are configured to avoid employee accessing information unrelated to his work; and
- handle personal information in accordance with Personal Data (Privacy) Ordinance.

ZNFL has noticed the Guidelines on Additional Licensing Conditions of Money Lenders Licence was applicable with effect on 1 December 2016. In recent years, deceptive tactics are being used by fraudsters who claim themselves to be financial intermediaries for money lending to induce intending borrowers to engage them for arranging loans with money lenders and charge very high fees under different pretexts in the process. To combat the problem, the additional licensing conditions imposed on money lenders seek to facilitate effective enforcement of the statutory ban on separate fee charging by money lenders and their connected parties, ensure better protection of privacy of intending borrowers, enhance transparency and disclosure, and promote the importance of prudent borrowing.

In the reporting period, regarding the money lending business of ZNFL, ZNFL has not authorized any third parties or intermediaries, and has ensured its compliance with the additional licensing conditions.

In the reporting period, CEDHL and ZNFL have complied with all relevant laws and regulations relating to product responsibility.

5.3 Anti-corruption

CEDHL and ZNFL consider ethical conduct is of utmost importance in corporate sustainable development and long-term success. Employees must comply with relevant laws and regulations in Hong Kong, prohibiting individual and commercial corruption, bribery, extortion, fraud and money laundering.

CEDHL and ZNFL have formulated guidelines relating to anti-corruption, for instance:

- without consent of CEDHL or ZNFL, employees must not offer nor accept any gifts;
- employees endeavours to avoid conflict of interests and they should report such conflict in advance if any; and
- employees discovering any corruption, bribery, blackmail, fraud and money laundering incidents must report to the administration department. All complaints filed are confidential and CEDHL and ZNFL are responsible for protecting the legitimate rights and interests of the whistle blower.

In the event of corruption, bribery, extortion, fraud and money laundering, CEDHL and ZNFL will investigate in depth and take necessary legal actions to protect the rights and interests of the companies and their stakeholders.

During the reporting period, CEDHL and ZNFL have complied with all relevant laws and regulations relating to anti-corruption.

6. Social - Community

6.1 Community Investment

CEDHL and ZNFL are committed to participate in community events from time to time, and to the improvement of community well-being and social services. CEDHL and ZNFL support and encourage staff to actively participate in a wide range of charitable events outside working hours, to raise awareness and concern for the community, and to inspire more people to take part in serving the community. Due to their business natures, CEDHL and ZNFL do not have any specific policies in relation to community engagement and donation in the reporting period. In the coming year, the management shall review policies relating to community investment and explore the feasibility of increasing community investment activities.

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If you have any opinions regarding this Report, please contact our ESG reporting team via email.

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