

Environmental, Social & Governance Report 2020



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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MESSAGE FROM THE MANAGEMENT



Chigo Holding Limited (the “Company”) and its subsidiaries (the “Group”, “Chigo” or “we”) are pleased to release the fifth environmental, social and governance report (the “Report”), which is designed to describe the Group’s system construction and performance in fulfilling its environmental and social responsibilities from 1 January 2020 to 31 December 2020 (the “Reporting Period”), so as to address stakeholders’ concerns and expectations regarding the Group’s sustainable development management and information disclosure.

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.

The board of directors of the Group is fully aware that risk management is essential to the sustainable development of the enterprise and leads the Group to fulfill its social responsibilities. We will also ensure that its development direction is in line with the stakeholders’ expectations by ongoing risk management on sustainable development and stakeholder communication. The board of directors of the Group has the overall responsibility for our environmental, social and governance strategies and reporting, as well as overseeing and managing our environmental, social and governance related risks. The Report was confirmed and approved by the board of directors in July 2021.

To promote unified enterprise risk management within the Group, we have established a risk management and internal control system. Each year, the audit committee under the board of directors reviews the implementation results of the system and major control measures, including financial, operational and compliance control, and engages external independent professionals to help identify and assess the Group’s risks through interviews.

During the year, we continued to carry out our environment and social policies and measures to fulfil the corporate responsibilities to the environment and society. At Chigo, environmental management has always been at the core of the Group’s sustainable development strategy. Our environmental team is responsible for developing and implementing measures that meet the environmental standards of the Group, and assists 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.

In terms of employment, the Group strives to effectively protect the legal rights and interests of employees and creates a harmonious working atmosphere. Chigo has established trade unions, employee congresses and other organizations, hoping to maintain close communication with all employees, understand their needs in a timely manner, and prioritize their welfare and safety.

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.

Looking forward to the future, despite the current unknowns and uncertainties, Chigo will seize all appropriate opportunities to actively expand and continuously strengthen existing businesses, and will adhere 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.

Our Mission

To make the best air-conditioner in the world for a better life

Our Vision

Build a symbiosis and win-win platform to become a century-old high-end brand

Our Entrepreneurial Spirit

Being diligent, brave, efficient, pragmatic, and honest

Established in 1994, Guangdong Chigo Air-Conditioning Co., Ltd. is a core enterprise of Chigo Holding (stock code: 00449.HK), a company listed on the Main Board of the Hong Kong Stock Exchange. Headquartered in Nanhai District, Foshan City, a manufacturing town in the Guangdong-Hong Kong-Macao Greater Bay Area, the Group sets foot in residential air-conditioning, refrigerators, washing machines, refrigeration equipment, household appliances and other fields.



ABOUT THIS REPORT

The Report discloses the Group's actions and achievements in environmental, social and governance issues in the past year. The Report complies with all “comply or explain” provisions set out in the Environmental, Social and Governance Reporting Guidelines (the “ESG Reporting Guidelines”), and contains all recommended disclosures in the Guidelines.



SCOPE OF REPORTING



The environmental, social and governance policies and management measures contained in the Report are applicable to the Company and all wholly-owned subsidiaries. Unless otherwise stated, the data listed in the Report only covers 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 the Report focuses on information in respect of the above operating location.

The Reporting Period is from 1 January to 31 December 2020.



REPORTING PRINCIPLES



The Report follows the ESG Reporting Guidelines and applies the following principles:

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

Quantitative: The 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. The Report is prepared according to the actual situation of the Group's operation. The source of information and cases of the Report was mainly derived from the Company's statistical reports obtained in 2020, relevant documents and internal communication documents without making false and biased opinions.

Consistency: We have reported in accordance with the "Environmental, Social and Governance Reporting Guidelines of the Hong Kong Stock Exchange". Should there be any changes that may affect the comparison with previous reports in the future, footnotes will be added by the Group in the corresponding sections of the Report.



FEEDBACK



The Group welcomes stakeholders' feedback on our ESG approach and performance. Please give your suggestions or share your views with us via email at ir@chigo.com.hk.



