



中發展控股有限公司

ZHONG FA ZHAN HOLDINGS LIMITED

Incorporated in the Cayman Islands with limited liability
Stock Code: 00475

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2016/17



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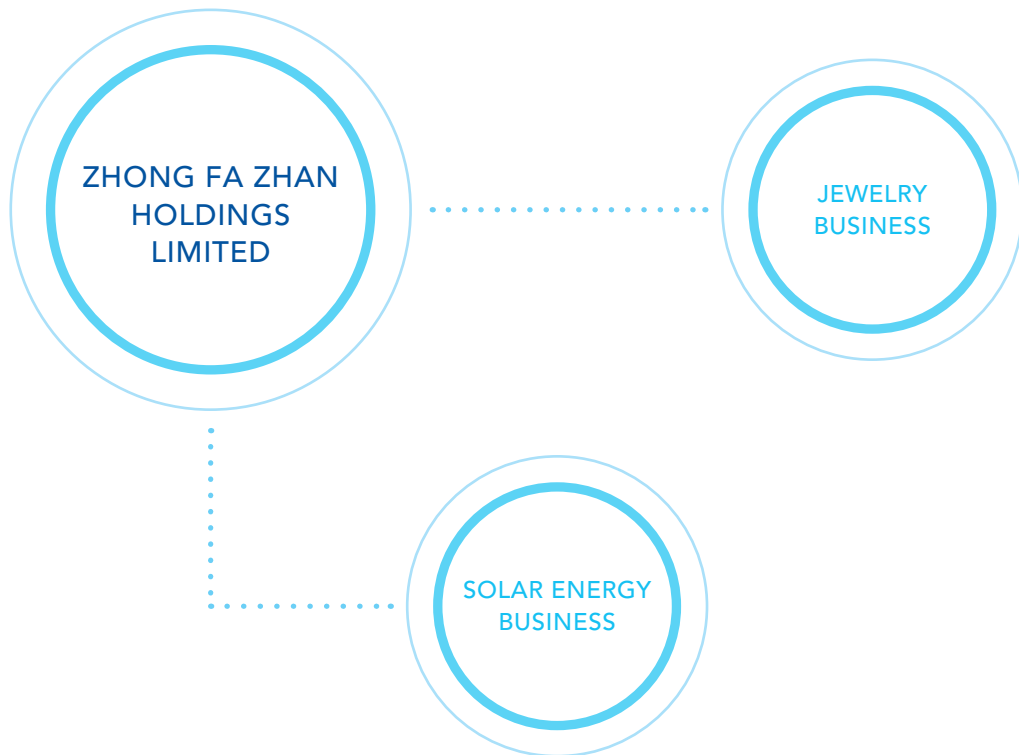
ABOUT THE GROUP

Zhong Fa Zhan Holdings Limited (“Zhong Fa Zhan”) and its subsidiaries (collectively “the Group”) are mainly engaged in jewelry business and solar energy business in China.

For jewelry business, the Group conducts wholesale of fine jewelries. The Group will uphold a prudent approach to enable stable development of its jewelry business and will place strict controls on both direct and indirect costs to maintain its competitive edges.

With Suncool AB, a leading energy conservation technologies development company in Sweden, becoming a strategic shareholder of the Group in 2015, the solar energy business has been officially

explored in the second half of 2016. The solar energy business mainly involves provision of solar-powered interior climate solutions and products in the Greater China region and the sale of distributed solar photovoltaic components. A temporary production line for producing core tubes for chillors & other components has been leased on short-term basis by the Group during the reporting period and the production has been commenced so as to satisfy the demand of the pilot project. With the leased factory at Yuyao ready to start operation next year, the Group will further optimize its production mode and increase production capacity in order to deliver and promote solar energy-related products in response to the market demand.





ABOUT THE REPORT

This report is the first Environmental, Social and Governance (“ESG”) Report published by Zhong Fa Zhan Holdings Limited (the “ESG Report”), which discloses its practices and performances on different aspects of sustainable development throughout last year in a transparent and open manner, and presents the Group’s strategies and commitments on sustainable development so as to promote stakeholders’ confidence in, and understanding of the Group.

REPORTING YEAR

All information contained herein reflects the performance of Zhong Fa Zhan regarding environmental management and social responsibility from April 2016 to March 2017. From now on, the Group will publish an ESG Report on a regular basis each year, which can be accessed by public at any time, in order to continuously enhance the transparency of information disclosure.

