

Environmental,
Social & Governance Report
2019



CHIGO HOLDING LIMITED
志高控股有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 449



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Introduction

This environmental, social and governance report presents the environmental, social and governance performance of Chigo Holding Limited (hereinafter referred to as the “Company”) and its subsidiaries (collectively referred to as the “Group” or “We”) (stock code on the Main Board of The Stock Exchange of Hong Kong Limited: 0449) from 1 January 2019 to 31 December 2019 (hereinafter referred to as the “Reporting Period”).



This report is prepared in accordance with the compulsory “Comply or Explain” and “Recommended Disclosure” requirements as specified in the Environmental, Social and Governance Reporting Guidelines (hereinafter referred to as the “ESG Guidelines”), Appendix 27 to the Rules Governing the Listing of Securities (“Listing Rules”) on The Stock Exchange of Hong Kong Limited (“Hong Kong Stock Exchange”).



Report Scope



The environmental, social and governance policies and management measures contained in this report are applicable to the Company and all its wholly-owned subsidiaries. Unless otherwise stated, the data listed in this report only cover the Company's manufacturing business of air-conditioning products in the factory located in Foshan, Guangdong Province, China (hereinafter referred to as the "Foshan Factory"). The Foshan Factory is the core source of revenue for the Group. Therefore, the content of this report focuses on information in respect of the above operating locations.





Reporting Principles

The Group has considered the following reporting principles when formulating this report:

Materiality: The board of directors and senior management regularly review sustainability issues which have significant impact on our business and operation, and disclose sustainability issues which have significant impact on the Group based on the results of stakeholders' participation and substantive evaluation.

Quantitative: This report reports the performance of quantified key performance indicators (KPIs). For important KPIs, in order to increase transparency, calculation references and/or methods will also be disclosed, and the annual review of performance will be presented to allow stakeholders to understand the progress of compliance.

Balance: We aim to maintain a balanced report and to make fair disclosures on the progress and continuing challenges of the most critical aspects of the Group's performance to improve the quality of content.

Consistency: We follow the ESG Guidelines for reporting and try to keep the content of this report consistent. If there is any inconsistency, such as changes in reporting scope and/or changes in the calculation method of KPIs, the Group will provide explanations in the report.



Message from the Management



The Group is pleased to present the environmental, social and governance (ESG) report of 2019, which is the fourth ESG report of the Group. Looking back, the Group has always adhered to the five core values, namely “striving to be the best”, “professional and focused”, “quick decision”, “happy work” and “win-win with harmony”, to ensure it is positioned as a high-end air-conditioning brand leader and to achieve the vision of becoming a century-old high-end brand.

Environmental management

At Chigo, environmental management has always been at the core of the Group’s sustainable development strategy. We have issued the Initiative to Save Water and Electricity to encourage all employees of the Company to save water and electricity. At present, the Company has not fully used LED lamps, and the plan to modify the lighting system is expected to be gradually implemented from 2020. Before that, we require our employees to do periodic inspections and regular maintenance and replacement work.

Brand management

The Group pursues a dream of “making human life better” and strives to become a beloved brand among consumers around the world. We provide users with satisfactory services by virtue of our talents, scientific management, and superb manufacturing technology to produce quality products. At the same time, we continue to pursue progress and look forward to improving the quality of life for everyone, thus fulfilling our commitment.

Humanistic care

The Group strives to effectively protect the legal rights and interests of employees and create a harmonious working atmosphere. Chigo has established trade unions, employee congresses and other organizations, and launched a series of activities. In recent years, the Group has newly built garden-style apartments for employees, with facilities such as swimming pools, internet cafes, culture rooms, fishing areas, orchards and farms, to create a good living and leisure environment for employees. Every year, the Group organizes travel and outward bound activities for employees to alleviate stressful work pressure and to enhance employees’ sense of belonging, honor and team spirit. We also insist on carrying out various healthy and beneficial cultural and sports activities all year round, and hold New Year’s Eve dinner for 10,000 people to enrich the lives of employees.

Communication with Stakeholders

It is the Group's operational principle to commit to strengthening its market position, enhancing the brand image, promoting the Group's business growth and sustainable development. The Group strictly abides by the relevant laws and regulations. At the same time, not only does the Group emphasize corporate social responsibility, but it is also concerned with the interests and opinions of different stakeholders including

its shareholders, clients, suppliers, employees and the communities. Given this, the Group formulated a series of policies and measures, and revised and improved the Group's environmental and corporate social responsibility measures through communication with different stakeholders, so as to enhance the competitiveness of the Group and further contribute to society.



Communication with Stakeholders

The following table summarizes our communication channels with key stakeholders to understand their concerns:

Key stakeholders	Communication channels
Investors	Investors' meeting, annual general meeting, email, investor relations hotline, investor mailbox and announcement
Customers	Customer service hotline
Employees	Email, meeting
Suppliers	Email, meeting, supplier evaluation
Community	Email, meeting

The following aspects have a material relationship and impact on the sustainable development of the Group. Therefore, they are listed as the key areas of concern for the sustainable development of the Group.

