



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



Environmental, Social &
Governance Report **2019**

CONTENTS

- 2 About Xiezhong
- 3 About This Report
- 5 Chairman's Message
- 6 Governance on Sustainable Development
- 7 Communication with Stakeholders
- 8 Green Development
- 13 Giving Priority to People
- 16 In Pursuit of Quality Excellence
- 18 Co-development with Communities
- 19 Compliance Performance
- 22 Overview of Key Performance Indicators
- 24 ESG Reporting Guide Content Index



ABOUT XIEZHONG

Xiezhong International Holdings Limited (the “Company”, together with its subsidiaries, the “Group” or “Xiezhong”) is one of the leading suppliers of automotive heating, ventilation and cooling (“HVAC”) systems in China. Xiezhong is principally engaged in development, production and sales of automotive HVAC systems and a range of automotive HVAC components, and provision of technical testing and relevant services. The Group’s automotive HVAC systems are mainly used in sport utility vehicles (“SUVs”), pickup trucks, sedans and heavy trucks, in addition to the supply of HVAC systems and HVAC components for new energy vehicles (“NEVs”), construction machineries and other types of vehicles such as light trucks and buses.

The Group is also engaged in 4S dealership business, which operates the sales of automobiles and spare parts and accessories, and provides a comprehensive range of after-sales services, such as repair and maintenance services. The 4S dealership business is dedicated to luxury brand and mid to high-end brand, such as Lexus and FAW-Volkswagen, and is mainly located in Nanjing, Jiangsu Province.

At present, the Group will continue to consolidate in the market of HVAC systems for pickup and heavy trucks, and will also vigorously expand the HVAC market for NEVs. The Chinese government has issued a series of policies to encourage the development of the NEVs industry. According to the forecast from China Association of Automobile Manufacturers (中國汽車工業協會) (“CAAM”), the sales of NEVs in 2019 are estimated to reach 1.6 million units, representing an increase of approximately 30%. To this end, the Group will continue to strengthen the research and development capabilities of HVAC systems for NEVs to drive the sustainable development of the automobile industry.



ABOUT THIS REPORT

This report is the fourth Environmental, Social and Governance Report (the “Report”) issued by the Company, which continues to contain the policies, measures and performance of the Group in respect of ESG to deliver our commitments and allow better understanding by each stakeholder of the development directions of the Group. 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 (www.xiezhonginternational.hk).

Scope of This Report

This Report focuses on the performance of the Group in respect of ESG for the period from 1 January 2019 to 31 December 2019 (the “Year”). Consistent with the previous reports, this Report covers operations of the production base in Nanjing, Jiangsu Province operated by Nanjing Xiezhong Auto-Airconditioner (Group) Co., Ltd. (“Xiezhong Nanjing”) as well as the production and sales of automotive air conditioning systems and automotive air conditioning components. The operations brought in revenue of RMB829.71 million for the Group, which accounted for 42% of the total revenue of the Group. Since the Group only completed the acquisition of the 4S dealership business at the beginning of the Year, the data collection process of the subsidiaries involved in this business has not been perfected and it has not been included in the scope of this Report during the Year. Operations in other regions, including Beijing, Wuhan and Kingdom of Morocco, are excluded from the current reporting scope. The Group will include more operations in the reporting scope in due course according to the business development status in the future.

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 of Hong Kong Limited with its four reporting principles, i.e. Materiality, Quantitative, Balance and Consistency, on which the preparation is based. In compliance with the “Comply or Explain” provision of the Guide, certain indicators under “Recommended Disclosures” set out in the Guide are adopted for this Report, which improve completeness of the contents.

Reporting principles	Definition	Responses from the Group
Materiality	The reporting will be focused on the ESG issues which have material effects on the Group and stakeholders.	Through management interviews, the Group decided to continue to focus on reporting on the three issues of resource use, development and training, and anti-corruption during the Year. Please refer to the “Communication with Stakeholders” section for the specific assessment process.
Quantitative	Key performance indicators (“KPIs”) data should be measureable and comparable when appropriate.	The Group’s social KPIs are sourced from the statistics of the relevant departments. In addition, in order to ensure the accuracy of the environmental KPIs, the Group has commissioned Carbon Care Asia, a professional consulting company, to perform carbon assessment with criteria required by guidelines issued by the National Development and Reform Commission of the People’s Republic of China, with reference to ISO14064-1 and greenhouses gas accounting system and other domestic and international standards.
Balance	An issuer shall report on its ESG performance during the Year in an objective and truthful manner.	In the preparation of the Report, the Group not only focused on describing its achievements in ESG, but also introduced difficulties occurred and corresponding solutions.
Consistency	The disclosures in the Report should use consistent disclosing methodologies to allow for comparisons of KPIs in relation to ESG for understanding corporate performance.	Unless otherwise stated, all data in this Report was disclosed using the same statistical methods as in previous years. For details, please refer to the “Overview of Key Performance Indicators” section.



ABOUT THIS REPORT

Confirmation and Approval

All information contained herein is collected from the official documents and statistics of the Group, and the management and operation data collected according the Group's system. This Report was confirmed and approved by the board of directors of the Company on 24 June 2020.

Feedback

Any opinions or recommendations from each stakeholder on the ESG aspects are appreciated by the Group.

You are welcome to contact the Group (General Manager's Office of Xiezhong Nanjing) at:

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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”

In the past year, different natural environmental disasters have occurred in various parts of the world, causing widespread concern in society. Young people have participated in climate action, showing their expectations of society towards low-carbon development. In the face of these impacts, the Board of Directors will be responsible for overseeing all matters related to the sustainable development of the Company, so as to respond with actions, and ensure business stability and protect the interests of stakeholders. Xiezhong is also currently studying various new technologies for manufacturing HVAC systems to further reduce carbon dioxide and other greenhouse gas emissions generated during the operation of automotive HVAC systems.

