

NATIONAL ELECTRONICS HOLDINGS LIMITED

Stock Code: 213



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT 2017

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1 ABOUT THIS REPORT

1.1 OVERVIEW

National Electronics Holdings Limited is an investment holding company and its subsidiaries are principally engaged in the manufacture, assembly and sale of electronic watches and watch parts, trading of watch movements and watch parts, property development and investment and hotel operation. This is the first Environmental, Social and Governance (“ESG”) Report of National Electronics Holdings Limited (“the Company” or “the Group”) for the year ended 31 March 2017.

1.2 ABOUT OUR BUSINESS

For the year ended 31 March 2017, the principal activities of the Group are the manufacture, assembly and sales of electronic watches and watch parts, the trading of watch movements and watch parts, property development and investment and hotel operation. The revenue of the various operating segments is summarized in the table below:

Business Segment	2017 Revenue (HK\$)
Manufacture of watches and trading of watch movements	890,625,248
Property development and investment	19,307,848
Hotel operation	99,042,948

1.3 SCOPE OF THIS REPORT

The scope of the ESG report covers the main operating segments of the Group, including the manufacture, assembly and sales of electronic watches and watch parts, trading of watch movements and watch parts, property development and investment and hotel operation, in Hong Kong and the Mainland China.

1.4 REPORTING REFERENCE

This ESG report was prepared in accordance with the general disclosure requirements of the Environmental, Social and Governance Reporting Guide (“ESG Guide”) in Appendix 27 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, meeting the “comply or explain” provision of the ESG Guide. The ESG report will also be prepared annually along with the annual financial report.

1.5 SOURCE OF INFORMATION AND CONTACT

The information disclosed in this report is sourced from the Company’s internal archives. All information in this report has been confirmed by the management and the respective departments of the Company. If you have any questions or comments regarding any of the contents of this report, please contact the Chief Financial Officer of the Company, Mr. Andy Wong at info@nationalholdings.com.hk

2 STAKEHOLDER ENGAGEMENT AND MATERIALITY ASSESSMENT

2.1 STAKEHOLDER ENGAGEMENT

Materiality assessment is essential in identifying the focus of our ESG management strategies. Engaging our stakeholders provides important input for our decision making, which helps us to continuously improve and make progress toward our ESG commitments.

For the first year in preparing the ESG report, we have primarily conducted engagement with our senior management, who have hands-on knowledge of our operations as well as close relationships with key investors and business partners, in collecting views and identifying materiality for the Group. With the facilitation of a third party consultant, engagement surveys and interviews were conducted and assessed. Findings were subsequently transcribed into the materiality results as described in the section below.

We are committed to ongoing stakeholder engagement as part of our sustainability strategies and annual reporting processes. Our key stakeholders include our clients, employees, suppliers and contractors as well as professionals in property development and investment. We plan to expand our scope of stakeholder engagement in order to get a more comprehensive feedback of our ESG performance.

2.2 MATERIALITY ASSESSMENT

Views and opinions collected during the stakeholder engagement were assessed and summarized in the materiality matrix below. Each material ESG issue and its relevance to the business operations are listed in descending order categorized by environmental and social aspects in the table below:

