

Luxxu

2019

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Luxxu Group Limited

勵時集團有限公司

(formerly known as "Time2U International Holding Limited 時間由你國際控股有限公司")
(incorporated in the Cayman Islands with limited liability)
(Stock code: 1327)



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SCOPE AND REPORTING PERIOD

This is the third Environmental, Social and Governance (the “**ESG**”) report by Luxxu Group Limited (the “**Company**”, together with its subsidiaries, the “**Group**”), reviewing and disclosing its ESG performance pursuant to Appendix 27 – the ESG Reporting Guide of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

This ESG report covers the Group’s overall environmental and social performance of Hong Kong and the People’s Republic of China (the “**PRC**”) business operation, from 1 January 2019 to 31 December 2019 (the “**Reporting Period**”). During the Reporting Period, the Group was principally engaged in three business segments:

- the design, production and assembly of watches for OEM customers;
- the design, manufacture and sale of watches under our own brands namely Time2U, Jonquet and Color; and
- the design and sale of new branded watches namely Extreme, and Prestige and other high-end watches in Hong Kong.

THE GROUP'S VISION, COMMITMENTS AND ACTIONS

The Group envisions to be a successful designer, manufacturer, wholesaler and retailer of watches, jewellery and other luxury consumer goods worldwide, as well as a socially and environmentally responsible corporation. We are committed to conducting our business in a transparent, equitable, legal and socially responsible manner and to promoting sustainable development, which is paramount to creating long-term value for the Group's shareholders, clients, employees and other stakeholders as well as the natural environment.

The Group firmly believes that the ESG areas and aspects listed in the ESG Reporting Guide are significant considerations for the long-term operations of our business. We strive to operate our business with, and are committed to the objectives to: lessen the impact on the environment; provide a safe, pleasant and constantly developing and improving working environment to our employees; comply with all relevant legal and regulatory requirements; adhere to the highest ethical standards, and continuously contribute back to the community.

The Group's CEO has the overall responsibility on ESG compliance and delegates implementation and monitoring of policies and practices on the related ESG areas and aspects to the departmental managers. The CEO reviews and monitors the ESG issues with particular reference to the key performance indicators ("**KPIs**") established on a regular basis, and reports to the Board if there is any significant irregularity.

The Group identified the following material aspects and has managed them strictly in accordance with the Group's policies and guidelines and in compliance with the relevant legal and regulatory standards.

- Employment;
- Working Conditions and Environment;
- Employee Development and Growth;
- Quality of Products and Services;
- Privacy Information Protection; and
- Anti-corruption.

During the Reporting Period, the Group has restructured the operations, all electricity, fuel, and water utilities as well as equipment maintenance costs were paid by the lessor. This arrangement together with our stream-lining of our manufacturing process for the purpose of costs reduction will affect the reporting of certain environmental and social areas and aspects as outlined in this report.

ENVIRONMENTAL AREAS AND ASPECTS

(A) ENVIRONMENTAL

As the Group's business activities include the manufacture of watches, the Group operates manufacturing plants in the PRC which have various environmental impacts if not properly managed. The General Manager of Operations has been delegated to manage all the environmental issues of the Group's business and operation and reports directly to the CEO. The manufacture of watches include the following material environmental impacts which have been managed properly at all times:

- Watch frame production: the factory is only involved in the mechanical part of the moulding process, which will only produce "noise pollution" to employees and metal scrap waste. The environmentally sensitive process of electroplating work has been outsourced.
- Watch leather strap production: the factory purchases finished coloured leather and makes its own watch straps according to its own design, producing both noise pollution and leather scrap wastes. The environmentally sensitive process of colouring of leather straps has been outsourced.
- Watch assembly production: the factory engages in the complete assembly process from the components to final products, and the process does not generate any hazardous emissions or wastes.

As mentioned above, the environmentally sensitive process involving the electroplating of watch frames, and colouring of watch straps, is fully outsourced to external contractors who are contractually required to comply with all relevant environmental laws and regulations in their operations. As such, the manufacturing processes undertaken by us do not generate any hazardous emissions, wastes or pollutants, save for noise pollution. All workers engaged in the manufacturing processes wear protective clothing and headgear during operations, and noise pollution is kept within legally acceptable levels.

