

ENVIRONMENTAL, SOCIAL AND
GOVERNANCE REPORT 2022





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ABOUT THIS REPORT

Royale Home Holdings Limited (the “Company”), together with its subsidiaries (the “Group”), is pleased to present this Environmental, Social and Governance Report (the “Report”) to provide an overview of the Group’s management on significant issues affecting the operation, and the performance of the Group in terms of environmental and social aspects. This Report is prepared by the Group with the professional assistance of APAC Compliance Consultancy and Internal Control Services Limited.

PREPARATION BASIS AND SCOPE

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

This Report summarises the performance of the Group in respect of corporate environmental and social responsibility, covering its operating activities which are considered as material by the Group – (i) manufacture and sale of furniture; (ii) development properties for sales and property investments, (iii) hotel operation business; and (iv) trading of commodities in the People’s Republic of China (the “PRC”). The development properties for sales and property investments and the trading of commodities business in the PRC is not included in this year reporting scope since the operation of this business has no significant impact to the environment. With the aim to optimise and improve the disclosure requirements in the Report, the Group has taken initiative to formulate policies, record relevant data, implement and monitor measures. This Report shall be published both in Chinese and English on the website of Stock Exchange. Should there be any discrepancy between the Chinese and the English versions, the English version shall prevail.

REPORTING PERIOD

This Report demonstrates our sustainability initiatives during the reporting period from 1 January 2022 to 31 December 2022.

CONTACT INFORMATION

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

INTRODUCTION

Established in 1997, with production bases in the heart of Guangdong's Pearl River delta, the Group has been one of the top-selling home furniture brands and a nationally recognised brand in the PRC. We specialise in the production of different types of furniture, from panel-based and solid wood products, to sofas, upholstery, hotel furniture and mattresses.

We value excellence and endeavour to provide all our business partners with world-class services. In recognition of quality products and excellent services, here is the list of awards:

- 2019第7屆世界軍人運動會
- 2019中國傢俱行業領軍企業榮譽稱號
- 2019中國品牌影響力(行業)十大投資價值品牌
- 2019中國全屋定制十佳品牌
- 2020廣州市傢俱行業協會第七屆理事會副會長單位
- 2020中國森林認證產銷監管鏈示範(試點)單位
- 2020中國家居品牌力量榜「消費者喜愛品牌」
- 2020高新技術企業證書
- 2020-2021碧桂園服務拎包入住戰略合作夥伴
- 2020-2021中國全屋定制行業經銷商大調查優秀品牌徵選活動全屋定制服務十佳品牌
- 2021粵港澳酒店產業聯合會最佳合作夥伴
- 2021年熱心慈善奉獻大愛榮譽證書
- 2022居然之家金牌合作夥伴
- 2022消費者口碑品牌
- 2022中國國際商會理事
- 2022廣州市增城區慈善會榮譽證書
- 2022全國工商聯傢俱裝飾業商會定制家居專業委員會副會長

Apart from engaged in the furniture manufacture business, we are currently engaged in hotel operation. Royal Palace Hotel Guangzhou, which is our Group's hotel in the PRC, has provided hotel accommodation services in Guangzhou since 2018. To become one of the most luxurious hotels in Guangzhou, the hotel has 400 rooms, five restaurants and bars, as well as three banquet halls in its existing and developing portfolio. By providing quality hospitality services, we have been able to attract talented employees and different categories of travellers from all over the world.

Currently, the Group regards sustainability as an important direction for development. The Group is committed to environmental and social responsibilities. The Group acknowledges the importance of responsible operation manner for the environment and community. We strive for excellence to make the right choices to serve the long-term interests of all our stakeholders, from customers, business partners and shareholders to employees, local communities and society at large. Various policies are established to help us manage and monitor the risks related to environment, employment, operating practices and community. Details of the management approaches to sustainable development of different areas have been illustrated in this Report.

STAKEHOLDERS ENGAGEMENT AND MATERIALITY ASSESSMENT

The Group understands the success of the Group's business depends on the support from its key stakeholders, who (a) have invested or will invest in the Group; (b) have the ability to influence the outcomes within the Group; and (c) are interested in or affected by or have the potential to be affected by the impact of the Group's activities, products, services and relationships. It allows the Group to understand risks and opportunities. The Group will continue to ensure effective communication and maintain good relationship with each of its key stakeholders.