Environmental aspects

- Emissions
- Use of resources
- Environment and natural resources
- Climate change

Social aspects

- Employment
- Health and safety
- Development and training
- Labour standards
- Supply chain management
- Product responsibility
- Anti-corruption
- Community investment

A.1 Emissions

As a large-scale air-conditioning production enterprise, the Group possesses an integrated production system and a variety of parts production facilities. The Group has attached great importance to environmental protection and pollution prevention over the years. The Group actively abides by the relevant national and local environmental laws and regulations, regulatory requirements and related standards. The treatment of waste gas, wastewater, metals and plastic waste and industrial waste from production complies with environmental protection laws and regulations issued by the Chinese government and municipal government. The Group is committed to improving its environmental awareness and encourages its staff to protect the environment.

The Group has installed treatment facilities in terms of hardware. Our injection molding machines are equipped with waste gas treatment facilities, and waste gas and wastewater treatment facilities are also installed in the workshop for spraying process to ensure waste gas and wastewater meet discharge and emission standards. The “Three Wastes” Control Management Regulations is implemented in terms of software, pursuant to which wastewater and waste gas generated from its production process are treated by treatment facilities in accordance with the regulations. Such measures effectively reduce wastewater discharge and gas emissions and enable the Group to comply with environmental protection laws and regulations issued by the Chinese government and municipal government.

The Group implements the Waste Processing Procedure thoroughly for each of its production facilities, and handles all types of waste generated during the production process in a responsible way. For example, waste is classified at regular intervals and treated as required, with production and household waste treated by municipal administration and recyclable waste treated by procurement centre. Hazardous waste is also collected by the plants and disposed by qualified contractors with whom the Group contracts each year to ensure that they still meet the relevant qualification requirements. During the year, the plant strengthened the sludge treatment and greatly reduced its moisture content by optimizing the sedimentation process and exposing the sludge to strong sunlight, so as to significantly reduce the amount generated. The parts that are transported within the

production plants are covered with reusable materials, which ensures that the parts remain intact and at the same time effectively avoids the generation of waste. The Group implements the Waste Processing Procedure in all production processes in each production facility, to effectively reduce chemical waste, wastewater or other industrial waste generated in the production process. We take measures to ensure that industrial waste and by-products generated by operations are properly disposed of, to minimize adverse impact on the environment.

The Group’s environmental team is responsible for developing and implementing environmental standards of the Group. Most members of the team have years of experience in complying with environmental requirements and assist the Group in establishing an environmental management plan and implementing internal environmental monitoring and verification procedures. The Group’s quality control committee closely monitors the Group’s production procedures, regularly conducts random sampling checks and comprehensively inspects the operations and control of all departments quarterly, in order to timely discover potential pollution problems.

The Group strictly complies with the relevant environmental laws and has not been prosecuted for violating any relevant laws and regulations on environmental protection during the period.

The table below sets forth the total greenhouse gas emissions and intensity of the Company for the reporting years from 2017 to 2019. To comply with the new guidelines of the Hong Kong Stock Exchange, data on direct emissions (Scope 1) and energy indirect emissions (Scope 2) are included in the disclosure of greenhouse gas emissions data in 2019. Greenhouse gas emissions in 2019 were about 35% lower than that in 2018, but greenhouse gas emissions from each product increased by 3.5 kg CO₂-e. In the past year, energy use of the Group, such as electricity and gas, relatively dropped in response to the decline in annual output. Therefore, the total greenhouse gas emissions of the Group this year were lower than that in 2018. The average greenhouse gas emissions from production of each product this year however increased as compared to that of 2018, mainly due to the decline in the Group’s annual output in 2019.

A Environment

Total greenhouse gas emissions and intensity generated by the air-conditioning products production in Foshan

	2017	2018	2019
Direct emissions (Scope 1) Calculation covers natural gas combustion ¹ and estimated fugitive emission from initial charge of refrigerant into air-conditioner products ³	N/A	N/A	20,508
Energy indirect emissions (Scope 2) Including electricity consumption ²	N/A	N/A	37,088
Total emissions (metric ton CO ₂ -e) Emissions	136,848	88,678	57,596
Average greenhouse gas emissions from production of each product (kg CO ₂ -e/piece)	12.8	10.7	14.2

The table below sets forth the total amount and intensity of hazardous waste of the Company for the reporting years from 2017 to 2019. The total amount of hazardous waste in 2019 decreased by 12 metric tons as compared with that of 2018. However, due to the decline in annual output of the Group in 2019, the average hazardous waste from production of each product was 0.80 g/piece higher than that in 2018. Given that the Group's business operations do not emit significant amount of harmless waste and gas, the Group did not analyse this data.

Total amount and intensity of hazardous waste generated by the air-conditioning products production in Foshan

	2017	2018	2019
Total amount of hazardous waste (metric ton (waste from surface treatment))	29	30	18
Average hazardous waste from production of each product (g/piece)	2.71	3.63	4.43

¹ Estimated based on GB/T 2589-2008 General Principles of Comprehensive Energy Consumption Calculation for calorific value conversion, and emission factor in 2006 Guidelines by Intergovernmental Panel on Climate Change (IPCC) p 2.18.

² Estimated based on 2016 Emission Factor of Southern China Power Grid from National Development and Reform Commission (NDRC).

³ Estimated based on 0.6% emission factor of refrigerant charge in 2006 Guidelines by Intergovernmental Panel on Climate Change (IPCC) p 7.52.