As a responsible corporation, the Group abides by all local relevant environmental laws and regulations in the PRC with the highest standard and is committed to environmental protection. The Group has continued to formulate strategies and plans, implemented policies and taken measures to ensure our operations are energy, water and resources efficient, and we are committed to minimizing any adverse impact on the environment.

The Group's production plants and business in operation during the Reporting Period have already obtained the following competency certificates and also passed all annual governmental environmental inspection:

1. Quality Management Certification of GB/T19001-2008/ISO9001: 2008;
2. Environmental Management System Certification GB/T24001-2004/ISO14001:2004; and
3. Occupational Health And Safety Management System Certification of GB/T28001-2011/OHSAS18001:2000.

ENVIRONMENTAL AREAS AND ASPECTS

A1. Emissions – Policies and Compliance with Relevant Laws

(i) Air Pollutant Emissions

As previously mentioned, the Group outsources all transport and potentially polluting manufacturing processes and thus does not produce any hazardous and polluted air emissions, solid wastes and water. The Group only generates indirect greenhouse gas of carbon-dioxide (CO₂) through daily electricity and gas consumption.

The Group outsources its transport needs and we therefore do not directly produce any greenhouse and hazardous gases from vehicles used.

(ii) Hazardous Wastes

As discussed before, the Group does not and has not directly produced any hazardous wastes or emissions during the Reporting Period.

(iii) Non-hazardous Wastes

The Group only generates domestic waste particularly waste water from its employees daily living quarters. All waste water is discharged to the city waste water system for central treatment and other domestic waste has been carefully stored in rubbish containers and collected by urban rubbish workers on a daily basis. The Group has paid all relevant fees accordingly.

The production process also generates some solid waste from metal, plastic and packaging material scraps. The metal, plastic and packaging material scraps including paper waste are reusable/recyclable resources and the Group has carefully sorted and sold them to recycle collection operators. Some lubricant oil waste is generated after the polishing of metal products which has been centralized and sold to treatment collectors.

(iv) Mitigation Measures on Emission and Results

Given our business activities, the Group does not produce any hazardous and non-hazardous emissions. As a responsible corporation, we integrate eco-friendly measures to reduce the environmental impact of our daily operation. We encourage the economic and efficient use of resources, while enhancing our recycling efforts to prevent the waste of resources. We have taken the following special measures to reduce the emission of air and greenhouse gas, discharge into water and land, and generation of hazardous and non-hazardous waste, as well as to save energy in our daily operations:

- Encourage the establishment of a waste-classification system and the practice of recycling used papers and double-sided printing in workplace;
- Reduce unnecessary business trips and promote the use of information technology such as video conference;

ENVIRONMENTAL AREAS AND ASPECTS

- Encourage our staff to take public transportation and minimize the use of private vehicles and taxis;
- Adjust the temperature of our offices appropriately and switch office equipment to energy-saving mode, such as the automatic power down of printers and computers after a period of inactivity, to economize the use of electricity; and
- Encourage water-saving habits of our staff.

For the Reporting Period, as per the aforementioned restructuring of our operations since 2018, the electricity bill was paid by the lessor and we did not have access to the electricity usage record, as a result we are not able to report our indirect greenhouse gas emissions of CO₂. However, as we have seen a continued reduction in production operation volumes, we believe that our electricity consumption and thus CO₂ emissions will have continued to reduce as per previous years' performances. Our indirect CO₂ emissions from our Hong Kong office were immaterial in the current financial year ending 31 December 2019.

During the Reporting Period, the Group was not subject to any reported violation in relation to its emissions and waste discharges or other environmental obligations. At all times we have and continue to comply with the relevant laws, regulations and standards required of our operations by the authorities in Hong Kong and the PRC.

A2. Use of Resources – Policies on Efficient Use of Resources

The Group in its production and operations uses electricity, water, natural gas, fuel and lubricant oil and raw materials including steel sheets, plastic grains and packaging materials. Along with water and electricity, we also use printing paper and consume office equipment and stationery in our offices.