COMMUNICATION WITH STAKEHOLDERS AND MATERIALITY ASSESSMENT

The Group strives to accommodate views and interests of stakeholders (including shareholders, customers, employees, suppliers, regulatory authorities and the public) through constructive communications with them to determine the direction of the Company's long-term development and maintain close relationships with stakeholders. The Group has formulated a series of policies and measures, and has 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.

The operating data and overall performance of the Group are summarized in the Company's interim report and annual report semi-annually and reported to investors through the Company's official website (<http://www.china-chigo.com/>).



COMMUNICATION WITH STAKEHOLDERS AND MATERIALITY ASSESSMENT

The communication methods between the Group and stakeholders as below:

Major stakeholders

Investors

Communication means

Investors

Maintain close, transparent and efficient communication with shareholders through regular investor meetings, annual general meetings, emails, investor relations hotline and investor mailbox and announcements.

Customers

Set up a customer service hotline for customers to express their opinions. Where a complaint is received, customer service staff shall give the customer a proper reply as soon as possible.

Employees

Develop employment and employee benefits systems, and strengthen employees' awareness of occupational safety and health through training.

Suppliers

Carry out open and transparent procurement through emails, meetings, review and evaluation process to achieve mutual benefit and win-win results with suppliers.

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

1. EMISSIONS

As a responsible enterprise, 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 formulated the “Three Wastes” Control Management Regulations to determine the Group’s environmental protection objectives and principles, the management system related to the treatment of wastewater and waste gas generated in the production process. This is to ensure the waste gas, wastewater and waste discharged would meet the national emission standards.

In addition, the Group’s environmental team is responsible for developing and implementing measures that meet environmental standards of the Group. 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 aims to fully comply with regulatory requirements in its emission and waste management, and strictly abide by all applicable environmental protection laws and regulations, such as the Environmental Protection Law of the People’s Republic of China. During the Reporting Period, there was no violation of any regulation.

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. We strictly require that the facilities for prevention and control of waste gas pollution in the factory shall not be dismantled or left unused without authorization. Besides, we also strictly require all departments that produce waste gas in the production process to strictly follow the operating procedures to treat waste gas specified in the “Three Wastes” Control and Management Regulations formulated by the Group, thereby effectively reducing waste gas emissions. By doing this, we ensure that waste gas emissions meet the standards of environmental protection laws and regulations promulgated by the municipal government.

The Group is always concerned about climate change issues. To this end, the Group complies with the relevant laws and regulations in the place of operation, such as the Energy Conservation Law of the People’s Republic of China, and has formulated a series of regulations and rules to reduce emissions.

Waste gas emissions generated by the air-conditioning products production in Foshan

Pollutants	Unit	Air Pollutant Emissions
Nitrogen oxides (NOx)	kg	100.34
Sulphur Dioxide (SOx)	kg	0.27
Particulate matter (PM)	kg	9.61

Note:

includes waste gas emissions from vehicles

The table below sets forth the total greenhouse gas emissions and intensity of the Company in 2019 and 2020. Greenhouse gas emissions in 2020 were about 55% lower than that in 2019, but greenhouse gas emissions from each product increased by 16.18 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 2019. The average greenhouse gas emissions from production of each product however increased due to the decline in the annual output.

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

		2020	2019
Greenhouse gas emission category	Unit	Greenhouse gas emissions	
Total greenhouse gas emissions	tonnes of CO ₂ -e	25,440.11	57,597.06
Direct emissions (Scope 1)	tonnes of CO ₂ -e	7,357.37	20,508.72
Direct emissions (Scope 2)	tonnes of CO ₂ -e	18,082.74	37,088.34
Average greenhouse gas emissions from production of each product	kg CO ₂ -e/piece	30.37	14.19

Note:

The calculations were based on the Reporting Guidance on Environmental KPIs issued by the Stock Exchange, 2006 IPCC Guidelines for National Greenhouse Gas Inventories, IPCC Fifth Assessment Report, and latest grid emission factors;

Scope 1 includes emissions from stationary combustion of diesel and natural gas, emissions from direct combustion of diesel and unleaded gasoline from mobile sources, and fugitive emissions from refrigeration equipment; and Scope 2 includes indirect energy emissions from purchased electricity.