As regulators and even stakeholders' expectations of corporate governance for sustainable development continue to increase, the Board of Directors will consider setting up a special working group to coordinate work related to corporate sustainable development to more effectively formulate environmental and social performance targets and monitor the progress. In the next step, we will consider formulating relevant programmatic documents to ensure that the sustainable development positioning of Xiezhong is consistent.

During the Year, the Group commissioned external consultants to communicate with the management to understand their opinions on the sustainable development of the Company, and determined that the sustainable development issues that the Company focused on this year were resource use, development and training, and anti-corruption. In response to the concerns of stakeholders, the Group has actively reduced the waste of resources in the production process, regularly provided training according to the needs of the team, and is committed to maintaining the corporate culture of integrity.

The latest guidelines of the Stock Exchange will include climate change as a mandatory disclosure issue, while further emphasizing the accountability of the Board of Directors. These changes are consistent with our development policy and will encourage us to report more in line with the expectations of stakeholders and work with the industry to achieve a low-carbon future.

Chen Cunyou

Chairman

Xiezhong International Holdings Limited



GOVERNANCE ON SUSTAINABLE DEVELOPMENT

The Board of Directors of the Company is responsible for monitoring and managing the affairs of the Company, adopting long-term strategies to ensure that the operations of the Group are carried out in accordance with the established objectives, and reviewing the risk management system of the Audit Committee.

In order to set the environmental and social performance targets and monitor the progress more effectively and in a targeted manner, the Group will consider setting up a special working group to coordinate the work related to the sustainable development of the Company. Xiezhong is also considering formulating management policies and strategies related to environment, society and governance to guide Xiezhong to further strengthen management and response measures.

ESG Risk Management

The Group has established a risk management system through a clear governance structure, policies and procedures, and a reporting mechanism to assist the Group in managing risks in various business areas, such as noise emissions and casualties. The Group has developed a risk management framework composed of the Group’s Board of Directors, Audit Committee and Senior Management, responsible for providing instructions for identifying, evaluating and managing significant risks.



Board of Directors	Audit Committee	Senior Management
<ul style="list-style-type: none"> Determines the nature and extent of risks that shall be taken in achieving the Group’s strategic objectives, and has the responsibility for monitoring the design, implementation and the overall effectiveness of risk management and internal control systems. 	<ul style="list-style-type: none"> Performs annual review on the effectiveness of the Group’s risk management and internal control systems, including but not limited to the Group’s ability to cope with its business transformation and changing external environment as well as status of compliance. 	<ul style="list-style-type: none"> Identifies risks that would adversely affect the achievement of the Group’s objectives, and assesses and prioritizes the identified risks according to a set of standard criteria, so as to formulate a risk mitigation plan for the major risks and designate the person responsible for the risks.

Looking ahead, the Group’s risk management system will further specifically identify the risk categories related to the environment, society and governance, and continue to review risk trends and plan response plans.

COMMUNICATION WITH STAKEHOLDERS

The Group has always attached great importance to communication with stakeholders¹. During the Year, it organized different activities to understand the opinions and suggestions of stakeholders on the Group's environment, society and governance. The Group believes that stakeholder engagement can help the Group better identify risks and opportunities in different aspects of environment, society and governance, and prompt the Group to formulate more comprehensive management policies and measures. The communication methods of stakeholders during the Year are as follows:

Internal stakeholders		External stakeholders		
Employees	Customers	Suppliers	Industry Association	Employee's family member
<ul style="list-style-type: none"> Maintain constant communication with internal stakeholders through corporate annual meetings, annual reports, department meetings, emails, and employee suggestion boxes. 	<ul style="list-style-type: none"> Understand the requirements and needs of different customers by telephone and email. 	<ul style="list-style-type: none"> The Group communicates with suppliers on their environmental measures and product quality from time to time through supplier on-site reviews. 	<ul style="list-style-type: none"> Participate in industry conferences from time to time to understand the latest developments in the industry and improve product technology capabilities. 	<ul style="list-style-type: none"> During the Year, the Group has organized several employee family gatherings to understand the opinions and suggestions of employees' family members and help employees build a harmonious family environment.

Material Environmental, Social and Governance Issues

In response to the Stock Exchange's emphasis on the application of materiality and other reporting principles in the proposed amendments to the Guide and the accountability of the Board of Directors, the Company engaged an external consultant to conduct interviews with members of the Board of Directors of the Group for the Year to understand the vision and ideas of the governance team of Xiezhong on sustainable development and to identify material environmental, social and governance issues accordingly.

Based on the results of interview with the management, same as last year, the Group continued to focus its actions and reporting for the Year on the most important issues in the 11 aspects of the Guide, namely, use of resources, development and training and anti-corruption.

Material Issue	Reason	Corresponding Chapter
Use of Resources	We attach great importance to the resource conservation and are committed to creating an energy-efficient office environment.	"Green Development"
Development and Training	Upgrading employees' job skills is important for their future career path.	"Giving Priority to People"
Anti-corruption	Anti-corruption is not only a requirement of society for companies, but also an important way for companies to demonstrate their social responsibility.	"In Pursuit of Quality"

In the future, the Group will expand the scale and methods of communication with stakeholders in due course to improve the communication between the Group and its stakeholders and establish a mutually beneficial and win-win relationship.

¹ Stakeholders refer to the groups and individuals who have a significant impact on the business or who may be affected by it, including internal Board, management, executives and general employees, as well as external shareholders, business partners, customers, government and regulatory agencies, banks and investors, community groups, etc



GREEN DEVELOPMENT

Adhered to the environmental protection philosophy of “Pollution Prevention, Emissions Compliance and Star Management”, the Group is committed to the green development to establish a low-emission and low-consumption operation system. During the Year, Xiezhong Nanjing has revised the Administrative Procedures for Energy and Resource Use, the Guide to Solid Waste Management Operation and the Hazardous Chemicals Management Procedures, so as to further regulate the environmental protection measures in the daily production process.