Stakeholders are prioritised from time to time in view of the Group's roles and duties, strategic plan and business initiatives.

The Group engages with its stakeholders to develop mutually beneficial relationships and to seek their views on its business proposals and initiatives as well as to promote sustainability in the marketplace, workplace, community and environment.

The Group acknowledges the importance of intelligence gained from the stakeholders' insights, inquiries and continuous interest in the Group's business activities.

STAKEHOLDERS ENGAGEMENT AND MATERIALITY ASSESSMENT

The Group has identified key stakeholders that are important to our business and established various channels for communication. The following table provides an overview of the Group's key stakeholders, and various platforms and methods of communication are used to reach, listen and respond.

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

Through general communication with stakeholders, the Group understands the expectations and concerns from stakeholders. The feedbacks obtained allow the Group to make more informed decisions, and to better assess and manage the resulting impact.

STAKEHOLDERS ENGAGEMENT AND MATERIALITY ASSESSMENT

The Group has adopted the principle of materiality in the ESG reporting by understanding the key ESG issues that are important to the business of the Group. All the key ESG issues and key performance indicators (KPIs) are reported in the Report according to recommendations of the ESG Reporting Guide (Appendix 27 of the Listing Rules) and the GRI Guidelines. The Group has evaluated the materiality and importance in ESG aspects through the following steps:

Step 1: Identification – Industry Benchmarking

- Relevant ESG area was identified through the review of relevant ESG reports of the local and international industry peers.
- The materiality of each ESG area was determined on the importance of each ESG area to the Group through internal discussion of the management and the recommendation of ESG Reporting Guide (Appendix 27 of the Listing Rules).

Step 2: Prioritization – Stakeholder Engagement

- The Group discussed with key stakeholders on key ESG areas identified above to ensure all the key aspects were covered.

Step 3: Validation – Determining Material Issues

- Based on the discussion with key stakeholders and internal discussion among the management, the Group's management ensured that all the key and material ESG areas, which were important to the business development, were reported and in compliance with ESG Reporting Guide.

As a result of this process carried out in 2022, those important ESG areas to the Group were discussed in this Report.

ESG GOVERNANCE

BOARD'S OVERSIGHT OF ESG ISSUES

Board's overall vision and strategy in managing ESG issues

The board of directors ("Board") has a primary role in overseeing the management of the Group's sustainability issues. During the reporting period, the Board spent significant time in evaluating the impact of ESG-related risks on our operation and formulating relevant policy in dealing with the risks. The oversight of the Board is to ensure the management to have all the right tools and resources to oversee the ESG issues in the context of strategy and long-term value creation.

ESG Working Group

The Group attaches great importance to ESG work. Under the leadership of the Board of the Company, a ESG Working Group is set up to implement specific safety and environmental protection work, so as to comply with government requirements, implement the concept of "safety and environmental protection" in its operation and fulfil its social responsibilities.

The ESG Working Group is primarily responsible for reviewing and supervising the ESG process, and risk management of the Group. During the reporting period, the ESG Working Group and the management reviewed the ESG governance and different ESG issues.

Board's ESG management approach and strategy for material ESG-related issues

In order to better understand the opinions and expectations of different stakeholders on our ESG issues, materiality assessment is conducted each year. We ensure various platforms and channels of communication are used to reach, listen and respond to our key stakeholders. Through general communication with stakeholders, the Group understands the expectations and concerns from stakeholders. The feedbacks obtained allow the Group to make more informed decisions, and to better assess and manage the resulting impact.

The Group has evaluated the materiality and importance in ESG aspects through the steps: (1) material ESG area identification by industry benchmarking; (2) key ESG area prioritization with stakeholder engagement; and (3) validation and determining material ESG issues based on results of communication among stakeholders and the management. Hence, this can enhance understanding of their degree and change of attention to each significant ESG issue, and can enable us to more comprehensively plan our sustainable development work in the future. Those important and material ESG areas identified during our material assessment were discussed in this Report.

A. ENVIRONMENTAL ASPECTS

A1. EMISSIONS

As a manufacturer, the Group recognises that it has obligation to reduce the operation impact on environment. The Group is committed to continuously improving the environmental sustainability and ensuring environmental consideration remains one of the top priorities in the operation.