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. The Group takes measures to ensure that industrial waste and by-products generated in operations are properly disposed of, to minimize adverse impact on the environment.

The following table sets out the total waste in 2019 and 2020 of the Company. In one year, the Group's hazardous waste relatively reduced in response to the decline in annual output.



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

		2020	2019
Waste category	Unit	Waste generation	
Hazardous waste	tonne	2.35	18.00
Average hazardous waste from production of each product	tonne	2.81	4.43

Note:

The factory's non-hazardous waste is mainly domestic waste from plant dormitories. Due to the small amount and the absence of statistical data, based on the principle of materiality, this will not be reported.

The Group strictly complies with the treatment requirements of the “Three Wastes” Control Management Regulations, to ensure that all the work in the process of wastewater treatment is standardized and orderly, so that the treated wastewater conforms to the management standards and relevant national regulations, and to ensure that the polluted wastewater is not directly discharged into rivers or public sewers. Under the leadership of The Ministry of Security and Environment Protection, the environmental protection staff conscientiously implement the environmental protection management system, operate carefully, keep the operation records of the facilities, and ensure the quality of sewage treatment and discharge according to the standards in accordance with the relevant requirements of the environmental protection department and the Company.

2. USE OF RESOURCES

Chigo 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 within the Group to advocate all employees of the Company to save water and electricity, as a way 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 to promote the use of energy-saving, high-efficiency, and environment-friendly construction equipment, machinery and office appliances recommended by the state and industry, and prioritize related equipment with the goal of gradually improving energy efficiency so as to upgrade its hardware to enhance energy efficiency wherever possible.

The table below sets forth the total energy consumption of the Company in 2019 and 2020. Energy consumption in 2020 were about 45% lower than that in 2019. Due to the decline in annual output in 2020, energy consumption was relatively reduced. The average energy consumption from production of each product however increased due to the decline in the annual output.

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

		2020	2019
Type of energy	Unit	Energy consumption	
Direct energy consumption Including:			
Natural gas consumption	kWh	5,590,143.08	12,253,625.60*
Indirect energy consumption Including:			
Electricity consumption	kWh	21,611,976.00	38,314,395.80
Total energy consumption	kWh	27,359,319.57	50,568,021.40
Average energy consumption of production of each product	kWh/piece	32.47	12.46

Note: The unit for energy data is converted to kWh with reference to lower heating value. Direct energy emissions include natural gas consumption; and indirect energy emissions include electricity consumption

*Newly added data subject to reporting for gasoline (mobile source) and diesel (mobile source) consumption in 2020. Natural gas consumption in 2019 has been revised to 12,253,625.60 kWh

The Group uses public water sources in the production process. Although such production process does not impose direct burden on the natural water sources, the Group 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 greywater reuse is implemented, 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 water consumption of the Company in 2019 and 2020. The increase in total water consumption in 2020 compared with 2019 is due to the strengthening of plant area cleaning as affected by the COVID-19. In addition, leakage was found in several places in the plant area in 2020, and the plant has been immediately arranged for maintenance. However, due to the large area involved, the whole maintenance period took longer, leading to the increase of water consumption.

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

		2020	2019
	Unit	Water consumption	
Water consumption	cubic meters	818,685.00	635,462.00
Average amount of water consumption of production of each product	cubic meter/ piece	0.98	0.16

In addition to major resources such as electricity and water, the Group is concerned about the use of other resources, such as packaging plastics, paper, metal and wood. As to packaging plastics, subject to relevant requirements, we endeavour to consume the least resources in the production process and minimise the amount of packaging materials used in production.

The table below sets forth the packaging material consumption of the Company in 2019 and 2020. Energy consumption in 2020 were about 58% lower than that in 2019. Due to the decline in annual output in 2020, packaging material consumption was relatively reduced. The average packaging material consumption from production of each product however increased due to the decline in the annual output.

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

		2020	2019
	Unit	Packaging material consumption	
Total amount of packaging materials	tonne	4,520	10,743
Average packaging material consumption of production of each product	kg/piece	5.40	2.65

3. ENVIRONMENT AND NATURAL RESOURCES

The Group actively integrates environmental responsibility into its daily business operations. We are committed to implementing management measures to protect the environment in our daily office work to reduce the consumption of the environment and natural resources. 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.