Resource Conservation

According to the Administrative Procedures for Energy and Resource Use of Xiezhong Nanjing, the General Manager’s Office is responsible for formulating the annual energy and resource saving targets based on the actual situation of the previous year, and departmental heads set their own internal targets based on the Group’s targets and their actual situation. The Group plans to reduce its energy consumption by 5% in the coming year. In addition, the Group’s Human Resources Department is responsible for developing the training programs on energy saving awareness, which include environmental protection knowledge, business-related environmental factors and laws and regulations, with an aim to raise employees’ awareness of energy saving and consumption reduction.

In order to save electricity, water and production materials, the Group has strived to fulfill its commitment to resource conservation through the following measures.

Category	Conservation Measures
Electricity consumption	<ul style="list-style-type: none"> • Reduce standby consumption of office equipment, such as computers and printers, and switch off or standby them in a timely manner when they are idle; • Any department shall use air conditioning in accordance with weather conditions, with temperatures set no lower than 21° C in summer and no higher than 24° C in winter; and • The Manufacturing Department conducts monthly statistics on the use of production electricity and fills in the “Electricity and Water Statistics Report”. In case of abnormal use of electricity, corresponding measures shall be taken promptly.
Water consumption	<ul style="list-style-type: none"> • Water recycling facilities shall be installed in the production and processing processes to enhance the reuse of water resources; and • In the event of a malfunction of water facilities in any department, the department shall contact the Manufacturing Department for inspection and repair.
Production Materials	<ul style="list-style-type: none"> • When storing volatile chemicals, dedicated containers shall be used and properly sealed; and • The Research and Development Department/the Process Department shall timely reduce the use of cartons in the storage and transportation of packaging materials.

Xiezhong Nanjing’s resource consumption includes purchased energy for its production base, fossil fuels used by automotive and kitchen equipment, water and packaging materials of products. Total energy consumption decreased by 17% and 29% compared to 2018 and 2017, respectively. However, the consumption of fossil fuels was on an upward trend and increased by approximately 33% compared to 2018, mainly due to increased consumption of gasoline and diesel for vehicles due to increased number of business visits and shipments of Xiezhong Nanjing. In addition, electricity was the largest energy consumed by Xiezhong Nanjing and was mainly used for the operation of plant equipment. 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. The total electricity consumption was approximately 7,377 MWh. In order to reduce electricity consumption, Xiezhong Nanjing has launched a project to open up new sources of income and reduce expenditure, which includes the use of office software for publicity and self-application by departments. Electricity consumption for the Year decreased by approximately 20% and 33% as compared to 2018 and 2017 respectively.

GREEN DEVELOPMENT

Energy Consumption by Type					
Type	Energy	Energy Consumption in 2019	Energy Consumption in 2018	Energy Consumption in 2017	Unit
Direct energy	Gasoline	233.8	182.6	129.9	MWh Equivalent
	Diesel oil	243.8	138.0	38.8	MWh Equivalent
	Liquefied petroleum gas	173.4	169.3	153.1	MWh Equivalent
Indirect energy	Electricity	7,377.4	9,181.3	11,037.5	MWh
Total energy consumption		8,028.4	9,671.2	11,359.3	MWh Equivalent
Energy intensity (based on production volume)		69.8	58.6	87.4	MWh Equivalent per 10,000 items

In terms of water consumption, Xiezhong Nanjing consumed a total of 137,063 m³ of water resources during the Year, representing a decrease of approximately 36% as compared to 2018, mainly due to the Group having launched a project to open up new sources of income and reduce expenditure to optimise the use of water resources.

In the future, the Group will set quantitative targets for the use of resources based on the consumption of resources during the Year, with a view to continuously improve the efficiency of resource use in the production process.

Emissions Management Greenhouse Gas

The Group has attached great importance to carbon footprint generated during its course of operation, and is committed to reducing the impact of its business on the environment. During the Year, the Group continued to engage Carbon Care Asia, a consultation company, to carry out carbon assessment so as to calculate greenhouse gas emission from operation. Such calculation makes reference to the Guide published by the National Development and Reform Commission of the PRC, international standards such as the ISO14064-1, and the Greenhouse Gas Protocol.

During the Year, total carbon emissions generated by Xiezhong Nanjing were approximately 4,725.1 tons of carbon dioxide equivalent, representing a decrease of 29% and 40% as compared with 2018 and 2017, respectively, and the carbon emissions from purchased electricity (Scope 2) accounted for 95% of the total carbon emissions. The decrease in carbon emissions was directly attributable to a decline in purchased electricity during the Year.



GREEN DEVELOPMENT

Greenhouse gas emission	2019	2018	2017	Unit
Scope 1 Direct greenhouse gas emission ²	159.4	120.7	75.9	Tons CO ₂ e
Scope 2 Indirect greenhouse gas emission from energy ³	4,500.9	6,459.1	7,764.9	
Scope 3 Other indirect greenhouse gas emission ⁴	64.8	57.6	15.3	
Total greenhouse gas emissions	4,725.1	6,637.4	7,856.1	
Greenhouse gas intensity (based on production volume)	41.1	40.2	60.4	Tons CO₂e per 10,000 items

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 working plans for carbon reduction.

Exhaust gas

The Management Procedures on Waste Water, Exhaust Gas and Noise Emissions of Xiezhong Nanjing provided that equipments with larger exhaust gas emissions must install exhaust treatment equipment to ensure that emissions meet the requirements of national or regional laws and regulations. Meanwhile, we should also avoid of purchasing refrigerators, freezers, central air-conditioners and other devices with freon.

