



協眾國際控股有限公司 Xiezhong International Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 3663

2018

Environmental, Social & Governance Report





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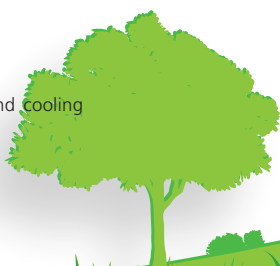
ABOUT THE COMPANY

Xiezhong International Holdings Limited (the “Company”, together with its subsidiaries, the “Group” or “Xiezhong”) is principally engaged in development, production and sale of automotive heating, ventilation and cooling (“HVAC”)¹ systems and a range of automotive HVAC components, and provision of technical testing and relevant services. Currently, the Group has an annual production capacity of approximately 3 million HVAC systems, and its main service targets are renowned international and domestic automobile companies.

The Group has actively expanded its business to provide more comprehensive services to its customers. The Group has established seven branches and four subsidiaries in Mainland China and Kingdom of Morocco. In addition to manufacturing and sales of HVAC systems, the Group also carried out the sales of automobiles and automotive parts and accessories as well as provision of 4S distribution business of comprehensive after-sales services (such as repair and maintenance services) during the year, with a view to providing customers with more diversified services in the automotive industry.



¹ Heating, ventilation and cooling



ABOUT THIS REPORT

This report is the third Environmental, Social and Governance Report ("Report") issued by the Company, which contains the policies, measures and performance of the Group in respect of ESG to allow better understanding by each stakeholder of the progress and development directions of the Group as to sustainable development. This Report has been prepared in both Chinese and English languages and uploaded to the websites of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Company.

Scope of This Report

This Report focuses on Xiezhong's production and sales of automotive air-conditioning systems and components. Consistent with the previous annual report, the scope of key performance indicators of this Report covers operation of the production base in Nanjing, Jiangsu ("Xiezhong Nanjing") for the period from 1 January 2018 to 31 December 2018 (the "Year"), which accounts for 87% of the total revenue of the Group during the Year.

Operations in other regions, including Beijing, Wuhan and Kingdom of Morocco, are excluded from the current reporting scope. The Group will regularly review the scope of reporting based on the principle of significance to provide more comprehensive and accurate information to stakeholders.

Reporting Standards

This Report is prepared in accordance with Appendix 27 "Environmental, Social and Governance Reporting Guide" (the "Guide") to the Rules Governing the Listing of Securities on the Stock Exchange with its four reporting principles, i.e. Materiality, Quantitative, Balance and Consistency, on which the preparation is based. In order to allow more comprehensive understanding by each stakeholder of the Group's environmental, social and governance performance, besides key environmental performance indicators set out in the "Comply or Explain" provision of the Guide, certain key performance indicators under "Recommended Disclosures" set out in the Guide are adopted for this Report.

Confirmation and Approval

The Group has established internal control and formal review procedures to ensure accuracy and reliability of all data presented in this report. This Report was confirmed and approved by the board of directors of the Company on 28 June 2019.

Feedback

The opinions and recommendations from stakeholders will help the Group to establish a more comprehensive sustainable development strategy in the future. If you are in doubt in respect of the contents and presentation of this Report, you are welcome to contact **General Manager's Office** of the Group through email at njxz@njxiezhang.com.

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CHAIRMAN'S MESSAGE

“WITH BUSINESS DEVELOPMENT, THE GROUP IS AWARE OF THE IMPORTANCE OF PROPER MANAGEMENT OF ENVIRONMENTAL AND SOCIAL IMPACT”



As a company mainly engaged in production and sales of automotive HVAC systems, the Group has been committing to reducing the negative impact of its production and operation on the environment. Meantime, the Group took into account the impact of its products on the environment during the entire life cycle, actively developed HVAC systems for new energy vehicles, so as to contribute its part to sustainable development.

Currently, China's auto industry is at a mature stage, and its auto sales accounted for nearly one-third of the global auto market, while the development of new energy vehicles will contribute to reducing oil consumption and carbon dioxide emissions around the world. In respond to increasingly severe climate change issues, the Chinese government has planned to develop the industry of new energy vehicles, and clarified development goals and directions to ensure its healthy and sustainable development. The Group actively developed air-conditioning systems for new energy vehicles, including steam pump, battery and engine thermal management system, and successfully sold them to domestic and foreign automakers. Relying on its leading advantages in traditional HVAC systems, the Group will continue to invest more resources in research, development and production of HVAC systems for new energy vehicles to capture opportunities brought by market development.

During the Year, the Group has actively engaged in energy saving and reducing carbon emissions generated from its operations through improving resource management and upgrading production equipment. In addition to environmental protection, employee health, product quality and community investment are also important components of our sustainable development. In order to improve its governance in relevant areas, the Group plans to establish a sustainable development committee, and includes sustainable development into its existing risk management framework to strengthen integrated management of sustainable development.