A.2 Use of Resources

The Group attaches great importance to the concept of environmental protection and actively coordinates with national policies to realize its energy-saving vision to develop the Group into a corporation with efficient utilization of resources through the design, production and promotion of high energy-saving air-conditioning products. In addition to adding energy-saving elements to air-conditioning products, the Group also issued the Initiative to Save Water and Electricity to encourage all employees of the Company to save water and electricity, so as to effectively use resources and reduce waste. And as the Group is an integrated corporation that produces integrated systems and a variety of associated parts, it can make effective use of the relevant materials and recycle certain materials throughout its production process, and also significantly reduce the consumption of resources in aspects such as transportation.

The direct and indirect types of energy used by the Group include electricity and gas, of which electricity forms a large proportion.

The Group has established the Energy, Resource Control Program, giving priority to the use of energy efficient products and striving to upgrade its hardware to enhance energy efficiency wherever possible. Through the gradual replacement of fluorescent lamps with energy-saving counterparts, the plan is expected to be gradually implemented in 2020. The assembly line motors which use photoelectric switches and limit switch controls also effectively reduce standby time and electricity consumption. In addition, guidelines were drawn up to encourage electricity savings and to optimize energy efficiency using software means.

The Group's production process uses public water sources. Although such production process does not impose direct burden on the natural water sources, We still highlight the enhancement of water efficiency by arranging its staff to inspect for leaks

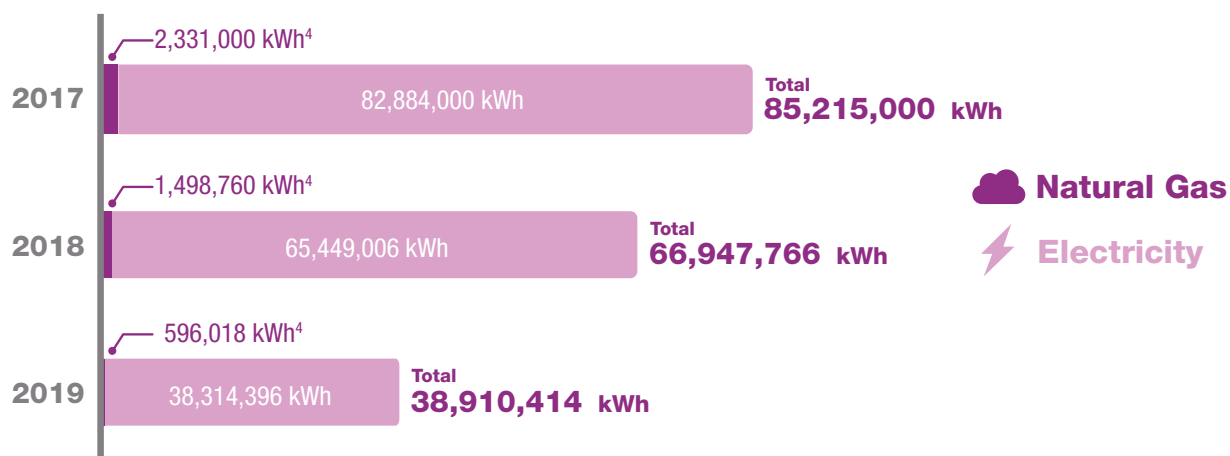
and dripping; through the establishment of guidelines, water consumption reduction projects are continuously implemented, employees are reminded to save water and implement greywater reuse, so as to optimize the use of water resources. Such measures are estimated to have saved the Group nearly RMB20,000 of water cost per year.

The Group has established guidelines to remind and encourage employees to use resources rationally and reduce the consumption of resources such as water, electricity, paper etc. For example, the Group has established a Record Control Program in which electronic processes and computer archives have been adopted to replace paper approval and archives, and in turn optimize the use of resources. Effective use of energy and other resources can lead to cost reductions and help the Group become a sustainable development partner for its customers.

The table below sets forth the total consumption and intensity of major resources and packaging materials used in the finished product of the Company for the reporting years from 2017 to 2019. This year, the energy intensity in 2018 was revised as 8.10 kWh/piece, which was previously disclosed as 6.26 kWh/piece. Energy use in 2019 was 42% lower than that in 2018. Energy consumption dropped due to the decline in annual output in 2019. However, due to the decline in annual output, the average energy consumption per product has increased. The water consumption in 2019 in total was similar to that in 2018. However, due to the decline of the Group's annual output in 2019, the average water consumption per product increased by 0.0069 m³/piece compared with that of 2018. Similarly, less packaging materials were used for the same reason. Intensity of packaging material used for the finished product was roughly the same as that in the past two years.

A Environment

Total amount and intensity of direct and indirect energy consumption of the air-conditioning products production in Foshan



Energy Type	2017	2018	2019
Electricity (kWh)	82,884,000	65,449,006	38,314,396
Natural gas (kWh ⁴)	2,331,000	1,498,760	596,018
Total (kWh)	85,215,000	66,947,766	38,910,414
Average energy consumption of production of each product (kWh/piece)	7.97	8.10	9.58

Water consumption in total and intensity of the air-conditioning products production in Foshan

	2017	2018	2019
Total water consumption (cubic meters)	776,000	747,300	635,462
Average amount of water consumption of production of each product (cubic meter/piece)	0.07	0.09	0.16

⁴ According to GB/T 2589-2008 General Principles of Comprehensive Energy Consumption Calculation and the calorific value per cubic meter of gas of 4000 kcal, calorific value per cubic meter of gas is equivalent to 4.65 kilowatt hours. Then multiply the value with the amount of gas consumption (cubic meter).