We promote smart usage to reduce the consumption of electricity, fresh water, and paper through the introduction of various measures including installing energy saving equipment such as LED lights and water monitoring, reusing and recycling paper and packaging materials where possible. We constantly explore new alternatives and technologies which may help to reduce the above and thus our carbon footprint, and constantly encourage our employees to practice and improve energy efficiency at all times. To monitor all of this efficiently, we have established the "Electricity, Water and Gas Consumption" and "Packaging Materials Consumption" KPIs.

ENVIRONMENTAL AREAS AND ASPECTS

(i) Electricity Consumption

For the Reporting Period, as aforementioned restructuring of our operations since 2018 in which the lessor is responsible for all utility supply and payments, our electricity usage in both Hong Kong and the PRC operations was not available, however we believe we continued to reduce our electricity usage over all operations.

(ii) Water Consumption

Water is supplied from the city central water system and there is no problem on its supply. The use of fresh water is primarily for staff general living purposes, and the amount is insignificant. To save water consumption, the Group again requests its employees to use water smartly and be responsible, and has developed the following additional measures:

- Repair dripping faucet and hose in a timely manner;
- Adopt effective water-saving production methods and instruments – such as in the factories, the water after cleaning will be filtered and reused; and
- Monitor water consumption regularly.

However, in 2019, as aforementioned, a restructuring of our operations and leasing of premises in the PRC and Hong Kong since 2018, our leases include all utilities including water supply and water readings were not made available to the Group by the lessor.

(iii) Paper and Packaging Materials Consumption

Given the business nature, the Group does not use much paper and packaging materials. Packaging materials are used mainly for packaging watches, and paper is used in our offices for filing and printing and is immaterial. The Group has therefore not kept the consumption of paper and packaging materials as a KPI for continuous monitoring, and has been focused on implementing the following measures to reduce their consumption for the purposes to save costs as well as this scarce resource.

- Encouraging recycling of paper by deploying recycling bins next to printers and other paper sources to collect used paper products such as waste paper, posters, letters and envelopes;

ENVIRONMENTAL AREAS AND ASPECTS

- Saving paper by double-sided printing; and writing on both-sides;
- Increase electronic processing and records such as emails, messages and USB storage;
- Reuse stationeries such as file folders and envelopes; and
- All packaging carton boxes must be made from recycled paper.

A3. The Environment and Natural Resources – Policies on Minimizing Significant Impacts

As discussed above and in our previous ESG reports, the Group's activities and operation do not generate any environmental hazards nor use much of the natural resources, but as a responsible corporation, we have introduced and implemented eco-friendly practices to reduce and conserve energy, fresh water and other natural resources, and to minimize the impact on the environment directly or indirectly. We have not polluted any air, water and land, and have complied with all the environmental laws and regulations of Hong Kong and the PRC. We cooperate with the local government agencies and support environmental organizations' activities to build a "green" society. We also comply with international sourcing and United Nations standards and strictly enforce not to source any raw materials from any United Nations restricted conflict/war zones and/or areas that practice slave, child or forced labour.

(B) SOCIAL RESPONSIBILITY

B1. Employment and Labour Practices

The Group's operation and activities are labour intensive with high skills required. The management treasures its employees as very valuable assets, and therefore adopts positive and supportive Human Resources strategies and polices with an objective to providing a safe, pleasant, equitable and progressive working environment to the employees.

The Group's Human Resources Department implements the Board approved policies and strategies and reports directly to the Group's CEO. The following policies, rules and regulations on human resources management comply with the labour laws of the PRC and have been approved and implemented:

- Employee Handbook;
- Recruitment Rules and Regulations;
- Leave Application Management Rules;
- Positions Termination Management Rules; and
- Human Resources Management Rules and Process.

ENVIRONMENTAL AREAS AND ASPECTS

The Group also provides employees with equal opportunities on recruitment, promotion, growth and development, compensation and benefits. All job positions, qualified job applications, internal transfers and promotions are decided with no discrimination on sex, race, religion, gender, age and disability.