The Group has actively improved its governance structure of sustainable development, and expects to contribute to improvement of the environmental and social performance of the industry through its business value chain. Among them, sincere and open communication with stakeholders will help the Group better understand stakeholders' expectations on its performance of sustainable development. The Group is looking forward to closer cooperation with all and each stakeholders in the future to promote sustainable development.

Chen Cunyou

Chairman

Xiezhong International Holdings Limited



GOVERNANCE ON SUSTAINABLE DEVELOPMENT

The Group is committed to achieving high-standard corporate governance, and believes that excellent corporate governance practices will help establish long-term sustainable development strategies that guide the Group in capturing and responding to opportunities and risks brought with sustainable development. The Board of Directors of the Company currently consists of nine directors, who are responsible for preparing and monitoring the Group's strategic development and objectives, including policies and measures related to socio-economic development and environmental conservation.

Risk Management

As an important component of corporate governance, the Group believes that well-organized risk management and internal control systems are critical for achieving good corporate governance. The Group has established a risk management framework consisting of the Board of Directors, the Audit Committee and senior management, and the Board of Directors is responsible for overseeing the design, implementation and effectiveness of risk management and internal control systems. Meantime, the Board of Directors reviews effectiveness of relevant systems at least once a year through the Audit Committee.



The Board of Directors is aware that the Group's existing risk management and internal control systems have not yet fully covered all sustainable development issues. Therefore, the Group plans to review its risk management framework to ensure that the Group can promptly identify risks and opportunities of sustainable development issues related to its businesses and implement effective management and monitoring.

Meantime, the Group is aware that environmental and social issues are broad and changing with time, so that management shall improve their professional knowledge to effectively manage and examine the Group's performance in sustainable development. In the future, the Group will provide capacity building training on sustainable development for all employees, so as to assist the Board of Directors and management to further:

Establish a corporate culture on sustainable development

Formulate Environmental and social performance targets

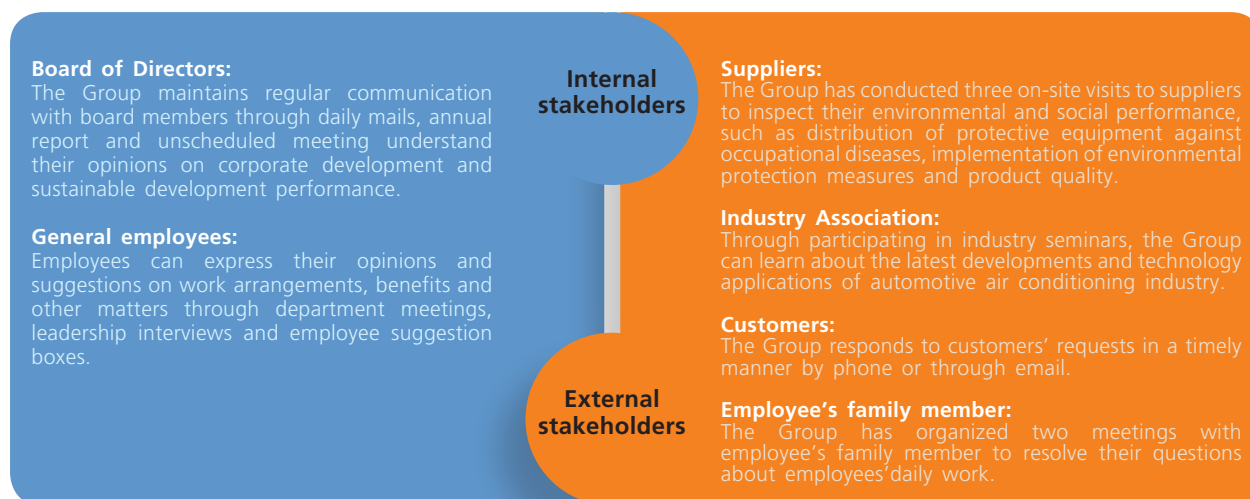
Identify factors related to sustainable development Include into daily decisions

Expand communication channels with stakeholders



COMMUNICATION WITH STAKEHOLDERS

Xiezhong values the participation of stakeholders² in its daily operation. The Group is convinced that communication with stakeholders enables them to understand the Group's progress and performance in respect of sustainable development, and drives the Group to listen to opinions and suggestions of stakeholders to help the Group review potential risks and business opportunities. The Group communicates with key stakeholders through daily operations and various channels, mainly as follows:



The Group has engaged an independent consultant, Carbon Care Asia Limited to assist in the preparation of environmental, social and governance report for the Year. During the preparation period, the consultant assisted the management of the Group in reviewing environmental, social and governance issues set out in the Guide issued by the Stock Exchange, and identifying substantial issues according to their significance to stakeholders and the extent of impact of the Group on environment and society. Based on the results of review, the management believes that the substantial issues of the Group for the Year remain unchanged:



To gain a broader understanding of opinions from different internal and external stakeholders, the Group plans to review communication strategies on sustainable development in the coming year and conduct research and interaction with stakeholders through interviews, focus group discussions and online questionnaires.