A Environment

Total amount and unit amount of packaging material used for the finished product of the air-conditioning products production in Foshan

	2017	2018	2019
Total amount of packaging material used for the finished product (metric ton)	34,490	18,000	10,743
Average packaging material consumption of production of each product (kg/piece)	3.22	2.18	2.65

A.3 Environment and Natural Resources

The Group has established the New Management Provisions on Product Declarations and Green Environmental Materials, which gives priority to the use of green environmental materials in accordance with the Group's requirements, and to the use of environmentally friendly refrigerants that do not deplete the ozone layer, in order to reduce impact on the environment.

The Group adopts advanced technology to reduce or avoid the production of hazardous chemical wastes, and adopts a program that meets the requirements under laws and regulations to manage the processes of the storage, handling and transportation of chemicals, thereby preventing the leakage of hazardous materials into the environment. The Group, as an air-conditioner

manufacturer, uses different types of refrigerant and mineral oil in its operations. The Group pays particular attention to the recycling of those wastes. By contracting with qualified contractors every year, such wastes are sent to such qualified contractors for treatment and disposal so as to avoid negative impact on the environment.

The Group has been striving to reduce the use of paper in the office. We encourage employees to communicate electronically and set up recycling bins for recyclable paper in the office to facilitate employees to recycle or reuse paper. Control measures stated above have been adopted to reduce the paper usage and achieve a paperless office.



A.4 Climate Change

In response to sudden extreme weather such as heat wave, heavy rain or typhoon, the Group has formulated corresponding measures. For example, according to the relevant notice issued by the safety and environmental protection department, the administration department shall take appropriate precautionary measures and arrange emergency personnel to stand by at all times. According to the forecast of the official meteorological department, corresponding actions will be taken under different weather to mitigate the impact on the

Group's plants. In case of having forecast of continuous rain, we will check and repair the drainage system in advance; and in case of hot weather warning, we will take measures to prevent heatstroke. The Group also understands that preventive measures shall be taken, so we regularly check the windows to ensure that there are no loose parts, deformations or dust deposits on the hinges. If any glass is found to be old after inspection, it will be replaced when the service life expires, or in case of damage in use, we will also replace it in time to ensure safety.

B.1 Employment

The Group understands that a successful operation strategy and long-lasting business rely heavily on the Group's experienced, motivated and well-trained management team and employees at different levels. As an equal opportunities employer, our recruitment process complies with the core principle of open, fair and impartial competition. The Group is open to all talents and the appointment is based on merit. The Group also strives to create a diversified working environment, regardless of age, gender, marital status, religion, race and other factors.

The Group determines the remuneration in accordance with his or her performance, experience and current industry benchmarks, and reviews remuneration policies and the treatment of management staff and departmental supervisors every year, so as to boost employees' morale and productivity. The Group also assesses the performance of its employees to determine their performance-based salary in addition to the basic salary.

The Group has set up a labour union in accordance with the relevant Chinese laws and regulations to protect the rights and benefits of employees, help mediate disputes between the Group and individual employees, and encourage employees to participate in management decision-making. The organization and operation of the labour union comply with the relevant laws and regulations in China.

The Group will sign labour contracts with employees according to legal requirements upon entry and explain in detail the procedures in respect of entry and termination in accordance with the "Control Procedures of Human Resources". If the Company proposes to cancel the labour contract, the departmental supervisor shall submit a application and execute it upon approval pursuant to "Application for Termination the Labour Relationship". When it comes to financial compensation, the compensation plan shall be executed according to mutual agreement by parties to the contract and national laws and regulations.

The Group also provides employees with a wide range of benefits including medical benefit, meal allowance, training allowance, housing, transportation and retirement benefits, in accordance with applicable regulations and internal policies. The benefit system of the Group includes three parts: statutory benefits, general benefits and special

benefits. Statutory benefits are benefits that are provided to employees in accordance with national laws, regulations and policies, including statutory social insurance, legal working time, statutory leave, special subsidies (such as high temperature subsidies), etc. General benefits are the indemnificatory benefit program offered by the Group to all employees in order to meet their basic needs, including free working meals, free accommodation, free use of the Group's recreational facilities (such as the employee activity centre, badminton hall, basketball court, etc.), free supper for night-shifts, holiday gifts, birthday gifts, education subsidies and various types of cultural and recreational activities organized by the Group. Special benefits are additional benefits that the Group provides to some employees based on their positions, the nature of their job, performance and workplace, and include telephone bills subsidies, housing subsidies, meal subsidies, and transportation subsidies, etc.

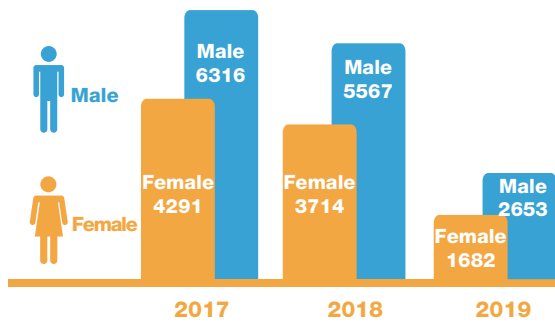
In accordance with the applicable laws and regulations in China and the mandatory requirements imposed by local authorities at the location of the branch Group, the Group participates in the Pension Contribution Scheme, Work Injury Insurance Scheme, Unemployment Protection Scheme, Medical Insurance Plan and Accident Insurance Scheme for employees. The Group strictly abides by all relevant local employment laws and regulations, including the Labour Law of the People's Republic of China, the Labour Contract Law of the People's Republic of China, the Social Insurance Law of the People's Republic of China in PRC. The Group has not been prosecuted for violating any relevant laws and regulations on employment during the Reporting Period.