SCOPE OF THIS REPORT

This report focuses on the operation of the temporary factory at Yuyao City, Zhejiang Province in China (“Yuyao Temporary Factory” or the “Factory”)¹. When the data collection system becomes more mature and the ESG practices

having further improved, the scope of disclosure could be extended to cover all operations of the Group including the leased factory at Yuyao to be relocated in the coming year. This report excludes disclosures in respect of the key environmental performance indicator, however, the Group has planned to conduct carbon assessment and further refine and unify the reporting standards.

REPORTING STANDARDS

This report is prepared in accordance with the Environmental, Social and Governance Reporting Guide (the “Guide”) issued by The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) to summarize the ESG performance of Zhong Fa Zhan in a simplified manner. The information contained herein is sourced from official documents and statistics of the Group, as well as the combined data regarding control, management and operations under the relevant systems of the Group provided by the subsidiaries. A complete content index is included in the last chapter hereof for quick reference. This report is prepared in both Chinese and English version and is published on the Group’s website www.475hk.com. In the event of contradiction or inconsistency, the Chinese version shall prevail.

FEEDBACK

The continuous improvements of Zhong Fa Zhan rely on your valuable opinions on the performance and reporting method of the Group. If you are in doubt with, or have any recommendations for the Report, please feel free to email us at info@475hk.com so that the Group can constantly enhance its ESG performance.

¹ The operation of which is responsible by 寧波升谷節能科技有限公司 and 余姚市億恆太陽能科技有限公司, the subsidiaries of the Group.



MESSAGE FROM THE MANAGEMENT

"We are committed to realizing green energy solutions for the society and striving to create a harmonious and livable green city."

We are delighted to present the first Environmental, Social and Governance Report of Zhong Fa Zhan Holdings Limited. The Report not only demonstrates a new milestone of the Group in the aspect of environmental, social and governance, but also represents a key platform to convey our policy and progress on sustainable development to all stakeholders.

Zhong Fa Zhan understands the far-reaching influence of global warming for the human society and the environment. Global warming is mainly caused by the greenhouse gases generated through combustion of fossil fuels. We provide our clients with solar-powered interior climate solutions and products. Unlike traditional energy, using solar energy can effectively reduce emission of greenhouse gas and other substances that adversely affect the environment. By expanding our solar energy business, we hope to realize green energy solutions for the society and thereby achieve energy saving and emission reduction.

Zhong Fa Zhan firmly believes that talents are the driving force for its corporate development. We are committed to offering a safe working environment for our staff and creating a corporate culture of safe production. We understand only professional teams can help pave a solid foundation for the sustainable development of the Group. We provide our employees with opportunities to participate various kinds of trainings and help them fully capitalize on their strengths so as to enable mutual growth of both our employees and the Group.

The success of Zhong Fa Zhan has been based on its reputation built up for years. We accept zero tolerance of corruption, and hope to let every employee understand their obligation of upholding the principle of honesty and integrity by formulating anti-corruption policies, eventually leading to a fair and equal business environment.

As China and the world have increasingly demand on green energy, we target to promote the growth of domestic solar energy-related industries and create harmonious and livable green cities by developing its core business.

The Board of Zhong Fa Zhan Holdings Limited



COMMUNICATION WITH THE STAKEHOLDERS

Four reporting principles have been announced by the Stock Exchange under the Guide, which include materiality, quantitative, balance and consistency, forming a basis for the preparation of the ESG Report. As stated by the Stock Exchange, stakeholder engagement is an important criterion for assessing materiality. By communicating with the stakeholders, enterprises are able to understand opinions from a broad variety of sectors and identify crucial environmental and social issues.

As to Zhong Fa Zhan, stakeholders represent groups and individuals who have significant impacts on the business of the Group, or those who are affected by the business of the Group. The Group has placed strong emphasis on stakeholder engagement and has actively maintained connections with internal and external stakeholders. In last year, the Group has commenced communication with key stakeholders through different channels, and reviewed numerous important topics which are of concern to the stakeholders through management review meetings.