² "Stakeholder(s)", also known as "interested party/parties" or "equity owner(s)", means a group or an individual who has significant impact on or is affected by the Group's business, including the board of directors, the management, executives and the general staff in the Group, and shareholders, business partners, customers, government and regulatory agencies, banks and investors, and community groups.



BUILDING GREEN ENVIRONMENT

At present, the Chinese government is paying increasing attention to environmental protection and vigorously advocating low-carbon economy, so environmental sustainability is a major trend in social development. As a company engaged in production and sales of automotive air-conditioning systems, environmental protection is a topic that the Group has been focusing on. The Group has formulated a series of internal environmental management policies to promote emission reduction and reduce negative impact of its business operations on the environment.

Management of Resource Use

As a production company, the Group has been committed to improving efficiency of resource use through improving production processes. The Group regulates management of raw materials and other resources in accordance with the Administrative Procedures for Energy and Resource Use which provides guidance on employee operation and behavior.

Resources	Usage	Annual consumption	Saving measures (New measures added in this year are marked with "+")
Raw materials			
Plastic particles:	Manufacturing air-conditioning housings requires plastic particles for melt reshaping	Plastic particles: 2,065 tons	+ Improving process levels, such as reducing size and increasing Performance of condensers to reduce unit material thickness, length, average weight are reduced
Collecting pipe and D-pipe:	The raw materials used in the processing of the condenser cores and the evaporator cores in the workshop	Collecting pipe and D-pipe: 418 tons	+ Product qualification rate is improved to save raw materials
Aluminum foil:	The main raw materials used in the processing of fins in the workshop	Aluminum foil: 876 tons	
Flat tube:	Raw materials for processing semi-finished condenser cores	Flat pipe: 1,351 tons	
Packaging materials (including cartons and sponges)	Cartons and sponges used to ensure that products will not be damaged during transportation.	Carton: 197 tons Sponge: 80 tons	<ul style="list-style-type: none"> — We adopt recyclable pass boxes and reduce use of disposable cartons. — Enhancing employees' awareness to reduce reworks and the rejection rate
Energy (including purchased energies and fossil fuels used by automotive and kitchen equipment)	Gasoline and diesel used by vehicles, liquefied petroleum gas used by kitchen equipment, and electricity.	Total energy consumption 9,671 MWh Equivalent Energy density 58.6 MWh Equivalent per 10,000 items	<ul style="list-style-type: none"> — Determine the hours of use of lighting and air-conditioning facilities in office areas according to the weather conditions — Close production auxiliary equipment according to production needs <p>+ Human Resources Department organized energy-saving training to introduce energy-saving technologies and methods to employees</p>
Water resources	Production water used in the production process of workshop, and domestic water for employees.	Total water consumption 214,661 m ³ Water consumption density 0.13 m ³ per item	<ul style="list-style-type: none"> — Install recirculating cooling water devices in production workshop — Put up water saving signs to encourage employees to save water <p>+Use of recycled water for flushing, washing, etc.</p>



BUILDING GREEN ENVIRONMENT

In addition, all departments shall collect and analyze monthly resource consumption and complete statistical records. In order to continuously enhance the Group's environmental performance, all departments shall formulate annual resource saving targets based on their use of resources. In case of failure to achieve targets or abnormality, department heads shall identify causes submit a rectification report within one week.

The energy consumption and energy density in this Year decreased by 15% and 33% respectively as compared with 2017. Among them, electricity³ is the main energy consumed by Xiezhong Nanjing, accounting for 95% of its total energy consumption. During the Year, the Group actively strengthened its management of electricity use, including installing energy-saving lighting systems and upgrading production equipment to improve overall energy efficiency. Both power consumption and density decreased significantly as compared with 2017. However, consumption of diesel oil has increased significantly as compared with 2017, mainly due to the increase of logistics outbound vehicles.

Xiezhong Nanjing consumed a total of 214,661 m³ of water resources during this Year. The Group strengthened management of water use in workshop, and reduced waste of water resource. Water consumption density during the year decreased by 35% to 0.13 m³ per item as compared with 2017.

Emissions Management Greenhouse gases

The Group attached importance to greenhouse gases generated by its daily operations, and was committed to reducing impact of its operations on the environment. During the Year, the Group continued to engage a consultation company, to carry out carbon assessment and calculate greenhouse gas emission from operation, by reference to the Guide⁴ published by the National Development and Reform Commission, ISO14064-1, the Greenhouse Gas Protocol and other international standards.

During the Year, total carbon emissions generated by Xiezhong Nanjing were approximately 6,637 tons of carbon dioxide equivalent. As the Group strengthened electricity management, its carbon emissions decreased by 16% as compared with 2017. Among them, total carbon emissions from electricity use were approximately 6,459 tons of carbon dioxide equivalent, decreasing by approximately 17% as compared with 2017.