The exhaust gas emissions generated by Xiezhong Nanjing were mainly derived from fuels used by automobiles and kitchen equipment, which mainly included nitric oxides, sulfur oxides and respirable suspended particulates. Among which, nitrogen oxides, sulfur oxides and respirable suspended particles from the consumption of vehicle gasoline and diesel were the main sources of exhaust gas, accounting for 92%, 79% and 86% of the total emissions, respectively. In addition, the emissions of nitrogen oxides, sulfur oxides and respirable suspended particles for the Year increased 63%, 47% and 56% respectively from 2018, which was mainly due to the increase in the consumption of vehicle gasoline, diesel and liquefied petroleum gas. The data of nitrogen oxides and sulfur oxides for 2017 was not comparable as it only included emissions from fuels used by automobiles.

Type of exhaust gas	Emission in 2019	Emission in 2018	Unit
Nitric oxides	513.4	314.6	Kg
Sulfur oxides	20.2	13.7	Kg
Particulate matter	15.5	10.0	Kg

² Scope 1 includes equipments owned or controlled by the Company, namely greenhouse gas emissions from the fossil fuel combustion from fixed and mobile sources.

³ Scope 2 includes greenhouse gas emissions from electricity consumed by the Company.

⁴ Scope 3 includes greenhouse gas emissions from business travel by air of the Company's staff.

GREEN DEVELOPMENT

Waste water

In order to improve the water pollution management system, the production department of the Group is responsible for measuring the pH value of waste water, so that the waste water can be discharged after neutralization, and completing the "addition record of neutralization tank chemicals". In addition, phosphorus-free detergents should be used in the canteen, and filter screens and grease traps should be installed at the waste water outlets. The waste water generated by Xiezhong Nanjing mainly comes from production waste water and domestic sewage from the office. During the Year, a total of 32,410 cubic meters of waste water was reused for green irrigation and production reuse.

Waste

The Guide to Solid Waste Management Operation illustrates that all departments of the Group should make reasonable use of raw materials and adopt the latest production technology during its production, with an aim to reduce the generation of different wastes. All waste shall be stored and labeled in a designated container or area according to its characteristics. It is strictly forbidden to store hazardous waste mixed with general waste. For non-recyclable waste, the logistics department entrusts local qualified enterprises with a license issued by the environmental protection department for recycling.

During the Year, Xiezhong Nanjing produced a total of 1.8 tons of hazardous waste, including waste mineral oil and waste welding flux. The waste mineral oil generated has increased nearly double as compared to 2018, due to the improvement in production cleanliness. The hazardous waste were all collected and disposed of by qualified contractors. Meanwhile, Xiezhong Nanjing generated production waste during its operation, such as gloves and rags with oil. 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.

During the Year, the collected domestic and production waste shall be disposed of by the municipal authorities, but the Group did not count the amount of domestic waste generated. The Group will appoint specific departments to arrange garbage collection and weighing to prepare for disclosure of the amount of garbage generated in the coming year.

Environment and Natural Resources

Due to the nature of its business, the Group is exposed to the leakage of hazardous chemicals during the operating process, which will significantly impact the surrounding environment and natural resources. As such, Xiezhong Nanjing has formulated the Hazardous Chemicals Management Procedures and the Environmental Factors Identification and Environmental Impact Assessment and Safety Management Procedures to identify the corresponding procedures.

The integrated safety department of the Group is responsible to identify the potentially important environmental factors of the Group through the following manners, and complete the "List of Important Environmental Factors".

- Be likely to breach national or regional environmental laws and regulations or other requirements;
- Has caused relevant party to complain or resulted in serious impact; and
- Be likely to use substances prohibited by national or regional laws and regulations.



GREEN DEVELOPMENT

The integrated safety department shall organize all departments to identify, supplement and update important environmental factors at least once a year. In the event of a change in the business of the Group, new process equipment shall be adopted, and in the event of a change in national regulations or industry standards, important environmental factors must be re-identified. During the Year, the Group has identified important environmental factors, including electric energy consumption, coolant waste and noise from air compressor operation, etc., and has accordingly taken measures to reduce their impact.

In addition, as the use of hazardous chemicals is an important environmental factor of the Group, strict rules have been made in Hazardous Chemicals Management Procedures. In order to ensure the correct use of hazardous chemicals, the Group requires relevant personnel to be trained before taking up their posts. They shall strictly prevent the overflow or volatilization of hazardous chemicals during use, so as to avoid polluting the surrounding environment. In case of any leakage of hazardous chemicals, they shall immediately report to the superior supervisor and timely launch the Emergency Plan.

In recent years, the Group has been actively providing air-conditioning systems for new energy vehicles to major automobile manufacturers to further control the emissions of waste gas and greenhouse gas generated from operation of air-conditioning systems by reducing the use of fossil fuels. During the Year, the Group produced a total of 0.3 million air-conditioning systems for new energy vehicles, representing an increase of 50% as compare to 2018.