WAYS OF REGULAR COMMUNICATION WITH THE STAKEHOLDERS DURING THE REPORTING PERIOD

Internal Stakeholders	External Stakeholders
<ul style="list-style-type: none"> • Board of the Directors • Managements • Executive Officers • General Staffs 	<ul style="list-style-type: none"> • Shareholders • Investors • Customers • Business Partners of Supply-chain • NGOs and Local Communities • Governments/Regulatory Authorities • Banks/Financial Institutions • Trade Association • Cooperative Partners
<p style="text-align: center;">Ways of Communications: E-mails, meetings, phone calls, day-to-day reporting, shareholders' meeting, annual report and interim report, publication of announcement and circulars according to the Listing Rules, company's website, on-site visits, interviews, forums and exhibitions</p>	

Zhong Fa Zhan has attached much attention to stakeholder engagement and believes communication with stakeholders involves continuous process of in-depth understanding. In order to prepare this report, the Group has engaged a professional consulting agency to conduct substantive analysis by way of management interviews, and to determine reporting important issues by incorporating advices from the professional consultants, the results of which could be used by the Group as a basis for the formulation of future blueprint for sustainable

development. The Group plans to extend communication to other internal and external stakeholders in the future, and, through substantive assessment and establishment of concrete matrix, to identify the most critical issues in respect of sustainable development. This will not only help the Group to compile reports more effectively, but also provide a platform for the Group and stakeholders to discuss the challenges and opportunities of sustainable development.



ENVIRONMENTAL PROTECTION

Zhong Fa Zhan is committed to achieving sustainable development. In order to fulfill our promise to protect the environment, the Group has established the Environmental Policy and put in place numerous measures so as to minimize the impact of its operation to the environment by reducing carbon footprint, improving energy efficiency as well as advocating environmentally responsible business practices.

EMISSIONS

Climate change has posed unprecedented challenges to the global economic development, while extreme weather caused by climate change has directly or indirectly affected the ability of different institutions to access resources and to maintain operation. The target of "Take urgent action to combat climate change and its impacts" is one of the seventeen Sustainable Development Goals duly adopted by all the members of the United Nations in the Sustainable Development Summit held in 2015.

In November 2016, the Paris Agreement officially came into force, aiming to limit the rise in global temperature with two degrees Celsius before the end of this century as compared with the time of pre-industrialization and further controls the range of such rise within 1.5 degrees.

Zhong Fa Zhan recognizes that carbon emission reduction has been an immediate task of all enterprise around the world. In order to minimize the impact brought by climate change, the Group has tried its endeavor to reduce greenhouse gas emission during our daily operation and will set up goal of emission reduction by establishing a mechanism for the measurement of the daily greenhouse gas emission. The Group requires the board and staff to use e-communication as much as possible so as to reduce the potential carbon emission from local and overseas traveling.

Zhong Fa Zhan pursues an active dialogue with the industry. During the year, the Group was invited to attend the "Asia-Pacific Summit on Low Carbon Technology 2016", which was jointly organized by the Development and Reform Commission of Hunan Province and Asian Development Bank. It was also invited to deliver a keynote speech at the "14th China International Solar Energy Utilization Products Exhibition in Wuhan 2017" organized by the Chinese Solar Thermal Industry Federation. The Group hope to facilitate technical exchange between the group and the elites from the solar industry through active participation in various kinds of industrial seminars in a bid to drive the development of a low-carbon city.

USE OF RESOURCES

Zhong Fa Zhan is committed to making optimal use of resources in order to minimize environmental impacts attributable to its operational activities. The Group promotes and adopts energy-saving technology by replacing high-consumption equipment with low-consumption one; setting automatically switch to the Sleep Mode of all computers upon thirty minutes of idle status thereof; and shutting down all lightening devices or power equipment which are not in use so as to improve the level of energy conservation.

In terms of improving water-consumption efficiency, placing much attention to the reuse of sewage, Yuyao Temporary Factory has tried to minimize water consumption during the course of its operation by reducing consumption from the source, conducting regular check and maintenance on water pipes to avoid any leakage problem of faucets and gaskets as well as other issues in the water supply system.

Save for energy and water conservation, the Group promotes the paperless office based on the principle of reduce, reuse and recycle. The Group not only encourages employees to use e-mails or notice board for internal communication to avoid overuse of paper, but also places "Green boxes"



next to the printer to collect one-side used paper. Double-sided printing is suggested in the Group, and both-side used paper are collected for recycle and reuse.