Greenhouse gas emission	Emission in 2018	Emission in 2017	Unit
Scope 1: Direct greenhouse gas emission	121	76	Tons CO ₂ e
Scope 2: Indirect greenhouse gas emission from generation of energy	6,459	7,765	Tons CO ₂ e
Scope 3: Other indirect greenhouse gas emission	58	15	Tons CO ₂ e
Total greenhouse gas emissions	6,637	7,856	Tons CO ₂ e
Greenhouse gas intensity (based on production volume)	40	60	Tons CO ₂ e per 10,000 items

³ Due to lack of independent submeters to record monthly electricity consumption, Xiezhong Nanjing's electricity consumption during the Year was estimated based on financial accounts and regional unit price of industrial electricity.

⁴ Guide to Methods for Calculation and Reporting of Greenhouse Gas Emissions from Mechanical Equipment Manufacturing Enterprises (for Trial Implementation)

BUILDING GREEN ENVIRONMENT

Exhaust gas

The Group has formulated the Management Procedures on Waste Water, Waste Gas and Noise Emissions to effectively control emissions. During the Year, exhaust gases generated by Xiezhong Nanjing were mainly nitric oxides, sulfur oxides and respirable suspended particulates derived from fuels used in automobiles and kitchen equipment. In order to reduce exhaust emissions from vehicle use, the Management Procedures on Waste Water, Waste Gas and Noise Emissions stipulates that all vehicles of the Company shall operate with unleaded gasoline. Meantime, the Group regularly participates in vehicle exhaust emission test, and vehicles which fail to meet standards are repaired or reconstructed.

Waste

Xiezhong Nanjing produces hazardous and non-hazardous waste during its operations. In order to ensure that employees clearly understand regulatory requirements on waste disposal, the Group has formulated the Guide to Solid Waste Management Operation, and the logistics department is responsible for collecting solid waste in a unified manner. All solid waste must be stored in a designated container or area according to its characteristics, and different containers or areas shall be marked correspondingly to distinguish them. For dangerous solid waste, qualified third party companies shall be engaged to handle in accordance with relevant environmental protection regulations of the Group.

During the Year, Xiezhong Nanjing produced a total of 1.3 tons of hazardous waste, mainly including waste mineral oil and waste welding flux which were all collected and disposed of by qualified contractors. Meantime, Xiezhong Nanjing generated production waste during its operation, such as gloves and rags with oil. According to environmental regulations, gloves and rags with oil are hazardous wastes set out in the Management List of Excluded Hazardous Waste, which can be disposed of together with household waste. In addition, all non-hazardous waste shall be stored by category and disposed of by the municipal authorities.

The Group reduces waste at source. In the future, the Group will continue to improve its data collection statistics in order to formulate more comprehensive waste reduction measures.

Waste water

Due to the nature of its business Xiezhong Nanjing are involved with discharge of production wastewater and domestic sewage in operation, of which production wastewater accounts for 80% of total wastewater discharge. In order to increase use rate of recycling wastewater, the Group launched VAVE program to save water during the year, and recycled 74,730 m³ of wastewater, an increase of 30% over the previous year. Currently, recycled wastewater is primarily used to cool equipment in production workshop. In addition, domestic sewage from toilets shall be treated in septic tank before discharged to the municipal pipe network.

Looking ahead, in order to ensure that its report meets the requirements of the Guide issued by the Stock Exchange in respect of key environmental performance indicators, the Group will continue to assess, record and disclose its greenhouse gas emissions and other environmental data annually, review effectiveness of existing measures and further develop targets and work plans for carbon reduction. In addition, the Group will also strengthen statistics on electricity consumption and waste generation to disclose more accurate data in the coming year.



BUILDING GREEN ENVIRONMENT

Management of Environmental and Natural Resources

Xiezhong understands that improper handling of hazardous chemicals may cause serious impact on the surrounding environment and natural resources. In order to regulate use of hazardous chemicals in production process (such as waste rubber, waste paint, waste electronic components and coolants), the Group has formulated the Hazardous Chemicals Management Procedures and the Environmental Factors Identification and Environmental Impact Assessment and Safety Management Procedures, providing clear guidance to relevant employees.

In order to prevent leakage of dangerous chemicals, the logistics department shall strictly manage the transportation and storage of dangerous chemicals in accordance with requirements of fire protection and environmental protection laws and regulations, such as:

- Equipment for preventing spill, leak and fire shall be strictly arranged around the sites where hazardous chemicals are stored;
- Employees responsible for hazardous chemicals management shall participate in specialized training and obtain relevant certificates;
- Warehouse employees shall conduct at least one inspection per week to ensure that the packages of hazardous chemicals are intact and there is no leakage;
- All hazardous chemicals shall be marked with clear Chinese instructions, and toxic or flammable or explosive materials shall be marked with warning signs.