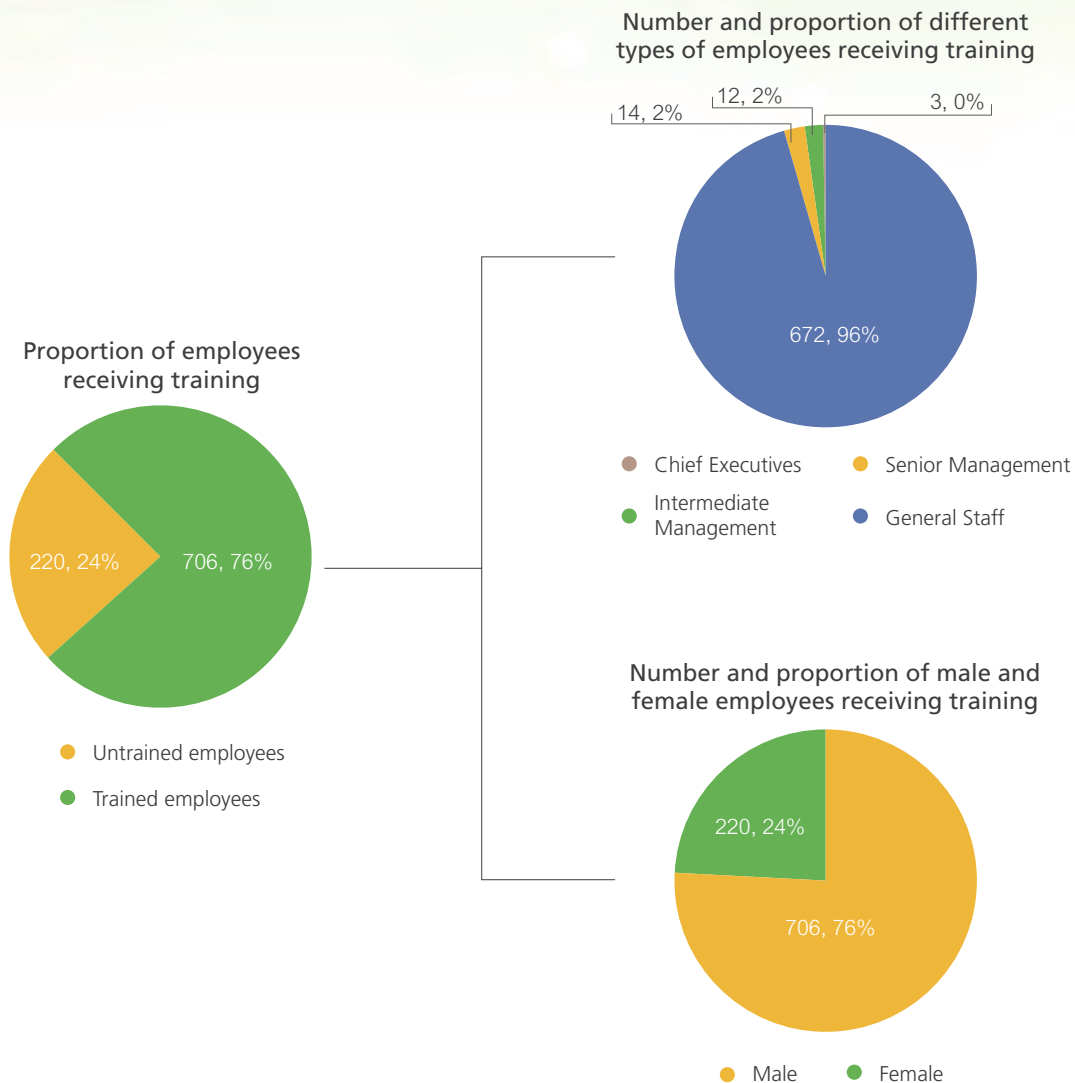
GIVING PRIORITY TO PEOPLE

Cultivating excellent talents, creating a safe employment environment, and protecting the legitimate rights and interests of employees are not only the basis for achieving the Company’s strategic goals, but also an important standard that reflects the Company’s performance of sustainable development. Xiezhong Nanjing has formulated a series of policies setting out management measures in terms of employee compensation, recruitment, dismissal, training, safety and labor standards.

Employee Development and Training

To promote the career development of our employees and enhance their professional knowledge and management capabilities, exclusive sections in the “Staff Manual” illustrate the Group’s training management system that ensure employees in various positions could receive appropriate training opportunities. At present, the Group has divided the types of employee training into pre-job training, job training, departmental business training and other professional training. The human resources department is responsible for the management of related work.

During the Year, about 76% of Xiezhong Nanjing’s employees received training, which included safety and environmental protection knowledge, fire safety and fire escape, and quality awareness training. Details are as follows:



GIVING PRIORITY TO PEOPLE

Employment System

The Group has always been committed to establishing a sound employment policy to protect employees' legal rights from infringement. To this end, Xiezhong Nanjing has formulated internal policies such as "Staff Manual", "Recruitment Management System" and "Anti-Discrimination Policy" to enhance management efficiency in different areas of employment.

The "Staff Manual" stipulates that the Group's Human Resources Department prepares annual employment plans based on the employment needs of various departments and submits them to the general manager for approval. After the examination and approval is completed, the Human Resources Department is responsible for the qualification review and interview of the recruiters, and together with the employment department to determine the final interview results and fill out the "Interview Evaluation Form". For the employees of the Group, Xiezhong will provide reasonable promotion opportunities, and the promotion will be determined based on monthly assessments and annual assessment scores conducted on a regular basis.

The Group is committed to prohibiting any form of discrimination in the workplace and providing all employees with equal opportunities for recruitment and promotion. To this end, the Group has formulated an "Anti-Discrimination Policy", which states that any employee of the Group shall not be discriminated against due to factors such as gender, nationality, education level, marital status and physical status. In case of any discriminatory behavior, the relevant employee may complain to the relevant department of the Group.

The Group has always regarded talent diversification as an important driving factor for its diversified development. For this reason, Xiezhong has introduced nearly 100 talents in France, Morocco, South Korea and Japan. It is expected that employees from different cultural backgrounds and concepts can bring a more diverse working environment to the Group. In the future, the Group plans to incorporate employment diversity into the "Staff Manual" to improve the system of employing diverse talents.

The Group understands that maintaining the stability of the hired team is also essential for its sustainable development. In order to further reduce the turnover rate of employees, the Group has taken measures to increase employee treatment, strengthen training, improve working conditions and strengthen employee communication.

In addition, the Group also complies with labour standards to ensure no child labour or forced labour in workplace, and has formulated following measures:

Complying with labour standards

Avoiding child labour: In strict compliance with the relevant provisions of the Employee Manual and the Recruitment Management System, the Group undertakes to conduct strict examinations on the position applicants' qualification in the recruitment process and immediately disqualify those applicants who do not meet the age standard.