ENVIRONMENT AND NATURAL RESOURCES

To ensure the effective implementation of the environmental policy and relevant measures, Zhong Fa Zhan actively seeks for exchange between the Group and various stakeholders including shareholders, employees, clients, government authorities, NGOs, and the public, devotes great effort to response to their advices and taking them into consideration when setting up relevant policies or making decisions. The group also enhance employees' awareness of environmental protection through relevant trainings.

Zhong Fa Zhan, as a manufacturing enterprise, acknowledges that product will have environmental impact from production to use. The cooling system manufactured by the Group uses relatively eco-friendly refrigerant instead of HCFCs in a bid to minimize the damage to the ozone layer. In addition, the solar heating and cooling collector is driven by solar power, which means it could save energy for only consuming small amount of power during external heat exchange.

During the reporting period, no non-compliance of the relevant regulations regarding emissions or environmental impact has been identified in the Yuyao Temporary Factory.

CARING FOR EMPLOYEES EMPLOYMENT

Zhong Fa Zhan believes that talents are the key to the competitiveness of enterprises. Staff are recruited by Yuyao Temporary Factory based on the principle of gender and ethnic equality. Annual assessment on the performance of the staff will be conducted, in which the integrity, knowledge, experience, capability and work efficiency of the staff will be evaluated by the department manager. The results of which will be served as the basis for their future promotion and wage adjustment.

Since Yuyao Temporary Factory has just been put into operation, a majority of employees are hired during the reporting period. It has just been

recognized that the number and remuneration of male employees are higher than those of the female ones, the Factory will continuously review and improve the employment system to attract and retain female employees.

In order to regulate employees' behaviors, a reward and penalty policy has been established for Yuyao Temporary Factory, with definite basis and standard setting out in the Staff Handbook. Valuing the communications with its employees, the Factory has a complaint procedure in place to ensure promote follow-up of the employees' complaints by its human resource and administration department in time. Upon receipt of the complaint and after discussion, the human resource and administration department will report the initial conclusion to the management for final decision.

During the reporting period, no non-compliance of the relevant regulations regarding employment and labour practices has been identified in the Yuyao Temporary Factory.

HEALTH AND SAFETY

Zhong Fa Zhan is committed to providing a safe and healthy working environment for the employees. Yuyao Temporary Factory has established "General Rules for Safety Production", which provides specific requirements for safety operation and emphasizes the approach of "Safety First and Prevention-oriented". The Factory requires a ten metre distance between any inflammable item and fire. In addition, workers engaged with the operation of special devices must obtain licenses, while unrelated persons are prohibited from operating any machineries and electronic devices. In terms of personal protection, staff accessing into the production area must wear labour protection articles such as hardhat, overalls and working shoes. The Factory also requires workers to attend the Three-tier Safety Education² and technical training before performing their duties.

During the reporting period, no non-compliance of the relevant regulations regarding safety and health has been identified in the Yuyao Temporary Factory.

² Three-tier Safety Education represents the plant safety education, workshop safety education and job safety education tailored for newly-recruited staff and workers.



DEVELOPMENT AND TRAINING

Yuyao Temporary Factory places high emphasis on personal development of its staff and encourages them to fully capitalize on their strengths so as to achieve mutual growth of both the staff and the Group. A "Training Management Regulation" formulated by the Factory has specified duties of each department and the training requirements. In order to help new employees adapt to the new working environment, an orientation training has been offered. The relevant training can be categorized into two types, namely general training and professional technical training, subject to different positions. Moreover, employees have been provided with internal and external trainings. The internal training includes one-on-one teachings, seminars or exchange sessions, aiming to enhance techniques and management skills of the staff; while the external training involves external open classes, exchange sessions, or courses to be taught by external instructors at the offices of the Company, in order to improve skills of the staff in various aspects such as sales, management, operation philosophy and corporate strategy.

During the reporting period, a technical team of Zhong Fa Zhan received professional training from Suncool AB in Sweden, to have a better command of the technology of the entire solar heating and cooling system.