The table below sets forth the main human resource data of the Company for the reporting years from 2017 to 2019. Due to the shrinking production and the natural loss of employees, the data of human resources in each category in 2019 were lower than that in 2018. We added the categories of contract workers and temporary workers in 2019 to show more clearly the Group's employment type distribution. In addition, according to the new guidelines of the Hong Kong Stock Exchange this year, the turnover rates of employees by gender and age group were added. The employees of the air-conditioning product manufacturing business in Foshan are all from the mainland of China, so there is no data by location.



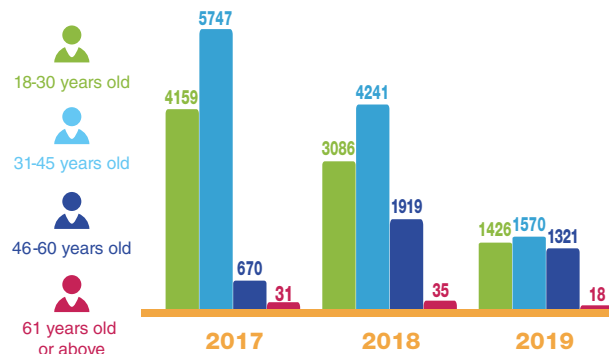
B Social

Total number of employees by gender at the end of the period for the air-conditioning products production in Foshan



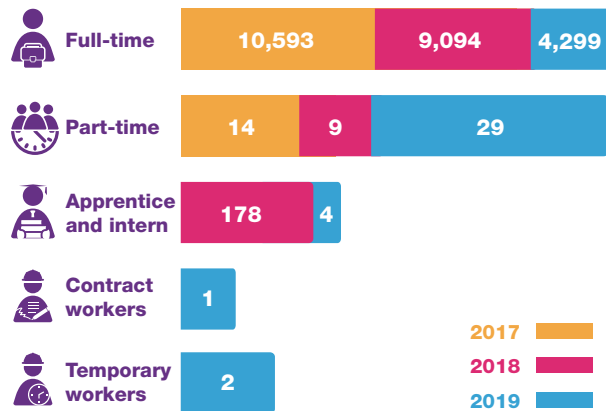
	2017	2018	2019
Male	6,316	5,567	2,653
Female	4,291	3,714	1,682

Total number of employees by age group at the end of the period for the air-conditioning products production in Foshan



	2017	2018	2019
18-30 years old	4,159	3,086	1,426
31-45 years old	5,747	4,241	1,570
46-60 years old	670	1,919	1,321
61 years old or above	31	35	18

Total number of employees by type of employment at the end of the period for the air-conditioning products production in Foshan




	2017	2018	2019
Full-time	10,593	9,094	4,299
Part-time	14	9	29
Apprentice and intern	N/A	178	4
Contract workers	N/A	N/A	1
Temporary workers	N/A	N/A	2

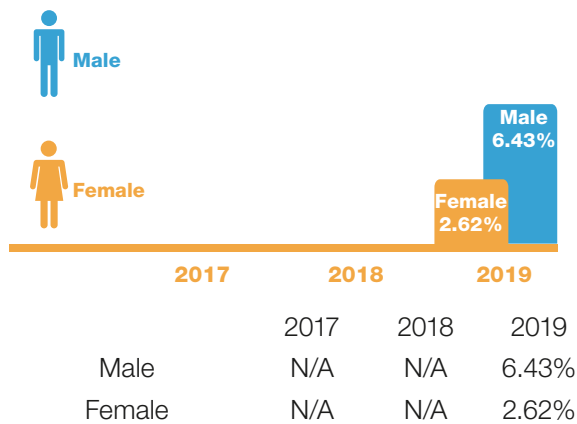
Annual average turnover rate of employees for the air-conditioning products production in Foshan (annual average of monthly employees turnover rates)


	2017	2018	2019
All employees	7%	5%	9%

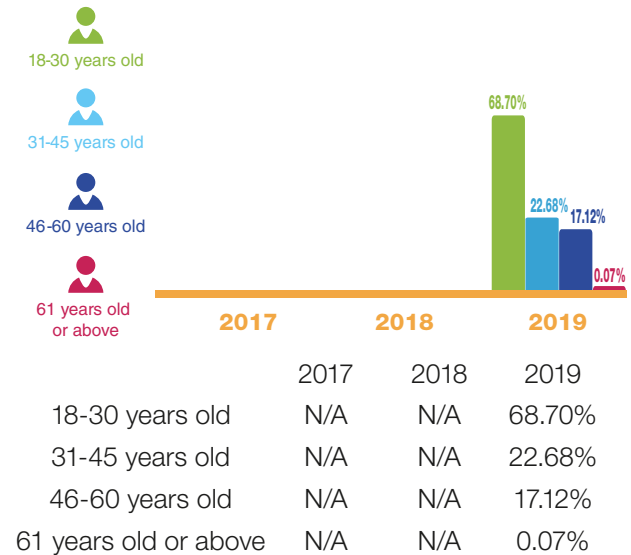


B Social

 Annual average turnover rate of employees by gender for the air-conditioning products production in Foshan (annual average of monthly employee turnover rates)



 Annual average turnover rate of employees by age group for the air-conditioning products production in Foshan (annual average of monthly employees turnover rates)



B.2 Health and Safety

The Group gives high priority to employees' health and safety, and is committed to creating an appropriate, safe and convenient working environment to ensure that the health and safety of its employees is fully guaranteed.