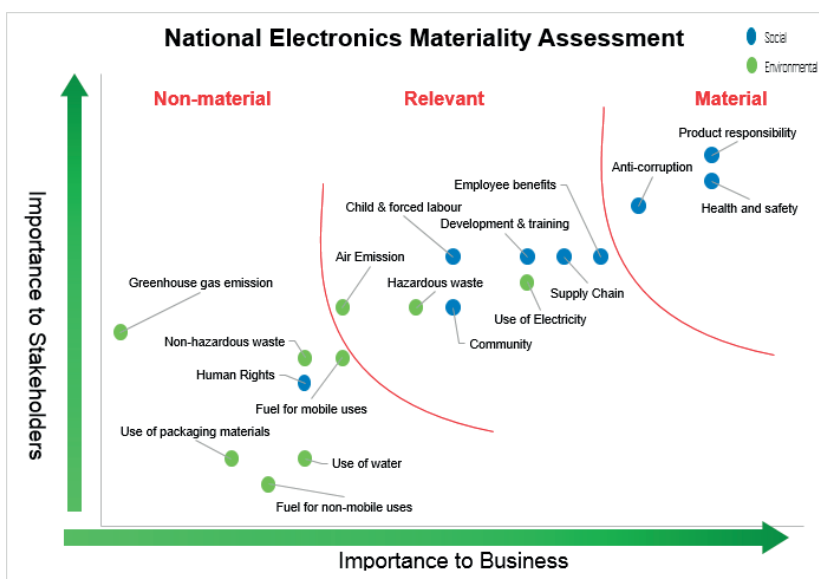


Figure 2 Materiality Matrix

3 ENVIRONMENT

The Company is committed to the protection of the environment. We take a close and responsible interest in the natural environment where our business holds operations in.

As a business, we strive to minimize environmental impacts from our operations through minimizing the use of resources, reducing environmental emissions as well as impacts towards the natural environment, where practicable. We encourage our employees and service providers to do the same. While our business operations vary in nature from watch manufacturing to property development to hotel operation, we apply relevant precautions and actions to minimize our environmental impacts accordingly.

Watch Manufacturing

The watch manufacturing process is primarily the assembly of parts and components sourced from suppliers. While the manufacturing process is not subject to significant environmental impacts or compliance matters, there are still environmental matters resulted from the operation, for example, waste generated from the use of chemicals such as spent oils and lubricants, and emission of exhaust air from soldering. We thus plan to better manage in the near future our manufacturing process through the following, where practicable:

- Adopt more environmentally friendly concepts in the production process through better understanding of our existing environmental performance standard through for instance, energy audit and indoor air quality assessment in factories;
- Consider more eco-friendly product design;
- Understand both local and global regulatory requirements in environmental protection;
- Collaborate more with suppliers, and better respond to global environmental supply chain pressures;
- Strategic planning for long-term environmental improvement; and
- Enhance environmental awareness of our employees.

Property Development

For our property development business, we always take the lead as the project manager. We work closely with our service providers, such as engineers, architects and contractors, to incorporate responsible environmental considerations throughout the whole process from design to build. For all new buildings, we take into consideration green building guidelines like BEAM¹ and LEED². Examples of certified buildings include the office building at 50 Connaught Road Central and the residential development at 45 Tai Tam Road.

During the design stage, we look at incorporating environmentally-friendly or green design features where practicable, including for example, installing double-glazed windows to minimize heat gain, optimizing the use of natural lights and using energy-efficient lighting equipment. During construction, we work hand-in-hand with the contractors in implementing on-site environmental management to ensure environmental regulatory compliance as well as monitoring environmental performance, from air emissions and noise to waste water discharge etc.

1 Building Environmental Assessment Method (BEAM) is the Hong Kong rating tool for green buildings.

2 Leadership in Energy and Environmental Design (LEED) is a rating system devised by the United States Green Building Council (USGBC) to evaluate the environmental performance of a building and encourage market transformation towards sustainable design.

Hotel Operation

Our hotels are in constant operation and we rent out the shops and cafes to third-parties. As the hotel operator, we have identified two environmental aspects that we plan to focus on to improve in the future, namely energy consumption and waste management.

The Head Office

At the head office, we advocate environmentally-friendly working practices by paying close attention to the efficient use of resources and minimising waste generation. Green office initiatives are encouraged such as printing double-sided, switching off idle lighting and minimising the use of electrical appliances.

3.1 USE OF RESOURCES

The Group is committed to using resources efficiently and we encourage the reuse and recycling of materials within our operations. Among the various environmental aspects of resource use, we have identified the use of electricity as the most significant. We have been keeping records of our monthly utilities including electricity, water and fuel consumption. The data collected will be used for analyses of our base-line consumption on resources and whether any improvements can be made.