In addition, the Group is actively providing air-conditioning systems for new energy vehicles to major automobile manufacturers. Compared with traditional fuel vehicles, air-conditioning systems for new energy vehicles rely mainly on electricity, reducing use of fossil fuels. At the same time, it can also reduce greenhouse gases and waste gases from fossil fuel combustion, thus contributing to reducing climate change and air pollution.

The Group complies with relevant laws and regulations, including the Environmental Protection Law of the PRC, the Law of the PRC on the Prevention and Control of Environment Pollution Caused by Solid Wastes, and the Energy Conservation Law of the PRC. During the Year, the Group has not found any internal reports or any cases of violation of laws and regulations related to emissions or the environment.



CREATING A SOUND EMPLOYMENT ENVIRONMENT

The Group has been pursuing to create a sound employment environment for employees. The Group has formulated a series of employee protection policies with an aim to protect employees' rights in respect of training and development, employment, health and safety and labour standards.

Providing training and development opportunities

Comprehensive training programs will enable employees to develop required expertise, skills and management capacities at every stage of their career. The Employee Manual of the Group specifies its human resource development and training arrangements, ensuring that employees in different positions can gain appropriate training, including pre-job training, on-the-job training, department business training and other professional trainings.

Annual training targets and plans

The Human Resources Department is responsible for planning trainings for all employees, including pre-job training, on-the-job training, department business training and other trainings. During the Year, Xiezhong Nanjing provided training for more than 80% of employees, with average training hours per employee of 9.7 hours, which is approximately equivalent to that of 2017.

Pre-job training

Content of training

Pre-job training is mainly based on teaching method and supplemented by seminars, visits and outdoor trainings, with an aim to help employees learn about products, management systems and career planning.

Key training programs in 2018

Basic knowledge about air-conditioning, Product quality system training, Advanced product quality planning training, Statistical process control training, first aid training and training on vibration modal analysis

On-the-job training

Content of training

Provide new employees with management requirements and basic safety knowledge of their position.

Key training programs in 2018

Occupational health and safety protection training and fire emergency training

Department business training

Content of training

Heads of each department will formulate annual and monthly training plans according to the characteristics of positions, and help employees with professional technical training. Relevant training shall be combined with work practices of employees.

Key training programs in 2018

Training on vibration modal analysis

Other trainings

Content of training

In order to further enhance employees' professional skills and work capabilities, the Group will arrange external training for employees from time to time, or invite scholars and experts from training institutions to give lectures at the Group.

Key training programs in 2018

Condenser, evaporator processing skills training, including finishing, rectification, cleaning, cleaning up, literacy and safety, etc.



CREATING A SOUND EMPLOYMENT ENVIRONMENT

Improve employment system

The Group understands the significance of establishing a sound employment system, and standardizes the Group's regulations in respect of remuneration, promotion and anti-discrimination through internal policies, such as the Employee Manual, the Recruitment Management System and the Anti-Discrimination Policies, ensuring legitimate rights and interests of employees.

Employment system		
Remuneration and dismissal	Recruitment and promotion	Working hours and holidays
<ul style="list-style-type: none"> Remuneration: Based on characteristics of position and nature of work, the Group implemented different wage systems for different positions, which mainly consist of basic wage, post wage, performance wage and seniority pay. Resignation: Employees are entitled to resign, and the Human Resources Department will conduct interviews with the departing employees. 	<ul style="list-style-type: none"> Recruitment: The Human Resources Department will prepare an annual employment plan based on talent needs of each department, and report it to the General Manager for approval. Promotion: The Group will provide relevant employees with promotion opportunities based on the results of evaluation of employee's comprehensive performance. 	<p>The Group undertakes to arrange reasonable working hours and various holidays in accordance with relevant local laws of the region of operation. In addition, Xiezhong also provides nursing leave and breastfeeding leave for male and female employees who meet relevant requirements.</p>
Equal opportunity	Diversity	Anti-discrimination
<p>The Group is committed to treating all employees equally, including but not limited to recruitment, promotion, remuneration and benefits.</p>	<p>The Group is aware that diversified talent pool is critical to the future development of Xiezhong. The Group has engaged employees from different regions with different cultural backgrounds. In order to standardize development of talent diversification, the Group is actively formulating diversification policies and will put forward for review in the coming year.</p>	<p>The Group has passed the Anti-Discrimination Policies, and will not treat employees differently on the ground of gender, race, marital status, religion and surname. Meantime, the Group will provide due care to female employees when arranging production work.</p>

Other benefits and welfare

In addition to employee benefits as required by national laws, the Group also provides employees with such benefits as birthday gifts, holiday gifts and free shuttles.

CREATING A SOUND EMPLOYMENT ENVIRONMENT

The Group complies with relevant laws and regulations, including the Labor Law of the PRC and the Labor Contract Law of the PRC. During the Year, the Group has not found any cases of violation in relation to employment.