The Group has developed a series of work safety codes, covering environmental hygiene, machine operation, smoking prohibition and fire prevention, dangerous goods handling, preparation for typhoon and storms, emergency handling codes, etc. Accordingly, we provide employees with safety training to ensure that employees fully understand and strictly comply with the requirements of work safety. Government departments also conduct regular work environment monitoring at the Group, and the Group will make adjustments based on the results of such monitoring exercise.

The Group has set up the Safe Production Management System to develop plant safety management. The Group has also established the EHS (Environment, Health and Safety) Monitoring and Measurement Control Program to monitor the level of occupational health and safety standards of employees, and organized trainings on the knowledge of the

occupational health and safety management system standards for employees. The Group has been certified by a third party for OHSAS (Occupational Health and Safety Assessment Series) 18001 Occupational Health and Safety Management System, which fully reflects the quality of occupational safety management of the Group.

The Group strictly complies with the relevant safety laws. The Group has not been prosecuted for violating the relevant laws and regulations on occupational safety during the period.

The table below sets forth the death ratio of employees and the days of lost work due to occupational injury in the reporting years from 2017 to 2019. Both two key performance indicators (KPIs) are zero, signifying the results arising from the Company's active promotion of occupational health and safety. In 2019, the lost days due to work injury significantly decreased by approximately 50% as compared with 2018. In 2019, after reviewing the results of the number of lost days due to work injury in 2018, the Group took relevant preventive measures in different aspects to prevent the same incident from happening again.

 **Number and rate of work-related fatalities and lost days due to work injury for the air-conditioning products production in Foshan**

Number of work-related fatalities	Lost days due to work injury (man-days)		
	2017	2018	2019
Number of work-related fatalities	Nil	Nil	Nil
Rate of work-related fatalities	0%	0%	0%
Lost days due to work injury (man-days)	358	1,342	648

B.3 Development and Training

The Group is committed to enhancing employees' skills and knowledge and actively investing in continuous education and training of management staff and other employees.

New recruits receive mandatory pre-profession training as required by the Human Resources Department and are then certified before taking up their respective posts. Employees responsible for special types of state-specified work and technical types of work (including welders, electricians, forklift operators and trolley operators, etc.) must hold operating certificates and qualification certificates for special operations personnel issued by the relevant state administrative departments, and participate in technical skills training organized by different departments no less than once per year. As for middle and senior management, educational training, promotion training and talent reserve training are planned and managed by the Human Resources Department based on the operation situation.


Training includes internal training courses organized by the internal management staff, as well as external training courses provided by professional trainers, including technical training for production staff, financial and administrative training for managers, etc.

The Group's career development path combines the needs of organization with the personal career development goals, interests and expertise of employees, so that the Group and the employees can grow together; and it indicates employees' career path development direction, guides employees to realize their potential and life goals through accumulation of knowledge and skill improvement within the job system.

The table below sets forth the percentage of employees receiving training in the relevant categories within the Company in the reporting years of 2017 to 2019. As the table shows, the monthly average percentage of employees trained in 2018 and 2019 were lower than that in 2017, and the monthly average number of training hours were substantially the same. This is due to the changes in the arrangement of the Group in 2018 to improve training quality. We have offered courses specifically such as job skills training, general management ability training, primary management ability training, middle and senior manager training, and have maintained appropriate training hours. We have focused on providing appropriate training to employees to improve the efficiency of training. After enriching the quality of training, we gradually expanded the scope of training to employees of different ranks in 2019. Therefore, the average percentage of employees trained in 2019 increased.

 **Annual monthly average percentage of employees in training and annual monthly average number of training hours of each employee in the air-conditioning products production in Foshan**

	2017	2018	2019
Annual Monthly Average Percentage of Employees Trained	58%	14%	24%
Annual Monthly Average Number of Training Hours of Each Employee (hour(s))	0.77	0.63	0.69

 **Annual monthly average percentage of employees in training and annual monthly average number of training hours of each employee by gender and level of positions in the air-conditioning products production in Foshan**

Training		2019	
		Average Number of Training Hours	Training rate (%)
By gender	Male	8.24	24%
	Female	8.38	25%
By level of positions	Senior management	6.46	46%
	Middle management	4.19	28%
	Supervisor	12.56	90%
	General staff	8.30	22%

B.4 Labour Standards

The Group respects natural right of people and adopts a zero-tolerance approach towards forced labour and child labour. The Group attaches great importance to preventing the employment of child labour and ensuring that all employees work on a voluntary basis.

Under the principle of impartiality and voluntariness, the Group strictly prohibits any means of coercion or deception to recruit staff or any form of forced labour or servitude during recruitment to ensure that all employees work on a voluntary basis. The production plant implements the job responsibility system, and advocates daily settlement of work tasks. Except for piecework positions, positions directly related to production and special audited and evaluated positions, the departments are not allowed to arrange staff to work over the Group's standard working hours except in exceptional circumstances.