Prohibiting forced labour: Xiezhong Nanjing has formulated the Rule on Prohibition of Forced or Compulsory Labour, clarifying that no department or person could force employees to work by way of physical punishment, collecting deposit or violence. Employees under forced labour can immediately report to the department head, the labour union or the Human Resources Department. The Group undertakes to take independent investigation and handling.

GIVING PRIORITY TO PEOPLE

Work Health and Safety

Employees' health and safety has always been one of the key concerns of the Group. The Group has been committing to minimizing the risks to which employees are exposed in workplace through standardizing work procedures. Xiezhong Nanjing has currently formulated policies such as the Production Safety Management System and the Safety Manual, and updated the Prevention and Control Procedures of Occupational Hazard during this year to regulate relevant management measures.

Policies	The Prevention and Control Procedures of Occupational Hazard	The Safety Manual	The Production Safety Management System
<p>Measures and Monitoring Methods</p>	<p>The Group has established the prevention and control system of occupational diseases, where different departments has different responsibilities, for instance:</p> <p>Integrated Safety Department: As required by the relevant laws and regulations, it shall conduct physical examination on employees who exposed to hazards and put forward suggestions on post adjustment when appropriate.</p> <p>Manufacturing Engineering Department: It is responsible for the management of occupational health caring equipment.</p> <p>Human Resources Department: It is responsible for organizing educational training activities on occupational health knowledge and physical examination for employees.</p>	<p>The Group has established production safety management committee which is responsible for making production safety management requirements, assessing work safety of each department and organizing emergency plan drill and other relevant work.</p> <p>Besides, special operation personnels are required to receive special national safety operation training and obtain an operation qualification certificate before starting to work.</p>	<p>The Group will regularly convene safety meeting to analyze the cause, accountability and handling suggestion of safety accidents including work-related injuries. There shall be no less than 12 safety meetings per year in principle.</p>
<p>Equipment</p>	<p>Gloves, masks, earplugs, earmuffs and goggles, etc.</p>		

During the year, Xiezhong Nanjing has recorded one work-related injury which mainly due to improper operation of machine resulting in hand straining. It has been addressed according to the relevant requirements of the Work-related Injury Insurance Law. At present, the employee is in good condition and has returned to work.



IN PURSUIT OF QUALITY EXCELLENCE

The Group places great emphasis on practicing the Group's business ethics and maintaining the corporate brand through efficient management of supply chain, improvement of service quality and implementation the concept of the anti-corruption. In this regard, Xiezhong Nanjing has formulated a series of related policy to standardize the operation.

Honesty Construction

The Group attaches great importance to build a corporate culture of honesty and always adopts the attitude of "zero tolerance" towards unlawful acts such as bribery, extortion, fraud and money laundering. By formulating the Employee Manual and being explicitly stipulated in Labor Contracts, Xiezhong Nanjing strives to achieve the commitment of the Group on anti-corruption.

According to the Employee Manual, employees who take advantage of their positions to accept bribes or misappropriate funds will be regarded as a serious violation of discipline, and they shall be dismissed as soon as they are discovered, in case of serious violation, they shall also transfer to the judicial authorities. Besides, when the Group enters into the employment relationship with new employees, it is also stipulated in the Labor Contracts that any employee is prohibited to accept any benefits provided by any partners, such as cash, gift coupons and other items, in the course of daily work. If it cannot be rejected, employees should be registered with the General Manager Office as soon as possible and handed it over in time.

During the Year, Legal Department of Xiezhong Nanjing has conducted at least one anti-corruption training towards all employees through office software every month, which included learning about the related cases with the theme of improving honesty awareness.

Management of Supply Chain

The Group pays attention to the management of the environment and social risks in the supply chain and encourages suppliers to be responsible for the environment and society. Xiezhong Nanjing has specified the Group's selection criteria for suppliers in terms of product quality, environment and society in Supplier Performance Management Procedures, Quality Assurance Agreement and Procurement Control Procedure.

Product Quality

The Supply Department, Quality Management Department and Production Department of the Group are responsible for the inspection of the supplier's delivery quality, service level, product development and other aspects. A comprehensive review would be conducted quarterly, the head of the bottom five suppliers shall report the quality improvement and propose an improvement plan. In the event of the supplier still unable to meet the quality requirements for the supplied products of the Group, or the development process is delayed, the Group should cancel their supplier qualifications.

Environmental

The Group requires all suppliers to comply with national or regional environmental laws and regulations and give priority to suppliers with ISO14001 Environmental Management System Certification. In addition, suppliers shall submit the corresponding emergency plan, specify the environmental problems that are likely to occur during the transportation, loading and unloading and storage of the products and the treatment plan, so that the supplier can deal with the accidents promptly after their occurrence, so as to reduce the impact of the accident on the surrounding environment.

Social

The Group undertakes to give priority to suppliers with ISO18001 Occupational Health and Safety System Certification when selecting suppliers. In the event of a major occupational hazard or safety accident involving an existing supplier, the Group reserves the right to suspend its supplier qualification until the corrective action is completed.

IN PURSUIT OF QUALITY EXCELLENCE

Maintain Product Responsibilities Enhance the Quality and Safety of Our Products

The Group emphasises the provision of high-quality and safe automobile air conditioner system for customers. Xiezhong Nanjing has formulated the Product Quality Assurance Process and Standard, specifying the standards and process of quality verification to ensure the product quality meets the relevant requirements. Moreover, the relevant staff shall report to the Quality Management Department immediately and fill in the Unqualified Items Control Reports if any quality problems affecting the safety of finished products during the inspection process was found.

Protection of Customer Privacy

The Group understands that the protection of customer privacy is an important step in achieving good corporate governance. To this end, Xiezhong Nanjing has stated in its Employee Manual that any leakage of market data, including customers data of the Group, to a third party will be considered a material disciplinary offence, and the offending person shall be dismissed immediately once discovered. Meanwhile, it is clearly stated in the Labor Contract signed with the employee that the employee is obliged to be under a duty of confidentiality with respect to information about customers in the market.