Watch Manufacturing

We intend to perform an energy audit on our factory facilities, with aim to identify our baseline usage and thus opportunities for improvements to reduce energy consumption in our facilities and other adverse impacts on the environment, such as greenhouse gas emissions.

Property Development

In property development, although we are not end-users in most cases, we take into consideration resource-efficient designs and equipment such as the use of LED lighting and energy-efficient appliances, as well as water-efficient fixtures.

The Head Office

In our head office, we also implement measures in energy saving and resource minimization. Example of these measures are provided as follows:

- Keeping the air-conditioned room temperature at around 25°C;
- Shutting off lights when a room is not in use and switching off computers after working hours;
- Minimizing printing of documents;
- Closing doors and windows when the air-conditioning is on; and
- Switching to energy-saving mode for office equipment and electronic appliances after a period of inactivity.

3 ENVIRONMENT

3.2 EMISSIONS

Among the various environmental emission aspects, we have identified hazardous waste generations and air emissions the most significant in our business operations. Further details of their relevance and control measures carried to properly manage these emissions as well as the regulation compliance status are provided in the sections below.

Emission of exhaust air from soldering, evaporation of organic solvents/lube oil, metal dust from cutting machinery etc., from watch manufacturing. Besides, air emissions mainly on dust and particulate matter from construction sites.

3.2.1 Waste Management

3.2.1.1 Hazardous waste

Watch Manufacturing

While the manufacturing process is not subject to significant environmental impacts or compliance matters, there is waste generated from the use of chemicals such as spent oils and lubricants, as well as the disposal of batteries. Batteries contain heavy metals such as mercury, lead, cadmium, and nickel, which can contaminate the environment when they are improperly disposed of. When incinerated, certain metals might be released into the air or can concentrate in the ash produced by the combustion process. Mercury leakage from the batteries would be another concern to the environment.

We therefore manage these hazardous waste carefully by using licensed waste contractors to properly collect and dispose of these hazardous waste.

In light of these impacts, we will look to adopt environmentally-friendly technology in the future design of our watches.

Property Development

Chemical waste, such as unused paints, empty spray bottles and solvents are unavoidable in construction works. We have implemented the proper handling of chemicals at our construction sites. Though we do not directly handle or have direct control over the waste management at the site level, we work closely with our contractors to ensure these hazardous waste are properly managed and disposed of.

3.2.1.2 Construction Waste

Construction waste is mainly generated in property development. We strive to minimise construction and demolition waste through reuse and recycling to reduce the amount of waste being disposed of to land-fill sites. As with hazardous construction waste, we work closely with our contractors to ensure this waste is properly managed and disposed of.

3.2.1.3 General Waste

General waste is mainly generated from our office and hotel operations. Measures adopted to minimise waste generation include the following:

- The provision of recycling bins to collect used paper, plastic bottles, packaging materials and ink cartridges;
- The adoption of electrical means for internal communication, where possible; and
- The use of double sided printing and reuse of scrap paper.

3.2.2 Air Emissions

Watch Manufacturing

For our manufacturing factory located at Shenzhen, we have exhaust emission from soldering, evaporation from organic solvents and lube oil, and metal dust from cutting machinery etc. and so we conduct indoor air quality (IAQ) monitoring annually to ensure a healthy working environment for our workers. Testing parameters include Benzene, Toluene, Xylene, Acetone, Butanone and Ethyl Acetate. We are in full compliance in the last testing performed in March 2017.

Property Development

There are air emissions present from construction sites during property development. Though we do not have direct control over the emissions from construction sites, we work closely with our contractors to ensure proper monitoring of their compliance with the local environmental protection laws and regulations.

3.2.3 Regulatory Compliance

During the reporting period, we were not aware of any material non-compliance with laws and regulations relating to environmental emissions for our manufacturing factories, construction sites and operating properties including hotels.