The support and cooperation of employees are essential to the success of office environmental management. In addition to regularly circulating guidelines on saving paper and energy, we also actively encourage employees to participate in environmental protection activities organised by different organisations from time to time to enhance employees' awareness of environmental protection and environmental management. We will continue to work closely with our employees in the future to establish the Group's environmental protection culture and to ensure that the operation of the office complies with environmental protection principles.

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 the potential impact on the environment.

The Group adopts advanced technologies 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 and thus causing environmental impact. The Group, as an air-conditioner manufacturer, uses different types of refrigerants and mineral oil in its operations. The Group pays particular attention to the recycling of those wastes, and contracts with qualified contractors every year. Such wastes are sent to the qualified contractors for treatment and disposal in a legal and compliant manner so as to avoid negative impact on the environment.



4. CLIMATE CHANGE

The Group has been paying attention to climate change issues. As such, the Group strives to take the best measures to reduce greenhouse gas emissions from business operations in order to combat climate change. In response to sudden extreme weather such as heat wave, heavy rain or typhoon, the Group has also developed emergency response plans for extreme and severe weather to minimize the possible consequences of accidents and effectively protect the safety of the Group's property and staff.

In case of severe weather such as typhoon, rainstorm and extreme heat, 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 addition, the Group will ensure that the number of suppliers of the same type of raw materials is maintained at two or more levels for a long time to ensure the stability of incoming raw materials. At the same time, we will pay close attention to the direction of the market for a long time, and make early warning and response to the corresponding situation.

1. EMPLOYMENT

Human capital is the source power of enterprise development. As an equal opportunities employer, the recruitment process of the Group 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 respects the personal freedom of employees and strives to establish a multicultural environment; it embraces employees regardless of ethnic group, skin colour, age, gender, sexual orientation, race, disability, pregnancy, belief, membership or marital status. We do not tolerate any form of discrimination, and we respect the individual liberty of employees and protect their personal privacy.

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 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 ensures that the wages of the employees are not lower than the minimum wage standard of local laws and regulations

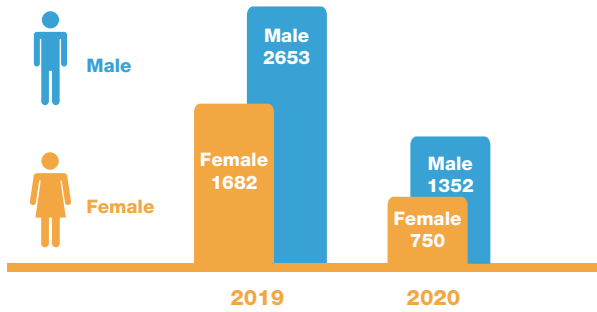
and also provides employees with a wide range of benefits including medical benefit, meal allowance, training allowance, housing, transportation and retirement benefits, in accordance with applicable regulations and internal policies. The benefit system of the Group includes three parts: statutory benefits,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

The Group strictly complies with relevant national laws and regulations on remuneration and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination and other benefits and welfare, such as the Labour Law of the People’s Republic of China. There was no violation during the period.

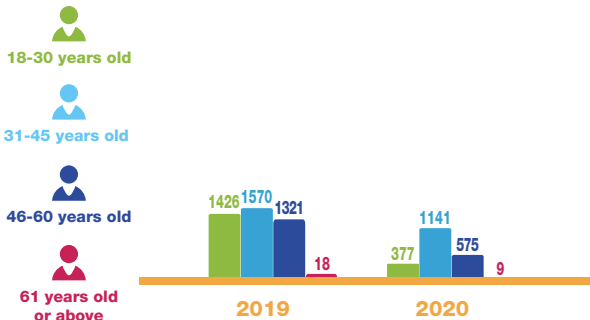
The table below sets forth the main human resource data of the Company for the years from 2019 to 2020. Due to the shrinking production and the natural loss of employees, the data of human resources in each category in 2020 were lower than that in 2019. We added the categories of contract workers and 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 total number and turnover rates of employees by location were added.