In order to build a harmonious and pleasant working environment, the Group has invited employee representatives to join a consultative committee to meet regularly to discuss about issues relating to employees' employment terms and conditions, working environment conditions, health and safety issues. The Group listens to its employees and proactively responds as it believes effective cooperation and communication will build up trust, mutual respect and create a win-win relationship. On such belief, the Consultation and Communication Management Rules and Process has been formulated and implemented.

As a conclusion, the Group treasures human assets and has implemented fair, equitable and progressive strategies and policies, created a safe and pleasant working environment, and invested substantially on employees' training and development.

B1.1 Employment – Policies and Compliance with Relevant Laws

The Group recognizes its success depends highly on the skills, passion and commitment of its employees. We ensure employment and labour practices are implemented according to Labor Law of the PRC and the Employment Ordinance of Hong Kong. We provide equal employment opportunities for all without discrimination in hiring, promotion, dismissal, remuneration, benefits, training and development.

Our recruitment process is standard as per normal practices in our industry. We specify the requirements of the vacancies, and will advertise as well as head-hunt through employment agencies. The selection process will be standard and positions will be decided after background checks, tests and interviews by our human resources manager as well as the related departmental head. Senior managers will be decided by the CEO.

As at 31 December 2019, the Group employed a total of 113 (2018: 179) employees of which 9 (2018: 9) work on a full-time basis in Hong Kong and 104 (2018: 170) in the PRC operations. This is a major reduction of a total of 66 employees or 36.9% over 2019, of which our PRC operations saw a reduction of 61 employees. This was the result of stream-lining of our operations process in response to changing economic conditions. The employment characteristics can be summarized below:

ENVIRONMENTAL AREAS AND ASPECTS

(a) *Distribution of Employees by Gender*

In our headquarters and sales office we have a total of 9 employees at the end of year ended 31 December 2019 of which 7 were male and 2 female. In our manufacturing operations in the PRC we have 104 staff of which 71 are male and 33 are female which is down from 170 staff in 2018 of which 103 were male and 67 were female.

(b) *Distribution of Employees by Skills*

During the year ended 31 December 2019, our headquarters and sales office had 6 managerial staff level, 1 operation staff and 2 general staff. Between year ended 31 December 2019, we reduced the number of manufacturing skilled workers by 38.8% from 170 to 104 total staff.

B1.2 Employee Compensation and Benefits – Policies and Compliance with Relevant Laws

The Group addresses salary and compensation packages in a transparent manner by disclosing its salary benchmarking exercises to employees.

All employees are required to sign an employment contract with the Group, which contains terms and conditions according to the local labour laws and employment ordinances. Regulations, policies and standards regarding recruitment, employment and promotion, compensation and dismissal, salaries and wages, working hours, holidays, benefits, insurance, equal opportunity, diversity, anti-discrimination, and other welfare are well documented and executed accordingly. Remuneration packages are linked to individual performance, the Group's business performance, and taking into consideration of industry practices and market conditions, and will be reviewed on an annual basis. Senior management staff and directors' remuneration is determined with reference to his/her duties and responsibilities with the Group, the Group's standards for emoluments and market conditions. Share options are also granted to eligible employees based on individual performance as well as the Group's performance.

For the Reporting Period, the total employees' costs (excluding share-based payment) for headquarters and sales offices was HKD2.14 million with a total of 9 employees. In our manufacturing operations in the PRC, total salary costs were approximately HKD5.9 million down from approximately HKD9.6 million in 2018 in line with the significant reduction in direct salaried employees from 170 in 2018 to 104 in 2019. The saving was also attributable to the Group's continuous efforts to reduce its overheads.

During the year ended 31 December 2019 same as the previous year, the Group did not have any employment related legal disputes or any fines or material pay outstanding.

ENVIRONMENTAL AREAS AND ASPECTS

B2. Health and Safety – Policies and Compliance with Relevant Laws

The Group is committed to provide a safe, healthy and pleasant working environment to the employees and has obtained and practices the Occupational Health and Safety Management System under GB/T28001-2011/OHSAS1800. Furthermore, the Group also approved and implemented the following rules and processes to strengthen work safety and health to employees:

- Work and Environment Management Rules and Process focusing on managing the products impact on employees health and safety during the manufacturing process; and
- Accidental (Incidents) Reporting, Investigation and Management Rules and Process.