3.3 THE ENVIRONMENT AND NATURAL RESOURCES

The significant environmental issues faced in our business in relation to emissions and the use of resources are already disclosed in the above sections.

4 PRODUCT RESPONSIBILITY

Quality product and service are important for the long-term sustainable development of a company. Therefore, we have implemented a number of quality control initiatives to make sure that the product we deliver or the service we provide are consistently up to standard.

4.1 SECURING PRODUCTS AND SERVICES QUALITY

Watch manufacturing

Regarding the manufacturing of watches, the Group designs and manufactures products which are specified by clients. We place a high priority on research and development, aiming to continuously improve product quality. Our products are subjected to stringent quality control tests.

Group's systems for quality control include the following:

- A series of inspection from parts to final products, regarding their appearance, packaging, specification and brand logo, etc. on a sampling basis; and
- If any defects are identified, the relevant product will be returned to the production house for assessments, with the reason for the defect investigated and recorded.

Our effort on maintaining quality products has been widely recognised. We have already obtained ISO9001 for our manufacturing business.

Property development

With respect to the Group's property business, during the whole process from design, construction plan, technical management, sales to after-sales service, we work together with expert consultants to provide the best product to our customers. For every property development project, our team strives to consider the design from the perspective of end users, taking into account their needs.

We understand the significant impact and responsibility on the community as a property developer. The Group considers environmentally-friendly design and green building certification such as BEAM and LEED where practicable.

Hotel

At our hotels, the privacy and confidentiality of customers' information is important. We are committed to safeguarding guests' privacy during their stay, as clearly stated in our Employee Handbook and we hold our staff to the highest standards.

Regulatory Compliance

During the year under review, the Group was not aware of any material non-compliance with laws and regulations relating to our products and services.

4.2 SUPPLY CHAIN MANAGEMENT

The Group views suppliers as partners and we expect them to make a fair return when they do business with us. We try to treat them equally, based on objective criteria such as price and quality and on intangible criteria such as integrity and reliability. Procurement of suppliers and service providers is conducted under strict ethical standards which provides customers and suppliers with continued confidence.

While the Group strongly believes that the procurement of services or the purchase of goods should be based mainly upon price, quality and on-time delivery, we also consider the ESG performance of our service providers, particularly regarding regulatory compliance on environment, employment and labour as well as health and safety.

Watch manufacturing

For our manufacturing business, we rely on various suppliers to support our production. We understand that effective supply chain management is one of the most important parts of our operational process. Therefore, policies on selection and evaluation of suppliers have been developed and implemented.

We regularly evaluate our suppliers. The Group aims to assist underperforming suppliers to improve their product quality and standard of services. We would reevaluate our partnership with those who do not meet our requirements.

Property development

For property construction, we only work with main contractors with a solid reputation in the industry, and who also maintain a good record in health, safety and environmental issues. The Group maintains long-term partner relationships with various main contractors in Hong Kong throughout the years.

Hotel

Regarding the hotel business, we promote fairness and openness and aim at developing long-term relationships with suppliers and contractors. We have established transparent procurement and tendering procedures in support of our business operations. The purchase of goods and hiring of services should be based on need, price and quality. The Company's procurement policies and procedures follow these principles:

- Genuine need for goods and services;
- Consideration of more than two suppliers or contractors, where available;
- Compliance with laws; and
- Management controls to prevent and detect bribery, fraud or other malpractices in the process of procurement and tendering.

We will continue to progressively enhance the assessment and monitoring of the ESG performance of our suppliers.

It is the policy of the Group to prohibit bribery and corrupt practice. Employees are not permitted to accept gifts or gratuities from current or potential suppliers or other parties interested in doing business with the Group. Likewise, employees are prohibited to give money or gifts to gain influence for the Group. Gifts or entertainment of small value may be given or accepted in circumstances where they can be reciprocated and where they do not compromise the Group.