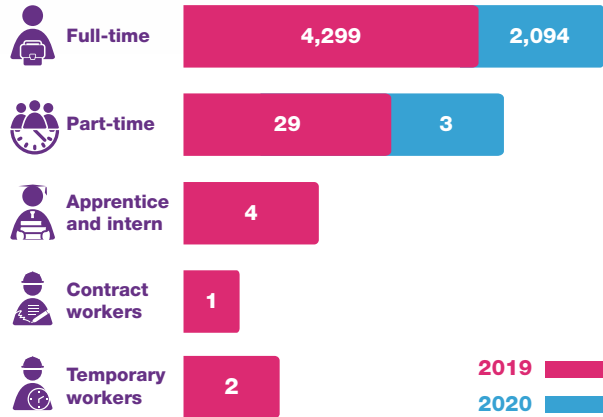
Total number of employees by different categories at the end of the period for the air-conditioning products production in Foshan



Categories	2020	2019
Total number of employees (person)		
By gender		
Male	1352	2653
Female	750	1682



Categories	2020	2019
Total number of employees (person)		
By age group		
18-30 years old	377	1426
31-45 years old	1141	1570
46-60 years old	575	1321
61 years old or above	9	18

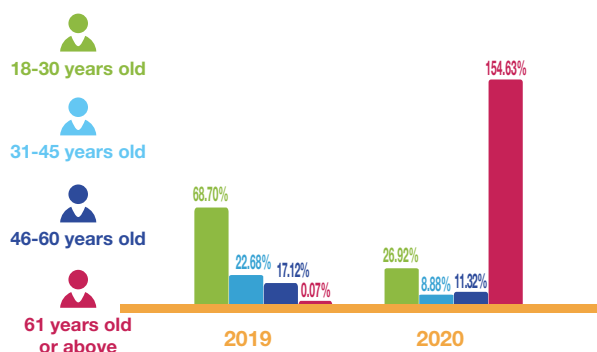
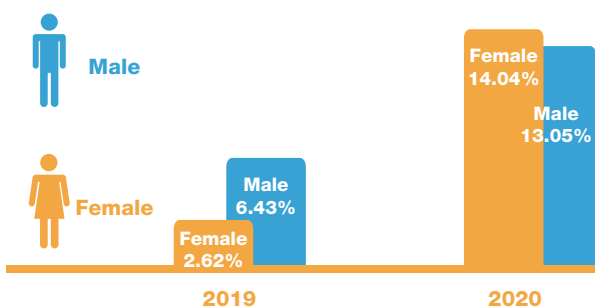


Categories	2020	2019
Total number of employees (person)		
By type of employment		
Full-time	2094	4299
Part-time	3	29
Apprentice and intern	5	4
Contract workers	0	1
Temporary workers	0	2

By location	2020	2019
China	2101	N/A
Hong Kong	1	N/A



 Annual turnover rate of employees by different categories for the air-conditioning products production in Foshan as follows:



Categories	2020	2019
Turnover rate of employees (%)		
All employees	13.41%	9%
By gender		
Male	13.05%	6.43%
Female	14.04%	2.62%

Categories	2020	2019
18-30 years old	26.92%	68.70%
31-45 years old	8.88%	22.68%
46-60 years old	11.32%	17.12%
61 years old or above	154.63%	0.07%

By location	2020	2019
China	13.41%	N/A
Hong Kong	8.3%	N/A

2. HEALTH AND SAFETY

In order to implement the safety production principle of “safety-foremost with prevention-oriented and comprehensive treatment” consistently, improve the Group’s ability to respond to risks and prevent accidents, protect employees from occupational hazards during production and work, and to prevent occupational safety incidents and diseases, 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. for safety management, accident prevention and emergency rescue plans, and employee occupational health, etc. Accordingly, The Group provides 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.

During the year, the Group established an emergency command center and adopted a series of prevention and control measures in accordance with the recommendations of local government departments in response to the COVID-19 pandemic. The Group

posted the publicity of prevention and control knowledge in the Company’s factory area and dormitory area. The Group has also conducted health monitoring on employees, implemented a daily health monitoring system, and established a temperature monitoring register. Employees entering the factory area and office premises must conduct temperature testing, and those with abnormal body temperature would be immediately transferred to the temporary isolation area and to be handled in accordance with relevant regulations. Effective diversion measures were taken in the dining hall area to avoid crowded and gathering activities. Sanitation and maintaining good ventilation were the daily preventive measures for all places, while preventive disinfection were carried out on public objects and areas that are touched frequently.

