



ROYALE FURNITURE HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock code: 1198



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2016



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ABOUT THIS REPORT

Royale Furniture Holdings Limited (the “Company”, together with its subsidiaries as the “Group”) is pleased to present the first Environmental, Social and Governance Report (the “Report”) to provide an overview of our commitment in achieving environmental, social and governance goals. This Report is prepared by the Group with the professional assistance by APAC Compliance Consultancy and Internal Control Services Limited.

Preparation basis and scope

This Report is prepared in accordance with Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) – “Environmental, Social and Governance Reporting Guide” and has complied with the “comply or explain” provisions.

This Report summarizes the effort contributed by the Group in respect of corporate social responsibility in 2016, covering its core operation – manufacture and sale of furniture in the People of Republic of China (“PRC”). As it is the first time for the Company to publish of the Report, only some of the key performance indicators in Guangzhou, which is considered as material by the Group, are disclosed. However, it does not contain all recommended disclosure. The Group will continue to optimize and improve our reports. This Report shall be published in both Chinese and English. Should there be any discrepancy between the Chinese and the English versions, the English version shall prevail.

Reporting period

This Report demonstrates our sustainability initiatives during the reporting period from 1 January 2016 to 31 December 2016.

Contact information

The Group welcomes your feedback on this Report for our sustainability initiatives. Please contact us by email to info@chitaly.com.hk.

INTRODUCTION

The Group recognises that in order to continue its success in attracting capital at affordable price, retaining a loyal workforce and sustainable customer base, the Group needs to protect and enhance its reputation as an ethical, profitable and responsible brand.

Respect for stakeholders, employees and the environment, is a non-negotiable business principle throughout the Group. Management is confident that it has appropriate systems in place, not only to protect the brand and its businesses, but also to provide long-term benefits to various stakeholders.

The Group is committed to responsible operation and value creation for stakeholders and community by integrating environmental and social factors into management considerations. Sustainability strategy is based on the compliance with the legal requirements in areas we operate and opinions from stakeholders. It is crucial for the Group's growth in order to achieve business excellence and build capabilities for long-term competitiveness. The Group has established and implemented various policies to manage and monitor the risks related to environment, employment, operating practices and community. Details of the management approaches to sustainable development of different areas have been illustrated in this Report.

STAKEHOLDERS ENGAGEMENT

The Group acknowledges the importance of intelligence gained from the stakeholders' insights, inquiries and continuous interest in the Group's business activities. The following table provides an overview of the Group's major stakeholder groups, various platforms and methods of communication that used to reach, listen and respond to stakeholders.

Major stakeholder groups	Issue of concern	Engagement channel
Government	<ul style="list-style-type: none"> Compliance with laws and regulations Proper tax payment Promote regional economic development and employment 	<ul style="list-style-type: none"> On-site inspections and checks, research and discussion through work conferences, work reports preparation and submission for approval Annual reports and other published information on its website
Shareholders and Investors	<ul style="list-style-type: none"> Return on the investment Transparent disclosure of information Protection of interests and fair treatment of shareholders 	<ul style="list-style-type: none"> Annual general meeting and other shareholder meetings Annual report, announcements and other published information Meeting with investors and analysts
Employees	<ul style="list-style-type: none"> Safeguard the rights and interests of employees Career Development opportunities Health and safety 	<ul style="list-style-type: none"> Conference Training, seminars, briefing sessions Cultural and sport activities Intranet and emails
Customers	<ul style="list-style-type: none"> Safe and high-quality products Stable relationship Information transparency Business ethics After-sale services 	<ul style="list-style-type: none"> Website, brochures, annual reports Email and customer service hotline Customer feedback forms Regular meetings
Suppliers/ Business Partners	<ul style="list-style-type: none"> Long-term partnership Honest cooperation Fair, open tendering process Risk reduction 	<ul style="list-style-type: none"> Business meetings, supplier conferences, phone calls, interviews Regular meetings Review and assessment Tendering process
Peers/Industry associations	<ul style="list-style-type: none"> Experience sharing and cooperation Fair competition 	<ul style="list-style-type: none"> Industry conference Site visits
Public and communities	<ul style="list-style-type: none"> Community involvement Social responsibilities 	<ul style="list-style-type: none"> Volunteering Charity and social investment

ENVIRONMENTAL ASPECTS

Emissions

The Group is committed to supporting the environmental sustainability. The Group has obtained ISO 14001:2004 Environmental Management System Standards certification. Being a furniture manufacturer in PRC, the Group is subject to various environmental laws and regulations set by the PRC national, provincial and municipal governments. For instance, Environmental Protection Law of the PRC, Law of the PRC on the Prevention and Control of Water Pollution, Law of the PRC on the Prevention and Control of Atmospheric Pollution, Law of the PRC on the Prevention and Control of Pollution from Environmental Noise. In 2016, the Group complied with relevant laws and regulations that have significant impact on the operations of the Group.