We have equipped our offices and manufacturing operations with adequate equipment and facilities and medical supplies to ensure safety and convenience to employees. All permanent staff have been covered with social, medical and accidental insurance as required by relevant local laws and ordinances in the PRC and Hong Kong. All employees are also requested to strictly observe the health and safety policies of the Group and to practice all safety rules at work and to place safety as their priority during work at all times.

The Group has set up the “Safety and Health Equipment Record” and “Accidents Record” as the KPIs for the management to monitor employees health and safety issues. During the year ended 31 December 2019, there were no fatalities, work injuries, occupational health and safety hazard cases recorded.

B3. Development and Training – Policies on Improving Employees Knowledge and Skills

The quality and skill of our employees are important to the Group as the production processes require highly efficient and specialized skills. The Group has therefore invested substantially on employees training and development. The Group has designed intensive on-the-job training programs to train new employees and also various programs to upgrade the skills and knowledge of staff. Training needs are identified through regular appraisal conversations to ensure training and guidance provided are catered to employees’ needs. The Group frequently arranges senior staff to provide directional advice and guidance and short-term training to junior staff, and sponsors employees to attend external training programs relevant to their work to improve their skills and knowledge which will be beneficial to their career development.

Records on the training and development programs organized and sponsored have been maintained to monitor that the training offered and sponsored have been productive and objectives have been achieved.

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B4. Labour Standards – Policies and Compliance with Relevant Laws

The Group has applied and not violated any provisions of the local labour laws and employment ordinances in our operation in Hong Kong and the PRC. The Group has honoured all of its obligations towards its employees and has built a safe, healthy and pleasant working environment for the employees. No child or forced labour have been employed. Equal opportunities have been given to employees in respect of recruitment, training and development, job advancement, and compensation and benefits. The employees have not been discriminated against or deprived of opportunities on the basis of gender, ethnic background, religion, colour, sexual orientation, age, marital status, family status, retirement, disability, pregnancy or any other discrimination prohibited by applicable laws. During the year ended 31 December 2019, same as the previous year, no labour dispute was recorded.

OPERATING PRACTICES

These aspects include management of sourcing, procurement, products quality assurance, sales, intellectual property rights and anti-corruption.

B5. Supply Chain Management – Policies on Managing Environmental and Social Risks

Supply chain management in the ESG Guide mainly refers to management of sourcing and procurement.

As a watch manufacturer, the Group made substantial purchases, which included raw materials of watch movement tools, batteries, needles and many other spare parts; packaging materials and some other accessories. The Group has therefore formulated very detailed purchase policy and processes for the purpose of eliminating malpractices and illegal bribery incidents in the purchase process, which can be summarized as follows:

- (i) Evaluation of Suppliers: the suppliers have to provide detailed credentials on their qualifications, experience, operation status, and reputation; guarantees on quality, safety and environmental compliance; capabilities on supplying in a timely manner and provision of after sales services; offered prices and payment terms. A detailed supplier information form has been prepared for the suppliers to complete and to return for record and evaluation. Interviews of the suppliers will also frequently be carried out and a suppliers interview form will be completed as a supplementary part of the evaluation. Those suppliers who pass the evaluation will be regarded as “Qualified Suppliers”;
- (ii) Selection of Suppliers: the purchasing department will invite 2-3 qualified suppliers to quote with samples and to negotiate on the supply contracts; and
- (iii) Conclusion and Execution of Purchase Contracts: if the qualified suppliers are chosen, a proper purchase contract will be signed.

ENVIRONMENTAL AREAS AND ASPECTS

As a social obligation and to follow the ESG Guide and GRI practice, the Group has included environmentally friendly clauses on materials supplied and forbidden child or forced labour on production on the purchase contracts.

The purchase department has been delegated the responsibility to implement the purchases in accordance with the above described policies and process. During the year ended 31 December 2019, same as the previous year, no malpractices or complaints were discovered and received.

The Group has set up a “Suppliers Record” listing out the main items of purchases and the number of local and overseas suppliers as a KPI for the management to review and to monitor.

In 2019, 17 (2018: 5) of our suppliers were from Hong Kong and 22 (2018: 31) were from outside Hong Kong.