The Group strictly complies with the laws and regulations on providing a safe working environment and protecting employees from occupational hazards, such as the Law of the People’s Republic of China on the Prevention and Control of Occupational Diseases. There was no violation 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 years from 2018 to 2020. There were no work-related fatalities in the past three years including the Reporting Period, signifying the results arising from the Company’s active promotion of occupational health and safety. In 2020, the lost days due to work injury significantly decreased by approximately 68% as compared with 2019. In 2020, after reviewing the results of the number of lost days due to work injury in 2019, 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

	Unit	2020	2019	2018
Number of work-related fatalities	person	Nil	Nil	Nil
Rate of work-related fatalities	percentage	0%	0%	0%
Lost days due to work injury	man-days	203.5	647.5	1342

3. DEVELOPMENT AND TRAINING

The Group is committed to enhancing employees' skills and knowledge and actively investing in employee's training and continuing education, and establishing an on-the-job training system to facilitate the smooth achievement of the business goals. Training courses include internal training courses organized by the management staff of the Group, as well as external training courses provided by professional trainers, including technical training for production staff, financial and administrative training for managers, etc., which encourage employees to learn advanced knowledge, skills and management experience, and comprehensively improve their literacy.

New employees 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 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.

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 2019 to 2020. As the table shows, the number of training hours in 2020 and 2019 substantially increased. This is because the Group provided various training courses for its employees in 2020. For example, we have offered courses specifically such as job skills training, general management ability training, primary management ability training, middle and senior manager training.



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

	2020	2019	2020	2019
Categories	Percentage of Employees Trained (%)		Average Number of Hours of Training Completed by Each Employee (Hour)	
By gender				
Male	63%	61%	19.81	8.24
Female	37%	39%	23.95	8.36
By level of positions				
Senior management	0%	3%	18.27	4.19
Middle management	4%	9%	27.66	12.56
Supervisor	5%	87%	14.16	8.30
General staff	90%	61%	21.64	8.24

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 effective 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 labour and social security authority, will send the child back to the labour and 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 relevant rules and regulations on preventing child or forced labour, such as the Labour Law of the People's Republic of China. There was no violation during the period.

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. The Group has 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 has 105 suppliers from China. The Group demonstrates its principles and expectations to all partners, and requires suppliers to comply with all laws, international conventions, contractual requirements and all codes of the Group. Also, the Group has established an effective mechanism to ensure that both parties act in accordance with laws and regulations.

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 comply with and implement the Group's "Supplier Quality Management System" to ensure that the Group's requirements and standards are met. The Group must run through a series of audit procedures before adopting suppliers and 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 develops standard documents for suppliers management, including code of conduct for suppliers, which 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 would regularly conduct 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; Also, we will conduct regular assessment on social, environmental, occupational health and safety level of suppliers to ensure their compliance with relevant regulations. The Group also would request suppliers with relevant risks to improve their existing mechanisms and performance. We would suspend cooperation with suppliers that cannot meet the requirements to ensure that the quality, environment and safety of the supply chain would be in line with the Group's policy.

The Group would also comprehensively consider the environmental performance of the materials and appliances when procuring. For example, when technical parameters are met, we would choose machinery and lighting systems with higher efficiencies as priority. We hope to extend the Group's environmental protection vision to all levels of the supply chain.

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. During the period, no products were required to be recalled due to safety and health reasons.

The Group's quality control committee is led by the senior management of the Group and conducts annual reviews and evaluations of quality control procedures of the production processes of the Group 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 and distributors and to collect market information. In addition to customer service, the Group also operates 24-hour telephone hotlines and multi-type electronic platforms, including Internet, cloud and mobile applications, to respond to end-user's inquiries and listen to customers' comments. With a confidentiality system, the Group signs confidentiality agreements with employees, strictly manages information and files related to customers' intellectual property rights, and supervises employees who get access to confidential information. Without permission, employees are not

allowed to disclose data of the Group and customers at will, and are not allowed to copy, archive or take away from the Company. Such information can only be 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.