LABOUR STANDARDS

Zhong Fa Zhan is aware that child labour and forced labour are seriously against basic human rights and International Labour Conventions, and may threaten the sustainable development of the society and the economy. Therefore, the Group maintains stringent compliance with relevant laws and regulations. Child labour is prohibited at Yuyao Temporary Factory and a strict review of the actual ages of the job applicants will be conducted during the recruitment process, under which applicants must produce identity cards for verification. Besides, compensatory time off or overtime allowance will be offered to employees who work

overtime on rest days. In case of an extended overtime on weekdays or overtime on statutory holidays, an overtime schedule will be arranged by the Factory according to requirements of Labour Law.

International Labour Organization is a professional institution of the United Nations. It established the labour standards through international labour conventions and proposals to improve working and living standards globally. China is a founding member of International Labour Organization and is a permanent member state of this organization.

During the reporting period, no child labour or forced labour has been identified in the Yuyao Temporary Factory.

OPERATION PRACTICES SUPPLY CHAIN MANAGEMENT

In a globalized economy, outsourcing is a common practice of enterprises. However, outsourcing does not mean that enterprises can evade responsibility or risk arising from poor ESG performance. Zhong Fa Zhan understands that the Group should play its part in the entire life-cycle of products and services, and proper management of supply chain is the key to maintaining the brand's reputation, which help ensure business sustainability and control operating costs.

Zhong Fa Zhan has set up a supply chain policy, in a bid to improve the environmental and social performance of its suppliers through continuous and close cooperation with them. In selecting suppliers, the Group has endeavored to include their environmental and social performance as one of the evaluation criteria, under which their performance on environmental protection, responsible procurement, labour welfare, protection of intellectual property for third parties, anti-corruption and safety of product components will be taken into account.



PRODUCT RESPONSIBILITY

Unlike traditional lithium-bromide absorptive chillers, the solar heating and cooling system produced by Zhong Fa Zhan can avoid issues such as solution crystallization and metal corrosion, thus enhancing safety in product operation. In addition to avoiding scalding accident, the solar heating system also help refrain from the danger of poisoning, which is caused by carbon monoxide generated from traditional heating stoves. Furthermore, once an unqualified product is detected, the Group will take remedial measures accordingly, including arrangements on product returns, recall or recovery.

Zhong Fa Zhan is devoted to protecting clients' privacy and taking precautionary measures to prevent any unauthorized or accidental access, handling, deletion, loss or utilization of the clients' information. The Group also upholds the principle of responsible marketing to ensure delivery of objective and accurate information regarding its products and services to clients via all marketing channels such as product tags and advertisements.

During the reporting period, no non-compliance of the relevant regulations regarding product responsibility has been identified in the Yuyao Temporary Factory.

ANTI-CORRUPTION

Zhong Fa Zhan believes that integrity is a foundation of corporate social responsibility, as well as an inevitable element to maintain the enterprises' competitive advantage and sustainability. Hence, the Group has systematically incorporated the management principles of anti-corruption into our operations. The "Anti-Corruption Policy" formulated by the Group stipulates rules and guidelines to prevent bribery. For instance, engagement of contractors, suppliers and business partners during the process of procurement must be conducted through fair and formal procedure. Besides, the staff will receive anti-corruption training regularly to raise their awareness of anti-corruption.

United Nations Convention against Corruption (UNCAC) is the first global convention to cover corruption issues in a comprehensive manner. Many countries develop their own laws and take implementing measures in compliance with UNCAC.

According to the provisions under the "Whistleblowing Policy" established by Zhong Fa Zhan, our staff, suppliers or other stakeholders may report any suspected misconduct or improper practice to the Group, in either oral or written forms. Identity of whistleblower will be kept strictly confidential.

During the reporting period, no non-compliance of the relevant regulations or litigation action regarding corruption in which the Factory or the staff is involved has been identified in Yuyao Temporary Factory.

COMMUNITY INVESTMENT

The market has rising awareness of corporate social responsibility in recent years, which leads to a concept of "Social Operation Permit". It strongly advocates enterprises to take into account the long-term interest of the overall society, instead of only pursuing short-term financial results and returns to shareholders. Zhong Fa Zhan has not yet formulated a concrete community investment policy as its solar energy business is currently in the early stage of development. However, the Group is committed to actively increasing its investment in the community in the future, encouraging its staff to participate in voluntary services and further consolidating its connection with the community where it operates.



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A3 The Environment and Natural Resources		
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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, holidays, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	6
B2 Health and Safety		
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