Ensuring health and safety

As a company engaged in production and sales of automotive air-conditioning systems and components, any accidents during the production process will cause significant impact on the health and safety of employees. In order to reduce negative impact from accidents, the Group has formulated internal policies such as the Production Safety Management System and the Safety Manual, with a view to protecting employees' health and safety.

The Group has established the Production Safety Management Committee ("Safety Committee") which is responsible for the overall safety management of the Group. The Safety Committee consists of the legal representative/General Manager, the Deputy General Manager in charge of safety work and security officers.



Meantime, in order to strengthen management of employees' occupational health and protection, the Group also provides labour protection equipment such as earmuffs, goggles and masks based on characteristics of different positions and require employees to wear during work. In addition, in order to prevent heat stroke among employees during hot summer, the Group will provide anti-heatstroke drugs to employees in need.

CREATING A SOUND EMPLOYMENT ENVIRONMENT

During the Year, one employee of the Group died in a car accident during construction assignment abroad. After the accident, relevant person in charge reported to the management of the Group in real time, and the Group carried out appeasement work, including communicating with family members of the employee, and made compensation in accordance with laws and regulations. In addition, during the Year, the Group has recorded three work accidents caused by improper operation of production equipment. To this end, the Group undertakes to review employee health and safety management and raise employees' safety awareness.

The Group complies with the Work Safety Law of the PRC, the Law of the PRC on the Prevention and Control of Occupational Diseases and other relevant laws and regulations. During the Year, the Group has not found any cases of violation in relation to health and safety.

Complying with labour standards

The Group undertakes to never employ child labour or forced labour in workplace. We have formulated the Employee Manual, the Recruitment Management System and the Rule on Prohibition of Forced or Compulsory Labour, with an aim to protect the legitimate rights and interests of employees.

Category	Management measures
Child labour	The Employee Manual and the Recruitment Management System stipulate that new employees are required to provide identity documents when joining the Company, thus ensure their age meets national standards. If a child labour is found, the Group will terminate his/her work immediately and send him/her to hospital for a physical examination. The Group is actively formulating measures to prevent child labour, and will submit these measures to relevant authorities for review as soon as possible.
Forced labour	The Group strictly prohibits any kinds of practices involving forced labour. According to the Rule on Prohibition of Forced or Compulsory Labour, no one shall collect any "deposit" in cash or in kind when a new employee joins the Group, nor shall detain his or her identity card or other identification documents. In case of any complaints about forced labour, employees can immediately submit to the department head, the trade union or the Human Resources Department, and relevant departments will conduct an investigation.

The Group complies with relevant laws and regulations, including the Labor Law of the PRC and the Law of the PRC on the Protection of Minors. During the Year, the Group has not found any cases of violation in relation to child labour or forced labour.

CONDUCTING RESPONSIBLE OPERATION

The Group has always adhered to business ethics in its operation, and strives to provide high quality automotive air-conditioning systems and components. Therefore, the Group has formulated a series of policies on supply chain management, product liability and anti-corruption to ensure that the Group's operations are in line with the interests of internal and external stakeholders.

Anti-corruption

The Group has been pursuing honest and upright business and working environment. To this end, the Group has formulated the Employee Manual and signed the Labor Contract with employees to regulate employee behavior and ensure that there is no any form of corruption, bribery, extortion, fraud and money laundering in the Group's operation.

As stated in the Employee Manual of the Group, accepting bribes, asking for bribes and embezzlement are considered as serious violations. Employees who commit serious violations of disciplines shall be dismissed immediately, and those who have serious circumstances will be submitted to a judiciary authority. In addition, in order to enhance the integrity awareness of the Group's employees, the Group has organized a total of 527 employees to participate in the training on the Group's integrity system and related legal knowledge during the Year.

The Group complies with relevant laws and regulations, such as the Anti-Unfair Competition Law of the PRC and the Anti-Money Laundering Law of the PRC. During the Year, the Group has not found any cases of violation in relation to corruption, there were no corruption cases involved with the Group or its employees.

Supply Chain Management

The Group hopes, through a sound supply chain management system, to reduce the environmental and social risks of the supply chain on the basis of ensuring the quality of products supplied. The Group has formulated policies such as the Procurement Control Procedures and the Supplier Performance Management Procedures, and signed the Quality Assurance Agreement with all suppliers to ensure that the selecting of suppliers meets the requirements of the Group.