5 EMPLOYMENT AND LABOUR PRACTICES

Talent forms the foundation of a Company's success. One of our top priorities is to attract and retain the best people. This is achieved by implementing a fair and transparent recruitment process, providing a respectful and safe working environment and offering a comprehensive and competitive benefits package along with learning and professional development opportunities.

The Group's commitment to our employees' welfare is clearly stated in the Code of Conduct and Employee Handbook.

5.1 RECRUITMENT AND EMPLOYEE BENEFITS

Talent recruitment

The Group believes in the power of talent in driving business growth. In order to attract all kinds of talent of diverse backgrounds, we are dedicated to achieving equality of opportunity during the recruitment process. All applicants and employees are judged based on their qualifications, demonstrated skill and achievements and not based on their race, colour, religion, national origin, gender, age, disability, sexual orientation, marital status, or other status protected by law.

To retain and motivate employees, the Group offers competitive remuneration packages which is reviewed annually to reflect each employee's performance and contribution. The Group is committed to promotion from within, where staff of extraordinary performance are encouraged to take up more responsibility. Senior management makes promotion decisions based on merit, efficiency and ability.

Remuneration package and benefits

Full-time employees are entitled to various benefits. The Group contributes to social plans for its employees with the contribution percentages and base in compliance with local laws and regulations. All employees are entitled to a leave option according to local labour laws and regulations, including public holiday, paid annual leave, sick leave, maternity leave, paternity leave, personal leave, etc.

We understand that, in addition to compensation and benefits, personal growth opportunity and exposure are important to employees as well. To provide staff with greater value-added experiences and cultivate talent, the Group encourages internal transfers. For example, at our hotel operations, internal advertisements for additional manpower and replacements will be put up on the Company's notice board. Interested employees can submit their applications directly to the Human Resources Department. All applications will be treated fairly with strict confidentiality.

Building up an atmosphere of trust

Organisation health is a reflection of the attitude of employees. We understand that effective internal communication builds productivity and satisfaction. Employees value open communication and understanding and so, we have provided a variety of means for staff communication to foster an atmosphere of mutual trust between the Group and employees.

Employees are encouraged to give their constructive opinions and suggestions to their supervisors or the Human Resources Department. Managers would organise counselling, acknowledge performance, encourage improvement in performances and give career guidance. Furthermore, the Group takes grievances and complaints seriously and all information received shall be kept confidential.

To promote bonding between the Group's employees, we organise company events like New Year and Christmas lunches to give colleagues opportunities to interact with each other in a relaxed environment and enjoy a sense of belonging.

5.2 LABOUR STANDARDS

The Group does not tolerate or engage in any use of child or forced labour and strictly follows the relevant statutory requirements, such as Labour Law of the People's Republic of China, Provisions on the Prohibition of Using Child Labour and the Employment Ordinance of Hong Kong.

Procedures are established to ensure no child labour is employed. During the recruitment process, the age of candidates is verified with their identification documents.

The Group does not tolerate forced labour and we protect the rights of staff in terms of the contractual working hours, rest and leave days. All overtime duties are performed on a voluntary basis and employees can always choose to leave work on time or apply for overtime work. When overtime is needed, employees are required to obtain approval from their manager.

5.3 HEALTH AND SAFETY

It is the Group's goal to protect the health and safety of its employees. The Group is committed to complying with all applicable safety and health laws and regulations. Anyone who spots accidents or conditions that they believe are unsafe are encouraged to report them promptly to their supervisors.

Watch manufacturing

As a watch manufacturer, we are devoted to bringing our employees a safe and healthy workplace by minimising their exposure to potential health and safety risks.

We make sure that first aid kits are available in every production area. First aid officers trained by the Red Cross are stationed in the factory and work together with local medical centres to make sure employees could receive proper treatment in case of injuries. All of our safety equipment and measures are prepared in accordance with applicable laws and regulations.