Before employing any applicants, the Group will thoroughly check various documents relating to the age of the applicant and take measures to verify their

age to ensure that they are at least sixteen years old, otherwise they will not be employed. If it is discovered that a child under the age of sixteen years old has been inappropriately recruited, the Human Resources Department must conduct an investigation. The Human Resources Department, together with the officials from local social security authority, will send the child back to the social security authority of his registered residence and then the child will be returned to his/her parents or guardian by the collaborative effort by three parties. Transportation, meals and accommodation costs will be borne by the Group.

If any violation of child labour or forced labour regulations is confirmed, relevant departments and the management must review the entire recruitment and management process and identify deficiencies, to improve the process accordingly and prevent similar situations from reoccurring.

The Group strictly complies with all applicable laws and regulations relating to child labour and forced labour. The Group did not employ any child labour or forced labour during the period.

B.5 Supply Chain Management

The Group prides itself on providing customers with quality products and services. One of the key factors to our success is to secure the support of all kinds of reliable suppliers. We have formulated the "Regulations of Procurement Department on Tender Management" to ensure that all potential suppliers and subcontractors can compete fairly and enjoy equal opportunities.

The Group deeply understands that the implementation of the Group's philosophy requires us to grow with suppliers. Accordingly, the Group has set quality control standards for the air-conditioning products manufactured. When purchasing raw materials, the Group requires the raw material suppliers to implement and comply with the Group's "Supplier Quality Management System" to ensure that the Group's requirements and standards are met. The Group will normally inspect external suppliers' facilities and require

them to provide sample raw materials and parts to check whether they meet the recognized environmental standards and the relevant laws and regulations. Only when the Group's requirements and standards are met will the Group select and purchase raw materials and parts from external suppliers to ensure the Group's sustainable development philosophy and product quality are maintained.

The Group requires all air-conditioning raw materials suppliers to provide air-conditioning raw materials that meet the Group's requirements and comply with relevant laws and regulations, including environmental protection regulations. The Group conducts a comprehensive and quarterly evaluation of all air-conditioning raw material suppliers in terms of on-time delivery rate, quality, commercial condition, and service coordination, to ensure their compliance levels.

B.6 Product Responsibility

The Group attaches great importance to product design and quality. The Group's air-conditioning products are sold all over the world and gained long-term trust and support of local corporations and people. The Group generally provides its air-conditioning products with a free six-year after-sales maintenance service and free replacement of parts for life.

The Group's quality control committee is led by our senior management and conducts annual reviews and evaluations of quality control procedures of the internal production processes and takes action to correct deficiencies when necessary. The Group has experienced staff who are responsible for quality control procedures, from raw materials and parts acceptance to finished product inspection and other routine production processes, and who then report to the quality control committee.

The Group implements strict quality control standards for the air-conditioning products manufactured, implements a quality control system that is comprehensive and effective and covers all major production stages, and creates a set of quality control manuals. The Group has been certified in quality management and environmental management systems for many years. To ensure consistent compliance with the requirements of the management system, all the Group's production lines monitor product quality at different stages. As for quality control procedures (including production monitoring procurement procedures, defect control, product line quality control and safety testing), the manuals give guidance and instructions to various departments.

The Group's customer service department is solely responsible for setting the Group's customer service standards. The Group has set up a number of customer service centres throughout China to monitor customer service points managed by the Group, regional franchises or distributors and to collect market information. In addition to customer service, the Group also operates 24-hour telephone hotlines to respond to end-user's inquiries and listen to customers' comments. Because of the increasing popularity of the Internet and mobile communication tools in recent years, the Group has also invested in the development of multi-type electronic platforms, including Internet, cloud and mobile applications, to be combined with the Group's smart air-conditioning products, to broaden the reach of communication channels with customers and

the public. The Group carefully handles customers' and other companies' confidential data, and supervises each employee who handles confidential information to ensure such information is handled properly and only used for authorized purposes.

After receiving a customer's call or email signalling a possible problem with a product, the local Product Management Centre, Customer Service Centre, Product Inspection Department and other departments will identify whether is necessary to recall the product. If it is to be recalled, the Group will notify the customer and deploy personnel to the product location to collect the product. All recalled products are recorded by the Warehouse Management Department, and then returned to the Product Inspection Department. The Product Inspection Department will follow up the record and find the cause of the problem, and then discuss the solution with the Technical Department, Production Department and other departments. During the year, the Group won the title of Advanced Enterprises for Quality Commercial Service issued by China Consumer Journal, evidencing the high standard of the Group's customer service. During the Reporting Period, the Group didn't receive any complaints about products and service.

Upon being evaluated and recommended by the Inspection and Quarantine Bureau, and reviewed and announced online by the General Administration of Quality Supervision, Inspection and Quarantine, the list of "China Export Quality Safety Demonstration Enterprise" was officially published, on which the Chigo air-conditioner brand was listed. The Group has undergone rigorous assessment, evaluation and screening, and has a considerable size. It is in the leading position amongst peers in China, and its products possessed high technological content. The Group owns famous trademarks and proprietary brands, and is renowned for its production quality both at home and abroad. Being outstanding among Chinese export enterprises, the Group plays an exemplary and leading role in the industry. During the year, the Group also won the title of "National Market Quality Credit A Customer Satisfaction Product" awarded by China Association for Quality and National Consumer Committee, and the title of "Top Ten Air-conditioner Export Enterprises in China in 2018" awarded by the China Chamber of Commerce for Import and Export of Machinery and Electronic Products.