CONDUCTING RESPONSIBLE OPERATION

Category	Criteria for selecting suppliers
Product quality	<ul style="list-style-type: none"> To meet the quality requirements of the Group, suppliers shall pass ISO9001 or ISO/TS16949 quality system certification. If relevant quality certification system were not established within specified time, the Group is entitled to disqualify relevant suppliers; and The Supply Department shall evaluate suppliers with scores every six months in respect of the quality, price, service and delivery time of products supplied by different suppliers. If a supplier scores below 60 points for two consecutive times and scores below 80 points in the third evaluation, the supplier will be disqualified.
Environment	<ul style="list-style-type: none"> The Group will give priority to suppliers that have passed ISO14001 certification when selecting suppliers; All suppliers shall comply with the laws and regulations of the region of operation related to environmental protection; and For environmental risks that may occur during the transportation, handling or storage process, the supplier shall submit an emergency plan to the Group for reference.
Society	<ul style="list-style-type: none"> If products supplied by a supplier are hazardous chemicals, such as a flammable or explosive or corrosive objects, the supplier shall provide MSDS⁵ and other safety certification documents; and If the Group found any serious safety accident or occupational hazard of a supplier, the Group is entitled to terminate the qualification of the supplier.

Product liability

As a company engaged in production of air-conditioning systems and equipment, the Group has established the Product Quality Assurance Process and Standard to ensure that product quality meets relevant requirements. In addition, we have also formulated the Employee Manual and the Guide to Processing Customer Return and Supplier Claim to improve the Group's management structure of product liability in respect of other aspects.

Product quality

The Group has established a series of procedures to verify whether finished products complies with quality requirements. If any product is found non-compliant, the Non-conforming Product Control Report shall be completed and reported to higher-level departments for review. The inspection of finished product shall be carried out in accordance with technical drawings, measuring tools and relevant national and industry standards.

Protection of customer privacy

The Group values the protection of customer privacy and regulates related work with the Employee Manual. Meantime, it is clearly stated in the Labor Contract signed with the employee that the employee is obliged to protect customer privacy.

⁵ Material Safety Data Sheet

CONDUCTING RESPONSIBLE OPERATION

Customer complaints and recall procedures

Retailers

In case of any customer complaint on quality of a product, the retailer shall immediately report relevant information to the Quality Management Department and Customer Department of the Group.

Quality Engineer

After receiving the feedback, the quality engineer shall take containment measures in a timely manner to prevent non-conforming products from emerging again. At the same time, the quality engineer shall prepare the Rectification Report according to the extent of quality problems, and submit to relevant production department for processing.

Quality engineer

The quality engineer shall submit the rectification report to the customer after confirmation, and propose solutions.

Production Department

The Production Department shall set up an analysis team to find out causes of the problem and propose a permanent solution. Meantime, it shall form a rectification report and submit to the quality engineer for confirmation.

Matters relating to intellectual property rights, product labels and advertising are also critical to the Group's operation. The Group is stepping up the formulation of relevant provisions, and strives to improve the Group's product liability management structure.

The Group complies with relevant laws and regulations, including the Product Quality Law of the PRC, the Standardization Law of the PRC and the Law of the PRC on Import and Export Commodity Inspection. During the Year, the Group has not found any cases of violation in relation to product liability.



CREATING A HARMONY COMMUNITY

Xiezhong values its commitment to social responsibility, and focuses on the environment and health of the community in which it operates. During the year, the Group organized 42 employees to perform socially compulsory labor for 3 hours per person in the name of the Group. The Group is formulating policies relating to community investment, and will submit to the board of directors for approval in the coming year.



OVERVIEW OF KEY PERFORMANCE INDICATORS

Environmental performance

Key Environmental Performance Indicators	2018	2017	Unit
The types of emissions and respective emissions data			
Nitric oxides	314.6	81.3	Kg
Sulfur oxides	13.7	3.4	Kg
Respirable suspended particulates	10.0	4.3	Kg
Total greenhouse gas emissions			
Scope 1: Direct greenhouse gas emission	120.7	75.9	Tons CO2e
Scope 2: Indirect greenhouse gas emission from generation of energy	6,459.1	7,764.9	Tons CO2e
Scope 3: Other indirect greenhouse gas emission	57.6	15.3	Tons CO2e
Total greenhouse gas emissions	6,637.4	7,856.2	Tons CO2e
Greenhouse gas intensity (based on production volume)	40.2	60.4	Tons CO2e per 10,000 items
Total hazardous waste			
Total hazardous waste	1.3	N/A	Tons
Hazardous waste density (based on production volume)	0.0077	N/A	Tons per 10,000 items
Total harmless waste			
Total harmless waste	No Statistics	0.6	Tons
Harmless waste density (based on production volume)	No Statistics	0.005	Tons per 10,000 items
Total energy consumption			
Gasoline	182.6	129.9	MWh Equivalent
Diesel oil	138.0	38.8	MWh Equivalent
Liquefied petroleum gas	169.3	153.1	MWh Equivalent
Electricity	9,181.3	11,037.5	MWh
Total energy consumption	9,671.2	11,359.3	MWh Equivalent
Energy density (based on production volume)	58.6	87.4	MWh Equivalent per 10,000 items
Total water consumption			
Total water consumption	214,661	248,226	m ³
Water consumption density (based on production volume)	0.13	0.2	M ³ per 10,000 items
Total packaging material used for finished products			
Total packaging material	277.0	196.0	Tons
Packing material density (based on production volume)	1.7	1.5	Tons per 10,000 items