The Group has adopted “Environmental Facilities Operation and Management System” to monitor all the emission, including air pollutant, solid waste and wastewater. The Group has obtained emission permit from Guangdong Environmental Protection Department.

Air pollutant and greenhouse gas emission

All the emission of exhaust gas must be complied with “Emission limits of air pollutants (DB44/26-2001)”. Major air pollutants generated are dust and organic chemical compounds (e.g. benzene, toluene). Dust is generated during cutting and drilling the wood. Dust collectors are installed to reduce the dust emission. Spray painting is the major source of organic chemical compounds emission. To reduce the emission, water curtain spraying booth is used and paint mist flocculant is added in the water, which is further treated with activated carbon. Besides, oil fume generated from kitchen is also controlled by electrostatic oil fume purifier.

The Group has acknowledged that the global concern with climate change is a material issue and that it has a direct and indirect impact on all businesses as well as on the communities in which the Group operates. Indirect emission of greenhouse gas is caused by the purchased electricity. In order to mitigate the emission of greenhouse gas, the Group has implemented a set of measures in both production plants and office. For example, increasing the greenery area in production plants so as to mitigate the carbon dioxide emission.

Hazardous and non-hazardous wastes

All wood wastes, wood dust and packaging material generated in the production process are recycled or sold to related factories. Domestic wastes are collected together and handled by environment and hygiene department. Hazardous wastes are treated with care according to Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Wastes and Standard for Pollution Control on The Storage and Disposal Site for General Industrial Solid Wastes (GB18599–2001). Hazardous wastes generated by the Group are as follows:

Type of wastes	Volume
Residual paint wastes	0.1 tonnes
Wasted light tube	40 pics
Wasted iron container for paints (18 Litres Size)	50 pics

The Group engages qualified recycling companies to perform waste disposal and treatment so as to minimize the impact on the nature.

ENVIRONMENTAL ASPECTS

Use of resources

The Group is primarily engaged in furniture manufacturing activities. There is a great demand for different kinds of resources. The Group has adopted “Energy Resources Control Procedure” to monitor the resources usage, including water, electricity, paints, woods and paper. The consumption of resources is recorded regularly and reported to the Board of Directors in order to identify any misuse or waste of resource. The Group arouses employee environmental awareness through different learning resources. When buying machineries or electrical appliances, energy efficiency performance is one of the key considerations for the procurement department. In order to save energy, light is required to be turned off if the room is not in use. For water saving, water pipes are checked regularly to identify any cracks or leakage.

The environment and natural resources

To mitigate the impact to the environment, the Group has established internal policies and procedures to response to any accidents that will cause pollution to the environment as stipulated in “Environmental Facilities Operation and Management System”.

Wood is a crucial raw material for manufacturing of furniture. To show our commitment in mitigating impact to the environment and protecting forest, the Group has obtained the FSC Chain of Custody certification. It allows tracking of FSC certified wood from the forest to the customers. FSC certified wood is wood that is certified under the standards set by Forest Stewardship Council, which means the woods are from a legal and sustainable source.