Customer Complaints and Recall Procedures

According to the Guide to Processing Customer Return and Supplier Claim of Xiezhong Nanjing, in case of any problem with product quality that leads to customer complaints, the Marketing Department shall fill in the Complete Set Quality Information Feedback Form and submit it to the Quality Management Department of the Group for further processing after full communications with the customers. Upon receipt of the notification, the Quality Management Department shall immediately arrange a quality engineer to verify inventory status according to the part number to prohibit the continued outflow of the same batch of products. And meanwhile, the quality engineer shall also contact the Production Department and organize an analysis team for the identification of product quality problems, and finally form a written report for customers' reference.

Label Management

Xiezhong Nanjing has developed a Product Identification and Traceability Control Program, which clearly states that the Institute shall be responsible for designing product identification, so as to ensure that it conforms to the drawing specifications and other technical documents; and the Institute may also design special identification specifications according to customer demands.

Intellectual Property Rights

Upon admission to the Group, the employees shall sign a Non-Compete Agreement with the Group, which states that any employee is prohibited from unauthorized disclosure of the intellectual property information of the Group, including but not limited to drawings, information and data, etc., to third-party organizations. And meanwhile, employees of the Group are prohibited from actions that may infringe upon the intellectual property rights of others.

Due to business nature, the Group has not yet established any internal policy on advertising. In the future, the Group will formulate such relevant policies at due time based on its business development.



CO-DEVELOPMENT WITH COMMUNITIES

The Group values its commitment to social responsibility, focuses on the social investment activities in poverty alleviation and provides more supports to the communities where the Group operates. In the future, the Group will further improve the community investment standards through the formulation of relevant policies.

During the Year, the charitable fund established by the Group has invested RMB300,000 in community investment activities, such as donating libraries to schools, supporting poor college students, helping the employees in need to improve their lives and organizing regular volunteer activities.

COMPLIANCE PERFORMANCE

OVERVIEW OF COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

Aspects	Relevant Laws and Regulations	Compliance Performance Disclosure	Impact
Emission	The Environmental Protection Law of the PRC	During the Year, the Group has not found any cases of violation of laws and regulations related to emissions.	Relevant laws and regulations make specific provisions for preventing pollution (including solid waste pollution) and other public hazards, saving energy, protecting the environment, and promoting sustainable development. The Group complies with the above laws and regulations, which have not yet caused an increase of tax burden or a decrease in profits of the Group. Failing which, the Group will face administrative penalties and other adverse consequences.
	The Law of the PRC on the Prevention and Control of Environment Pollution Caused by Solid Wastes		
	The Energy Conservation Law of the PRC		
Employment	The Labor Law of the PRC	During the Year, the Group has not found any cases of violation in relation to employment.	Relevant laws and regulations make specific provisions for regulating and adjusting labor relations, improving labor contract systems, and protecting the legitimate rights and interests of workers. The Group complies with the above laws and regulations, which have not yet caused an increase of tax burden or a decrease in profits of the Group. Failing which, the Group will face administrative penalties and other adverse consequences.
	The Labor Contract Law of the PRC		



COMPLIANCE PERFORMANCE

Aspects	Relevant Laws and Regulations	Compliance Performance Disclosure	Impact
Health and Safety	<p>The Work Safety Law of the PRC</p> <p>The Law of the PRC on the Prevention and Control of Occupational Diseases</p>	<p>During the Year, the Group has not found any cases of violation in relation to health and safety.</p>	<p>Relevant laws and regulations make provisions for reducing production safety accidents, preventing, controlling, and eliminating occupational disease hazards, and protecting workers' health and other rights and interests. The Group complies with the above laws and regulations, which have not yet caused an increase of tax burden or a decrease in profits of the Group. Failing which, the Group will face administrative penalties and other adverse consequences.</p>
Labour Standards	<p>The Labor Law of the PRC</p> <p>The Law of the PRC on the Protection of Minors</p>	<p>During the Year, the Group has not found any cases of violation in relation to labour standards.</p>	<p>Relevant laws and regulations make specific provisions for regulating and adjusting labor relations, protecting the legitimate rights and interests of workers and protecting the legitimate rights and interests of minors. The Group complies with the above laws and regulations, which have not yet caused an increase of tax burden or a decrease in profits of the Group. Failing which, the Group will face administrative penalties and other adverse consequences.</p>

COMPLIANCE PERFORMANCE

Aspects	Relevant Laws and Regulations	Compliance Performance Disclosure	Impact
Product Liability	The Product Quality Law of the PRC	During the Year, the Group has not found any cases of violation in relation to product liability.	Relevant laws and regulations make provisions for regulating and improving product quality, implementing standardization work, and strengthening import and export inspections. The Group complies with the above laws and regulations, which have not yet caused an increase of tax burden or a decrease in profits of the Group. Failing which, the Group will face administrative penalties and other adverse consequences.
	THE Standardization Law of the PRC		
	The Law of the PRC on Import and Export Commodity Inspection		
Anti-corruption	The Anti-Unfair Competition Law of the PRC	During the Year, the Group has not received any legal procedure against the Group or its employees, nor found any material violation of relevant laws and regulations that had significant impact on the Group.	Relevant laws and regulations will regulate market competition, maintain financial order, and prevent corruption by companies and employees. The Group complies with the above laws and regulations, which have not yet caused an increase of tax burden or a decrease in profits of the Group. Failing which, the Group will face administrative penalties and other adverse consequences.
	The Anti-Money Laundering Law of the PRC		