The Group focuses on innovation to reach new heights. In a highly competitive business environment, the Group protects its expertise and technology through patents, registered trademarks, other intellectual property rights and strict production processes. During the year, the Group won the “China Patent Excellence Award” by virtue of a kind of air outlet structure for air-conditioning cabinets. At the same time, through patent search and verification, the Group also respects the knowledge assets belonging to other manufacturers, and prohibits the use of unauthorized patents and other intellectual assets.

The Group strictly complies with the relevant product responsibility laws. The Group has not been prosecuted for violating the relevant laws and regulations on product responsibility or product description during the Reporting Period .

The Group encourages to adopt sound promotion and marketing practices, and any advertisement and product label shall not make a description, claim or explanation that is inconsistent with the facts. We will also formulate our product labels, sales and promotional documents in accordance with the relevant laws and codes of practice to ensure that our product promotional materials and advertising content are true, fair and reasonable and not misleading, so as to protect the interests of consumers.



Percentage of sold or delivered products in total recalled due to safety and health reasons in the air-conditioning products production in Foshan

	2017	2018	2019
Percentage of products recalled due to safety and health reasons	Nil	Nil	Nil

B.7 Anti-corruption

As a responsible company, the Group must ensure the integrity of management and staff. Given this, the Group expressly prohibits employees to ask for or accept benefits from any business-related unit in any name or form. The Group also adopts clear guidelines on the transfer of benefits to ensure that its employees comply with the relevant laws and regulations and perform their duties honestly. The Group has strict requirements on staff’s integrity, and prohibits employees from engaging in malpractice and offering or accepting cash or other valuables. The Group will, in accordance with the terms of the Labour Contract, terminate the labour contract with the employee for malpractice, accepting a rebate, offering or accepting bribes or extortion, fraud and money laundering or other improper behaviour.

The Group’s Employee Handbook clearly stipulates the “Code of Conduct for Staff Responsibilities”, which requires employees to fill out a declaration form and follow the corresponding process, and wait for the review and arrangements of the relevant departments and the Human Resources Department, in the event of a potential conflict between their personal interests and the interests of the Group. The Group has set up a collection box for receiving advice to the Chief Executive Officer, and the Human Resources Department has also set up a dedicated staff hotline and email address for receiving staff’s direct feedback and reports on issues concerning the Group.

The Group strictly complies with the relevant anti-corruption laws and regulations, and the Group has not been prosecuted for violating relevant laws during the period.

 **Number and results of corruption litigation cases filed and concluded against the issuer or its employees during the Reporting Period in the air-conditioning products production in Foshan**

	2017	2018	2019
Number of concluded corruption litigation cases	Nil	Nil	Nil

B.8 Community Investment

The Group understands that our responsibility is not only to make a direct contribution to the social economy, but also to bring positive impact from our optimized business operations and public welfare projects on the society overall. The Group uses skills and resources strategically in different projects, programs and initiatives, bringing short-term and long-term positive influence to the development of the community. Like other successful companies, the Group also expects to contribute to the community, where feasible, and actively considers working with community groups that share a common corporate philosophy and contribute to society. In the past year, the Group has participated in various community services and activities, such as:

On 5 March 2019, we participated in the organization of community volunteers to provide home appliance repair service for free and charity publicity activities.

On 5 November 2019, the Chigo volunteer team and the chamber of commerce of Lishui Town jointly funded the Minxiu Primary School in Huaiji County, a provincial poverty-stricken county, to provide the School and students with learning, cultural and sports supplies in the cost of about RMB50,000.

In July 2019, Chigo people were organized to participate in voluntary blood donation activities in the

community, and in October, about 200 people were separately organized to participate in blood donation activities. The Group was awarded the “Foshan Blood Donation Promotion Award (Unit Award)”.

In November and December 2019, the Group carried out a publicity and education campaign named “Fun School” (稚趣學堂) in providing environmental protection knowledge for the children of employees within the company jointly with the local environmental protection organization, and 122 children and 55 parents participated in this activity.

From 1 to 15 August 2019, we accepted students from Guangzhou Zhongkai Agricultural College (廣州仲愷農學院) for practical activities, and carried out summer camps and research activities.

On 20 July 2019, about 200 students from the Lishui Middle School and Zhongda Foreign Language School were accepted to carry out social practice in the Company. They visited the enterprise laboratory, exhibition hall and workshop site.

In March 2019, more than 50 people were organized to participate in the 13km charity walk activity on Xianlu Island in the activity themed “Date with Spring, A Charity Day” held in Lishui Town to promote charity.



OUTLOOK

In the future, the Group will continue to carry out more favourable environmental, social and governance measures in its operations, including responding to relevant government policies and participating in activities organized by relevant parties. In addition, for the ESG Report, we will speed up the adjustment of internal data collection activities and improve environmental and human resources management measures to meet the disclosure requirements of the Hong Kong Stock Exchange's new guidelines.

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CHIGO HOLDING LIMITED
志高控股有限公司