SOCIAL ASPECTS

Employment and labour practices

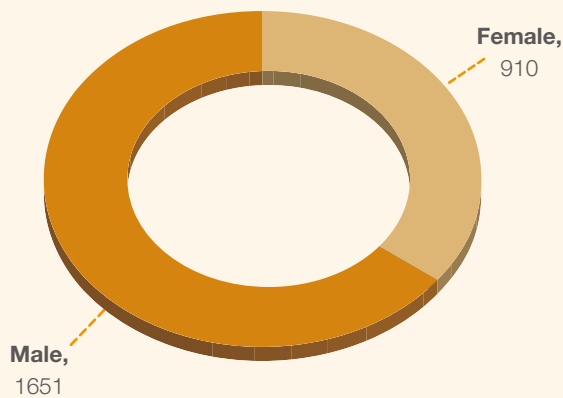
Employment

The Group is in strict compliance with the relevant laws and regulations including Labour Contract Law of the PRC and Labour Law of the PRC. The Group's "Employee Handbook" contains information regarding employment management, rights on termination, business conduct, social security funds, compensation, employee benefits, leave benefit, working hours/overtime and performance management and other policies for the benefit of its employees. The principle of equal opportunities is applied in all employment policies, in particular to recruitment, training, career development and promotion of employees. The Group promotes fair competition and prohibits discrimination or harassment against any employee on their gender, age, marital status, religion, race, nationality, disability or any status protected by law. The Group's remuneration policies are in line with local market practices where the Group operates and are normally reviewed on an annual basis. In addition to salary payments, there are other staff benefits including provident fund, medical insurance and performance related bonus. Share options may also be granted to eligible employees and persons of the Group.

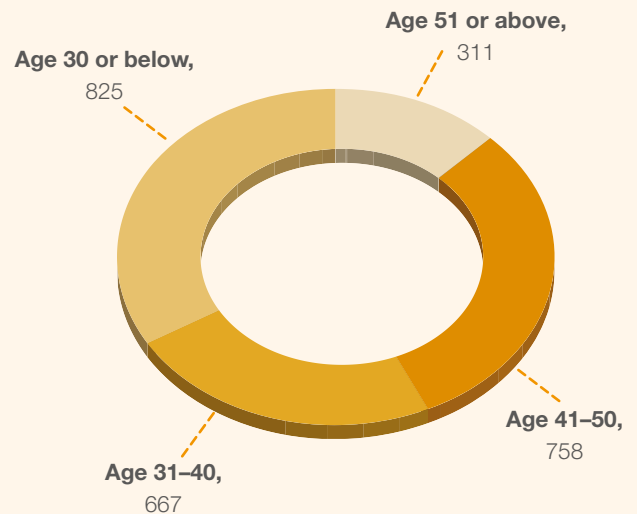
In 2016, no concluded cases regarding employment brought against the Group or its employees were noted.

Below is the detailed breakdown of the number of employee by gender, age group and employment type:

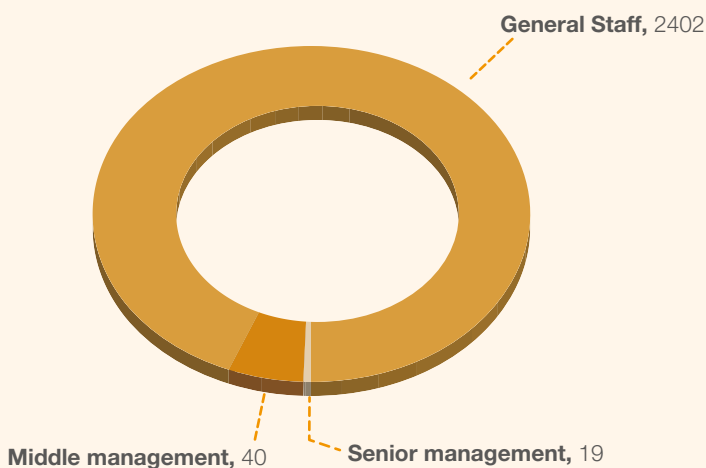
Number of Employees by Gender



Number of Employees by Age Group

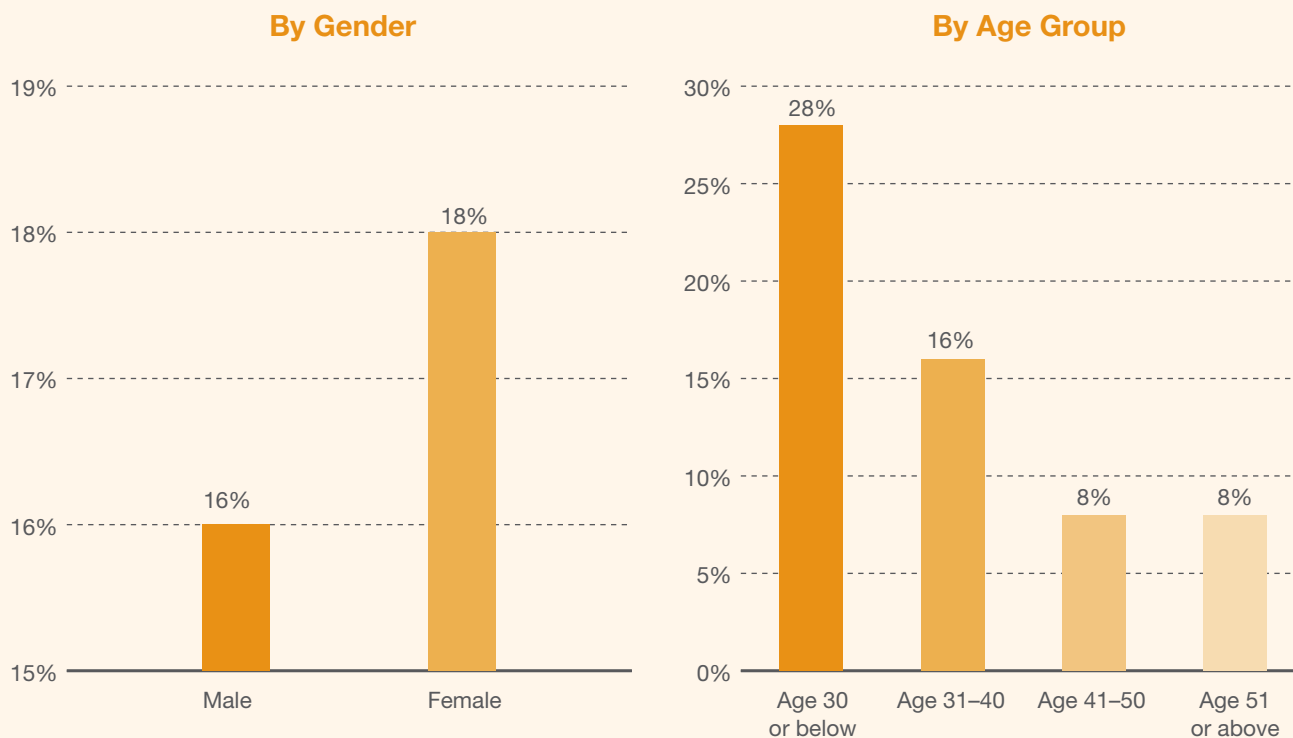


Number of Employees by Employment Type



SOCIAL ASPECTS

Below is the detailed breakdown of our employee turnover rate by gender and age group:



Health and safety

The Group places great importance to the health and safety of our staff members and is in strict compliance with Law of the PRC on the Prevention and Control of Occupational Diseases. The Group has set up a regulatory system for production safety and occupational diseases prevention and control according to the "Safety Production and Occupational Health Working System". Specific department is assigned to oversee matters related to safe production, strive to create a safe working environment for the Group's staff members and keep them out of occupational health hazard.

The Group is effectively operating the Operational Health and Safety Management System (OHSMS 18000) and Environmental Management System (ISO 14000) in order to ensure the production safety for the activities related to design, production and service of board type furniture, solid wood furniture.

Each employee is required to sign an employment contract and receipt of hazardous notice of occupational health to job holder as referred to the local government requirements and it mainly covers the job title and duties; work hours; rest period; statutory benefits and preventive measures for occupational hazards etc.

In the production plant, it mainly involves operating machineries, painting, welding, polishing etc. Safety procedures are implemented regarding to those activities:

- Wear earplug/earmuffs to get rid of the noise from operating machineries
- Ensure good ventilation; wear mask, gloves and protective gloves when painting
- Wear dust respirator and safety goggles when polishing woods
- Wear protective masks/helmets, clothes, gloves and shoes when welding

In 2016, it was with deep regret that we had 15 employees injured. There are 451 lost days due to work injuries. Fortunately, there was no fatality cases. The Group will continue to improve the safety management system in order to reduce the number of cases related to health and safety.

SOCIAL ASPECTS

Development and training

To achieve continuous innovation and maintain competitive edges, the Group is keen on promoting staff trainings and development activities which aim to enhance their expertise, skills and management competence and improve their problem-solving ability. Comprehensive training materials and a suitable learning environment are available to employees to facilitate learning. According to the Group's "Training Management System", we provide diversified on-the-job training based on the needs of respective positions and the talents and interests of employees. We strongly encourage employee to receive training that are relevant to their job duties by offering subsidies to them.

Employee training aims to improve the following areas of the employees: knowledge, skills, attitude, behavior and physical fitness. Both internal and external trainings are offered to employees through lectures, media and site visits in order to enrich the learning experience.

For new employees, training is divided into two parts: general knowledge and specific job knowledge. General knowledge training includes company profile, corporate culture, international standards, safety etc. Specific job knowledge training includes operational procedures, department structure. There is an assessment to evaluate the performance of employee after training. Moreover, there is also randomly sample testing on the specific job knowledge of employee in order to assess the reliability and effectiveness of the training.