The Group respects intellectual property rights while safeguarding our own rights and interests. In a highly competitive business environment, the Group expects to protect its long-term interests through patents, registered trademarks, other intellectual property rights and strict production processes. The Group also respects the knowledge assets belonging to other manufacturers, and prohibits the use of unauthorized patents and other intellectual assets.

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.

The Group strictly complies with relevant laws and regulations related to health and safety, advertising, labelling, remedies, and protection of intellectual property rights of the product. At the same time, we comply with relevant laws and regulations on privacy matters, such as the "Drug Administration Law of the People's Republic of China". There was no violation during the period.

7. ANTI-CORRUPTION

As a responsible company, the Group must ensure the integrity of management and staff. Given this, at the time of recruitment of the employees, 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 guidelines 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 to or from customers and suppliers. 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 also set up whistle-blowing channels and an investigation mechanism. For instance, 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. When receiving any report of fraud, the Group will conduct preliminary analysis, and set up an investigation team to initiate investigation if necessary. The investigation team will conduct an investigation to confirm the authenticity of the fraud. If it is found to be true after investigation, the employee will be immediately dismissed and required to compensate for related losses, and will be handed over to the judicial authorities for handling as the case may be. The Group will also take remedial measures to rectify any procedural defects or implementation loopholes found in the fraud incident and follow up the implementation of such remedial measures, so as to avoid recurrence of similar fraud incidents.

The Group strictly complied with the laws and regulations on the prevention of bribery, extortion, fraud and money laundering, such as the Anti-Unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》), and there was no violation of such laws and regulations 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

	2020	2019
Number of concluded corruption litigation cases	Nil	Nil

8. COMMUNITY INVESTMENT

The Group respects the diverse cultures and existing traditions of various regions, takes the expectations and opinions of community groups very seriously, and undertakes to respond to the opinions of community members in due course. In the past year, the Group donated a total of approximately RMB300,000. Volunteers of the Group also participated in a total of 900 hours of volunteer activities. Chigo has established the “Chigo Charity Foundation” in Nanhai District and the internal “Chigo Employee Mutual Aid Foundation”, mainly to arrange supplies needed due to illness or sudden disasters, hoping to help the victims in time.

In the past year, the Group continued to cooperate with multiple communities and actively held home appliance repair services for free and charity publicity activities. In March 2020, the Group participated in the paired assistance activities for rural enterprises in Yunfu, Guangdong, a local target poverty alleviation area, which

mainly included projects such as support for students, sale by purchase, employment of poor laborers and technical assistance. In October 2020, employees were mobilized and organized to participate in voluntary blood donation activities in the community. In addition, we had also jointly organized publicity and education activities on environmental protection with local environmental protection organizations. Chigo is also a strong supporter of local education. In the past year, it offered summer social practice for about 100 students from colleges and technical secondary schools, and preferentially supplied products to many schools.

Besides, the Group supports projects that benefit the needs of the community where feasible, and collaborates with groups with a common vision to win and maintain mutual trust with all stakeholders, with a view to continuously contributing to the long-term development of the community.



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.

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KPI A.1.3	Total hazardous waste produced (in tonnes) and (where appropriate) intensity (e.g. per unit of production volume, per facility).	A1	Page 11
KPI A.1.4	Total non-hazardous waste produced (in tonnes) and (where appropriate) intensity (e.g. per unit of production volume, per facility).	The factory's non-hazardous waste is mainly domestic waste from plant dormitories. Due to the small amount and the absence of statistical data, based on the principle of materiality, this will not be reported	Page 11
KPI A.1.5	Description of the emission targets set and the steps taken to reach these targets.	A1	Page 11
KPI A.1.6	Description of the methods to handle hazardous and non-hazardous waste, and the description of the waste reduction targets set and the steps taken to achieve these targets.	A1	Page 11
A.2	Use of Resources	A2	Page 13
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KPI B.6.2	Number of products and service related complaints received and how they are dealt with.	There were a total of 3471 complaints during the period, and all of them were dealt with. Among these complaints, no product has to be recycled due to quality problems	Page 24
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CHIGO HOLDING LIMITED
志高控股有限公司