B6. Product Responsibility – Policies and Compliance with Relevant Laws

The Group sells its products mainly through authorized agency distributors and does not run direct retailing sales outlets nor any online sales platforms itself. The Group’s brands include “Time2U, Jonquet, Color” and the newly designed brands “Nordic Design, Extreme and MDO” which are sold throughout the PRC and in Southeast Asia. In 2019, sales of branded watches continued to decrease as a proportion of total sales revenues to approximately 79% of sales revenue from approximately 80% in 2018 and OEM for other brands owners in the PRC and overseas countries in America, Europe, and Asia remained stable at approximately 5% of sales revenue in 2018 and 2019.

The Group fully recognizes that the sales of the Group’s products depends on their sophistication, reliability and quality. The Group has established the Quality Control Division under the Production Department to enforce the approved strict quality control policies and process. The Group has strict product tests prior to any sales. The Group guarantees the quality, safety and reliability of delivered products under contracts. The Re-correction and Prevention of Below Quality Management Rules and Process, has been implemented to guarantee product quality throughout the production and inferior quality products are rejected. The Group warrants and guarantees quality of its watches produced and even for a certain period after sales.

For the Reporting Period, same as the previous reporting period, our Sales Return KPI record showed “NIL returns”, which evidenced that our Quality Management process was a success. As a matter of fact, during the Reporting Report, the Group received a few cases of complaints, which were related only to quality of services such as timing of delivery, enquires checking, and nothing was related to our products quality. All of these complaints had been handled satisfactorily upon receiving them and the Group did not foresee any adverse impact to our business.

ENVIRONMENTAL AREAS AND ASPECTS

B7. Intellectual Property Rights

During the year ended 31 December 2019, same as the previous year, the Group recorded no intellectual property infringement nor was involved in any fines or proceedings. The Group produces watches under its own brands and designs which are patented in over 30 countries as well as being an Original Equipment Manufacturer for other brand and design owners. Respect of others' intellectual property rights is a central part of our business and the Group fully respects and complies with intellectual property rights' laws internationally.

B8. Privacy

The Group exercises caution in its daily operations to safeguard client information, protecting customer information from unauthorized access, usage and leakage through various technologies and procedures. Our employees' employment contracts specifically contain confidential provisions and employees are prohibited from accessing information without approval and/or leaking private and confidential information. All employees are trained to handle and use customer information with extreme caution, protect customer information, and comply with statutory requirements prescribed under the Personal Data (Privacy) Ordinance. Personal and business data of our customers are applied for authorized business purposes only and accessible only by staff to whom the information is deemed necessary. Legal action will be taken against any violation.

During the year ended 31 December 2019, same as the previous year, no case was initiated against us, nor any complaint received, regarding any breach of relevant privacy laws, regulations and policies in any jurisdiction in which we operate.

B9. Anti-corruption – Policies and Compliance with Relevant Laws

The Group adopts a "Zero" tolerance approach to bribery, corruption, extortion, fraud and money laundering at any level and has established the Anti-Corruption Unit reporting directly to the Group's CEO for the purpose to investigate any malpractices, bribery and corruption acts, and to communicate to the employees to observe ethical and justifiable behaviour. The Group has adopted and executed the Anti-Corruption and Anti-Bribery Rules and Process, to stand against any malpractices, bribery and corruption acts in its business. In daily work, the directors, management and staff must comply with related national and local government laws and regulations on prevention of bribery, extortion, fraud and money laundering. All employees not only have responsibility to understand and comply with the above regulations, but also have the obligation to report violations. Any person, who contravenes the regulations, will be subject to disciplinary sanction. With the implementation of clear policies and well-structured processes on purchases, sales, operation and finance, and the adoption of a high code of conduct especially in our senior management, the Group reported no bribery nor corruption cases during the year ended 31 December 2019, same as the previous year.

ENVIRONMENTAL AREAS AND ASPECTS

B10. Community Investment

The Group strongly believes that community participation and improving the general community environment is important for the Group's long-term development as well as improving the general lives of our employees and the communities within which we operate. We continue our policy of planting green trees around our production facilities and staff quarters as well as donating to the local community.