In 2016, the detailed breakdown of the percentage of employees trained and average training hours by gender and employee category are as follows:

Percentage of employees trained

By Gender

Male	99%
Female	97%

By Employment Category

Senior	100%
Middle	95%
General	98%

SOCIAL ASPECTS

Average training hours per employee

By Gender

Male	94.55
Female	93.47

By Employment Category

Senior	96.00
Middle	91.20
General	94.32

Labour standards

In the Group's recruitment process, child labour is strictly forbidden. Person who under 18 years-old will not be hired according to "Employee Recruitment Management System". The Group also strictly complies with the relevant PRC labor regulations relating to working hours, rest and holidays to ensure the wellness of physical and mental health of all employees. Employees are not forced to work beyond working hours and are entitled to overtime pay in accordance with local regulations. The Group is in strict compliance with Labour Law of the PRC and Labour Contract Law of the PRC. In 2016, the Group was not subject to any punishment by the government and was not involved in any lawsuit related to child labour or forced labour.

Operating practices

Supply chain management

As a responsible corporate citizen, the Group recognizes its operations may have an environmental and social impact. The Group strives to cooperate with different interest parties along its supply chain on improving the sustainability performance throughout its operations. The Group's "Procurement Department Management System" stipulates the process of supplier selection and evaluation to ensure the quality of the products. On-site inspection is carried out to assess the performance of supplier in four aspects, including scale of factory, production management, productivity evaluation and quality control management. To manage the environmental and social risks from suppliers, the Group requires supplier to sign an "Undertaking for Environmental Quality" to promise the products they provide meet related national standards.

Product responsibility

Quality is the fundamental pillar of the Group's approach to great products. The Group strives to maintain high quality of products through establishment of comprehensive quality management system, improvement in customer satisfaction and information protection. The Group's products have obtained various certifications, which shows our effort in improving product quality. For example, China Environmental Labelling, which indicates the products meet the technical requirement stated by Ministry of Environmental Protection of the PRC, Certificate of Quality Verification from China Quality Testing Alliance and Ergonomics Product Certification from China Quality Mark Certification Group. The Group complies with related laws and regulation, including but not limited to Product Quality Law of the PRC, Trademark Law of the PRC, Advertising Law of the PRC. In 2016, the Group was not subject to any disputes or punishment by the government and was not involved in any lawsuit related to product responsibility.

SOCIAL ASPECTS

Quality Control

The Group maintains a robust quality assurance process to offer customer high quality products. The Group's "Quality Control Process Management Procedure" is implemented to monitor the whole production process in order to identify any possible quality related problems. Testing and checks are conducted for raw materials, semi-finished products and finished products.

Complaint Handling

The Group has adopted a "Customer (Distributor) Complaint Handling System" to ensure the complaints raised from clients are solved immediately and effectively so as to improve customer satisfaction. In 2016, there were 2 complaints received. The problems mentioned in the complaints were verified and repairing works were carried out.

Customer Data Protection and Privacy Policies

Customer data is an important asset for the Group. The Group's staff handbook stipulates that all employees are required to keep all internal information confidential. Confidential document is kept by specific personnel appointed by the department manager. No other copies of the related documents are allowed. Employee must not be involved in any other competitors, for example, one should not operate, manage or control directly or indirectly an organization that produces or sells products similar to the Group. If case of any information leakage is noticed, employee should stop it and report to the Group immediately.

Anti-corruption

The Group has stated anti-corruption policy in our staff handbook to provide official guideline for staff conduct and operating practices to guard against incidents of conflicts of interest, bribery, fraud or corruption. It requires that any breaches of anti-corruption policy are to be handled in strict confidence under our established disciplinary procedures. The Group is in strict compliance with Criminal Law of the PRC, Customs Law of the PRC and other related laws and regulations. In 2016, there was no concluded cases regarding corrupt practices brought against the issuer or its employees were noted.

Community

Community investment

The Group has recognized the importance of community involvement to the sustainable development of the company. The Group's "Corporate Responsibility Policy" outlines the strategy and approach to understand the needs and meet the expectation of our stakeholders. The Group has been actively involved in the community activities. The related activities are as follows:

- Organized an ink stone exhibition (端石聚珍—選堂銘繪陳偉剛鐫刻端硯展) and an exhibition on literary works of Professor Jao Tsung-I (選堂文翰—饒宗頤教授學術藝術著作展) with Guangzhou Jao Tsung-I Academic and Art Academy, to promote Chinese traditional art and culture.
- Donated furniture, which is worth RMB \$1,000,000, to elderly homes in Zhengcheng City, welfare homes, China Fire Service, general logistic department of Chinese People's Armed Police Force of Guangzhou City and other institutions.
- Sponsored 40 students from Elegantia College in Hong Kong to visit the Group's factories and exhibition hall in order to develop students' sense of belonging to Mainland China, help them to understand the current situation and opportunities in China and widen their horizons.
- Cooperated with the Xiancun government to build two tennis courts for the public communities in order to promote health and wellness.