Property development

Construction safety is an important issue to our property development business. We outsource our construction work to contractors with a good reputation and record on workers' health and safety. We encourage our contractors to strive for the goal of zero accidents at all our construction sites.

Hotel

Guidelines on dealing with fire and work related injuries are clearly stated in the Employee Handbook. Though the working environment of a hotel is of relatively low risk, we still suggest employees to always be aware of their surroundings. If an accident or injury does occur, it must be reported immediately to the relevant manager or Human Resources Department.

For fire safety, staff are required to be familiar with all safety precautions and regulations as prescribed by the Company to protect guests and themselves from danger. We have developed an action plan for our staff to follow in the case of fire.

5 EMPLOYMENT AND LABOUR PRACTICES

5.4 DEVELOPMENT AND TRAINING

The Group considers our employees its most valuable assets. We believe the mission of training is to develop quality employees to enable them to support their career advancement, as well as to meet business objectives.

The Group provides introductory orientation programs and continuous training to employees. Topics cover industry knowledge, product quality standards and work safety standards to continuously enhance the competitiveness of our services and products, as well as the safety awareness of our staff.

As an example, we offer an Educational Assistance Scheme for our hotel associates who have completed 2 years of service to encourage them to learn new knowledge and skills through attending external training courses. This includes any business-related training programs that can directly help associates in the present job or future advancement.

5.5 ANTI-CORRUPTION

As a listed company in Hong Kong, we strive to maintain the highest standards of integrity and ethical conduct in our relationship with our stakeholders – the directors, employees, customers, suppliers, shareholders and community. We do not tolerate bribery, corruption and fraud of any kind.

The Code of Conduct and Ethics is applied to ensure a continuing commitment to our highest values and standards. The Code outlines the principles of conduct and ethics to be followed by the Company's employees, officers and directors.

For officers and employees:

Conflict of interest:

The Group requires that all employees avoid any situation which does or may involve a conflict between their personal interests and the interests of the Group. Each employee has an obligation at all times to promote the Group's best interest.

Officers and employees must take every means or actions they reasonably can to avoid any appearance of conflict of interest. If it appears that a conflict of interest arises or is likely to arise, the person involved must promptly report it to their supervisor or the Audit and Risk Management Committee of the Company.

5 EMPLOYMENT AND LABOUR PRACTICES

Safeguard Confidential Information:

Officers and employees have a responsibility to safeguard confidential information. They should not disclose any confidential information regarding the Company to anyone outside the Company, including spouse, parents, children, siblings or domestic partners, except where disclosure is needed to enable the Company to carry on its business or where there is no reason to believe that the disclosure might cause any economic loss to the Company.

Confidential information includes, but is not limited to, all information that may be of use to the Company's competitors, or that could be harmful to the Company or its customers, if disclosed.

For Directors:

A director of the Company must act in good faith in the best interest of the Company and the exercise of their power must be for the benefit of the company. Directors must use independent judgment in relation to any exercise of their power and must not allow personal interests to conflict with the interest of the Company. A director of the Company must not enter into transactions in which the director has an interest except in compliance with the requirements of the law. They must not use their position as a director to gain (directly or indirectly) an advantage for themselves or someone else, or which causes detriment to the Company.

Directors of the Company must not use the Company's property or information, or any opportunity that presents itself to the Company, of which they become aware as a director of the Company. This is except where the use or benefit has been disclosed to the Company and the Company has consented to it. Any benefit from a third party cannot be accepted if it is due to their position as a director.

5.6 REGULATORY COMPLIANCE

During the year under review, the Group was not aware of any material non-compliance with laws and regulations relating to employment and labour practices, occupational health and safety that have a significant impact on the Group. No incidents were identified relating to the use of child and forced labour, material breach of laws and regulations relating to bribery, extortion, fraud and money laundering.

6 COMMUNITY INVESTMENT

The Group sincerely believes that business growth is closely tied to the health of the surrounding community and the environment. The Group encourages and supports employees to participate in community events and to make charitable donations.