OVERVIEW OF KEY PERFORMANCE INDICATORS

Social performance — Employment and labour practices

Statistical data		Number of Employees	Number and proportion of new employees	Number and proportion of separated employees
Gender	Male	621	430 (69.2%)	519 (83.6%)
	Female	232	69 (29.7%)	52 (22.4%)
Age	Aged below 30	235	287 (N/A)	348 (N/A)
	Aged 30–40	353	165 (46.7%)	164 (46.5%)
	Aged 41–50	214	46 (21.5%)	50 (23.4%)
	Aged above 50	51	1 (2.0%)	9 (17.6%)
Rank	Level C senior executives	10	0 (0%)	0 (0%)
	Senior managers	36	2 (5.6%)	0 (0%)
	Middle-level managers	19	0 (0%)	0 (0%)
	General employees	788	497 (63.1%)	571 (72.5%)
Total		853	499 (58.5%)	571 (66.9%)

Number of work- related fatalities	Proportion of work- related fatalities	Number of work- related injuries	Lost days due to work injury	Ratio of lost days due to work injury ⁶	Days of absence	Proportion of absence ⁶
1	0.1%	3	154	0.07%	988.5	0.4%

⁶ Number of working days per year (calculated by 264 days per person)

OVERVIEW OF KEY PERFORMANCE INDICATORS

Statistical data		Number of trainees	Proportion of trained employees	Average training time
Gender	Male	511	82.3%	12.6
	Female	175	75.4%	10.4
Rank	Level C senior executives	4	40%	10
	Senior managers	16	44.4%	13
	Middle-level managers	11	57.9%	6
	General employees	655	83.1%	12.1
Total		686	80.4%	9.7

Region where the supplier is located	Number of suppliers
China Mainland	247



ESG REPORTING GUIDE CONTENT INDEX

Environmental Performance

Aspects	Description	Page Index/Remarks
A1 Emissions		
General Disclosure	Information on: (a) the policies; and (b) 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, and generation of hazardous and non-hazardous waste.	9–10
A1.1	The types of emissions and respective emissions data.	19
A1.2	Greenhouse gas emissions in total and intensity.	8, 19
A1.3	Total hazardous waste produced and intensity.	9, 19
A1.4	Total non-hazardous waste produced and intensity.	No relevant statistics; the Group will continue to improve the statistical system
A1.5	Description of measures to mitigate emissions and results achieved.	9
A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	9 Due to limited data, the Group has temporarily failed to provide performance data
A2 Use of Resources		
General Disclosure	Policies on the efficient use of resources.	7
A2.1	Direct and/or indirect energy consumption by type in total and intensity.	7, 19
A2.2	Water consumption in total and intensity.	7–8, 19
A2.3	Description of energy use efficiency initiatives and results achieved.	7–8
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	All water resources come from the municipal management program and the Group has no problems in obtaining water resources
A2.5	Total packaging material used for finished products and consumption per unit.	7, 19

ESG REPORTING GUIDE CONTENT INDEX

Aspects	Description	Page Index/Remarks
A3 The Environment and Natural Resources		
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	10
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	10
B1 Employment		
General Disclosure	Information on: (a) the policies; and (b) 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.	12
B1.1	Total workforce by gender, employment type, age group and geographical region.	20
B1.2	Employee turnover rate by gender, employment type and geographical region.	20
B2 Health and Safety		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	13
B2.1	Number and rate of work-related fatalities	13, 20
B2.2	Lost days due to work injury	20
B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	13

ESG REPORTING GUIDE CONTENT INDEX

Aspects	Description	Page Index/Remarks
B3 Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	11
B3.1	The percentage of employees trained by gender and employee category (e.g. senior managers, middle-level managers).	11, 21
B3.2	The average training hours completed per employee by gender and employee category.	11, 21
B4 Labour Standards		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	14
B4.1	Description of measures to review employment practices to avoid child and forced labour.	14
B4.2	Description of steps taken to eliminate such practices when discovered.	14
B5 Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	15
B5.1	Number of suppliers by geographical region.	21
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	15

ESG REPORTING GUIDE CONTENT INDEX

Aspects	Description	Page Index/Remarks
B6 Product Responsibility		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	16: The Group does not deal with advertising and labeling matters
B6.2	Number of products and service related complaints received and how they are dealt with.	17
B6.4	Description of quality assurance process and recall procedures.	16
B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	16
B7 Anti-corruption		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	15
B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	15
B7.2	Description of preventive measures and reporting procedures, how they are implemented and monitored.	15
B8 Community Investment		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	18
B8.1	Focus areas of contribution (e.g. education, environmental issues, labour needs, health, culture, sports).	18
B8.2	Resources (e.g. money or time) used for focus areas of contribution.	18