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Indicator	Descriptions	Section	Page
A. Environmental			
A1 – Emissions			
A1	General Disclosure	“Emissions” Not aware of any material non-compliance	5
A1.1	The types of emissions and respective emissions data	“Emissions” Type of emission disclosed	5
A1.2	Greenhouse gas emissions in total and, where appropriate, intensity	–	–
A1.3	Total hazardous waste produced and, where appropriate, intensity	“Emissions – Hazardous and Non-Hazardous Wastes”	5
A1.4	Total non-hazardous waste produced and, where appropriate, intensity	–	–
A1.5	Description of measures to mitigate emissions and results achieved	“Emissions”	5
A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	“Emissions – Hazardous and Non-Hazardous Wastes”	5
A2 – Use of Resources			
A2	General Disclosure	“Use of Resources”	6
A2.1	Direct and/or indirect energy consumption by type in total and intensity	–	–
A2.2	Water consumption in total and intensity	–	–
A2.3	Description of energy use efficiency initiatives and results achieved	–	–
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	–	–
A2.5	Total packaging material used for finished products and, if applicable, with reference to per unit produced	–	–

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Indicator	Descriptions	Section	Page
A3 – The Environment and Natural Resources			
A3	General Disclosure	“The Environment and Natural Resources”	6
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	“The Environment and Natural Resources”	6
B. Social			
B1 – Employment			
B1	General Disclosure	“Employment” Not aware of any material non-compliance	7
B1.1	Total workforce by gender, employment type, age group and geographical region	“Employment”	7
B1.2	Employee turnover rate by gender, age group and geographical region	“Employment”	8
B2 – Health and Safety			
B2	General Disclosure	“Health and Safety” Not aware of any material non-compliance	8
B2.1	Number and rate of work-related fatalities	“Health and Safety”	8
B2.2	Lost days due to work injury	“Health and Safety”	8
B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	“Health and Safety”	8
B3 – Development and Training			
B3	General Disclosure	“Development and Training”	9
B3.1	The percentage of employees trained by gender and employee category	“Development and Training”	9
B3.2	The average training hours completed per employee by gender and employee category	“Development and Training”	10

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Indicator	Descriptions	Section	Page
B4 – Labour Standards			
B4	General Disclosure	“Labour Standards” Not aware of any material non-compliance	10
B4.1	Description of measures to review employment practices to avoid child and forced labour	“Labour Standards”	10
B4.2	Description of steps taken to eliminate such practices when discovered	–	–
B5 – Supply Chain Management			
B5	General Disclosure	“Supply Chain Management”	10
B5.1	Number of suppliers by geographical region	–	–
B5.2	Description of practices relating to engaging supplies, number of supplies where the practices are being implemented, how they are implemented and monitored	“Supply Chain Management”	10
B6 – Product Responsibility			
B6	General Disclosure	“Product Responsibility” Not aware of any material non-compliance	10 – 11
B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	–	–
B6.2	Number of products and service related complaints received and how they are dealt with	“Product Responsibility – Complaint Handling”	11
B6.3	Description of practices relating to observing and protecting intellectual property rights	–	–
B6.4	Description of quality assurance process and recall procedures	“Product Responsibility – Quality Control”	11
B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	“Product Responsibility – Customer Data Protection and Privacy Policies”	11

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Indicator	Descriptions	Section	Page
B7 – Anti-corruption			
B7	General Disclosure	“Anti-corruption” Not aware of any material non-compliance	11
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	“Anti-corruption” No concluded cases	11
B7.2	Description of preventive measures and whistleblowing procedures, how they are implemented and monitored	“Anti-corruption”	11
B8 – Community Investment			
B8	General Disclosure	“Community Investment”	11
B8.1	Focus areas of contribution (e.g. education, environmental concerns, labor needs, health, culture, sport)	“Community Investment”	11
B8.2	Resources contributed (e.g. money or time) to the focus area	“Community Investment”	11