OVERVIEW OF KEY PERFORMANCE INDICATORS

Environmental performance

Key Environmental Performance Indicators	2019	2018	2017	Unit
Waste emissions				
Nitric oxides	513.4	314.6	81.3	Kg
Sulfur oxides	20.2	13.7	3.4	Kg
Respirable suspended particulates	15.5	10.0	4.3	Kg
Greenhouse gas emissions				
Scope 1 Direct greenhouse gas emission	159.4	120.7	75.9	Tons CO ₂ e
Scope 2 Indirect greenhouse gas emission from generation of energy	4,500.9	6,459.1	7,764.9	Tons CO ₂ e
Scope 3 Other indirect greenhouse gas emission	64.8	57.6	15.3	Tons CO ₂ e
Total greenhouse gas emissions	4,725.1	6,637.4	7,856.1	Tons CO ₂ e
Greenhouse gas intensity (based on production volume)	41.1	40.2	60.4	Tons CO ₂ e per 10,000 items
Hazardous waste				
Total hazardous waste	1.8	1.3	N/A	Tons
Hazardous waste density (based on production volume)	0.016	0.0077	N/A	Tons per 10,000 items
Harmless waste				
Total harmless waste	No Statistics	No Statistics	0.6	Tons
Harmless waste density (based on production volume)	No Statistics	No Statistics	0.005	Tons per 10,000 items
Energy consumption				
Gasoline	233.8	182.6	129.9	MWh Equivalent
Diesel oil	243.8	138.0	38.8	MWh Equivalent
Liquefied petroleum gas	173.4	169.3	153.1	MWh Equivalent
Electricity	7,377.4	9,181.3	11,037.5	MWh
Total energy consumption	8,028.4	9,671.2	11,359.3	MWh Equivalent
Energy density (based on production volume)	69.8	58.6	87.4	MWh Equivalent per 10,000 items
Water consumption				
Total water consumption	137,063	214,661	248,226	m ³
Water consumption density (based on production volume)	0.12	0.13	0.2	m ³ per items
Packaging material used for finished products				
Total packaging material	273	2,050	196	Tons
Packing material density (based on production volume)	2.4	12.4	1.5	Tons per 10,000 items

OVERVIEW OF KEY PERFORMANCE INDICATORS

Social performance

Statistical data		Number of Employees	Number and proportion of new employees	Number and proportion of separated employees
Gender	Male	666	308 (46.2%)	259 (38.9%)
	Female	260	82 (31.5%)	48 (18.5%)
Age	Aged below 30	287	254 (88.5%)	195 (67.9%)
	Aged 30–40	380	106 (27.9%)	84 (22.1%)
	Aged 41–50	214	29 (13.6%)	25 (11.7%)
	Aged above 50	45	1 (2.2%)	3 (6.7%)
Category of employment	Chief senior managers	12	0 (0)	0 (0)
	Senior managers	38	2 (5.3%)	0 (0)
	Middle-level managers	20	5 (25%)	0 (0)
	General employees	856	383 (44.7%)	307 (35.9%)
Type of employment	Full time	926	390 (42.1%)	307 (33.2%)
	Part time	0	0 (0)	0 (0)

Number and proportion of work-related fatalities			Number of work-related injuries	Lost days due to work injury	Days of absence
This Year	2018	2017	1	66	405
0 (0%)	1 (0.1%)	0 (0%)			

Statistical data		Number of trainees	Proportion of trained employees ⁵	Average training time ⁶
Gender	Male	531	79.7%	10.0
	Female	170	65.4%	6.7
Rank	Chief senior managers	3	25%	2.2
	Senior managers	14	36.8%	4.5
	Middle-level managers	12	60%	3.6
	General employees	672	78.5%	9.5

Region where the supplier is located	Number of suppliers	Number of suppliers implementing the relevant practices ⁷
China Mainland	195	195

⁵ The percentage of trained employees is calculated as the number of trained employees in a specific category/total employees of that class.

⁶ The average training hours is calculated as the number of hours trained in a specific category/total number of employees in a specific category.

⁷ The Group's selection criteria, such as "Administrative Procedures for Suppliers' Performance", "Quality Guarantee Agreement with Suppliers" and "Procurement Control Procedures" etc..



ESG REPORTING GUIDE CONTENT INDEX

ENVIRONMENT 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.	8, 19
A1.1	The types of emissions and respective emissions data.	10, 22
A1.2	Greenhouse gas emissions in total and intensity.	9–10, 22
A1.3	Total hazardous waste produced and intensity.	11, 22
A1.4	Total non-hazardous waste produced and intensity.	11, 22
A1.5	Description of measures to mitigate emissions and results achieved.	9–10
A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	11
A2 Use of Resources		
General Disclosure	Policies on the efficient use of resources.	8
A2.1	Direct and/or indirect energy consumption by type in total and intensity.	8–9, 22
A2.2	Water consumption in total and intensity.	9, 22
A2.3	Description of energy use efficiency initiatives and results achieved.	8
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	The Group has no issue in sourcing water
A2.5	Total packaging material used for finished products and consumption per unit.	22

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.	8, 11
A3.1	Description of the significant impacts of business activities on the environment and natural resources and the actions taken to manage them.	11-12
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.	14, 19
B1.1	Total workforce by gender, employment type, age group and geographical region.	23
B1.2	Employee turnover rate by gender, age type and geographical region.	23
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.	15, 20
B2.1	Number and rate of work-related fatalities.	23
B2.2	Lost days due to work injury.	23
B2.3	Description of occupational health and safety measures adopted, as well as how they are implemented and monitored.	15

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.	13
B3.1	The percentage of employees trained by gender and employee category (e.g. senior managers, middle-level managers).	13, 23
B3.2	The average training hours completed per employee by gender and employee category.	23
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 or forced labour.	14, 20
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.	16
B5.1	Number of suppliers by geographical region.	23
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	16

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.	17, 21
B6.2	Number of products and service related complaints received and how they are dealt with.	17
B6.3	Description of practices relating to observing and protecting intellectual property rights.	17
B6.4	Description of quality assurance process and recall procedures.	17
B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	17
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.	16, 21
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.	21
B7.2	Description of preventive measures and reporting procedures, how they are implemented and monitored.	16
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.	18