The Group has established a set of management system on environmental protection, including “Environmental Facilities Operation and Management System” to monitor all the emissions, including air pollutants, solid wastes and waste water. Our environmental management system meets regulatory requirements and has ISO 14001:2015 environmental management system accreditation.

The Group is subject to various environmental laws and regulations set by the PRC national, provincial and municipal governments. These include regulations on air and noise pollutions and discharge of waste and water. Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations. For example, the Group has obtained emission permit from Guangdong Environmental Protection Department (廣東省污染物排放許可證), “Environmental Protection Law of the People’s Republic of China” (《中華人民共和國環境保護法》), the “Law of the People’s Republic of China on the Prevention and Control of Solid Wastes Pollution to the Environment” (《固體廢物污染環境防治法》) and other relevant environmental laws and regulations for legal air pollutants, noise, waste and waste water emissions. During the reporting period, the Group had no non-compliance regarding environmental issues, including air and noise emissions and waste discharge.

Air Pollutant Emissions

Air pollutant emission control is essential to mitigate the impact on environment and to protect employees’ health. Our major air pollutants are generated from furniture manufacturing process. All the exhaust gas emission must comply with the Emission limits of air pollutants (DB44/27-2001) and the Emission standard of Volatile Organic Compounds for Furniture Manufacturing Operations (DB44/814-2010).

The Group has taken initiatives to formulate plans to remediate air pollutant emissions. For example, the Group has engaged a qualified environmental testing company to carry out regular testing to ensure the air pollutant emissions complies with relevant national standards. To reduce the emission of volatile organic compounds (“VOCs”), water curtain spraying booth is adopted. VOCs are treated with activated carbon before emission. Dust collectors are installed to reduce dust emission during wood cutting and drilling.

For the Group’s hotel operation, air pollutants are mainly generated from combustion processes taken place inside the heating boilers, as well as kitchen exhaust and car exhaust emissions. Actions have been taken to enhance combustion for boilers, all the fuel combustible and material are burnt to minimize air pollutants generation. The fly ash generated by burning should be treated with a variety of dust removal methods (such as cyclones, tubes, wet dust, etc.) to conform to the “Emission standard of air pollutants for boiler (GB13271-2014)” (《鍋爐大氣污染物排放標準》(GB13271-2014)). Besides, we adopt low chemical fittings and furniture, as well as conduct regular maintenance of ventilation systems to maintain good indoor air quality of our factories.

Oil fume is one of the major exhausts from the kitchen in our hotel operation. Oil fume treatment equipment has been installed to ensure the air pollutants discharged can comply with the emission standards. In addition, relevant remote monitors have been installed at the discharge outlets to enable real-time monitoring to ensure that it meets the requirements as stipulated in the “Emission Standard of Cooking Fume (GB 18483-2001)” (《飲食業油煙排放標準》(GB 18483-2001)). The air pollutant emissions in 2022 remained stable as there was effective implementation of fuel saving policies in furniture manufacture activities and provision of hotel catering services during the reporting period. Furthermore, the Group targets to reduce the emission of air pollutants by 10% by 2025.

A. ENVIRONMENTAL ASPECTS

The air pollutant emissions during the reporting period were as follows:

Air Pollutants	Unit	2022	2021
Nitrogen oxides (NO_x)	kg	2,569.23	2,568.49
Sulfur dioxide (SO₂)	kg	48.70	51.12
Particulate matter (PM)	kg	190.28	216.53

Greenhouse Gas (“GHG”) Emissions

The Group recognises that climate change can pose a risk to its business and it is committed to mitigating the effects of climate change. GHG is considered as one of the major contributors to climate change. The Group has a large greenery area to increase oxygen content and mitigate carbon dioxide emission. Regarding GHG emissions of the Group, direct emissions (scope 1¹) result from combustion of fuels in mobile sources (vehicles) in our furniture products segment and consumption of liquified petroleum gas (“LPG”) in the hotel operation. The GHG (scope 2²) emissions result from the purchased electricity in both of the furniture products segment and hotel operation business.

Giving the majority of the GHG emissions of the Group come from energy consumption, the Group tackles its carbon footprint by reducing energy consumption. Policies and procedures (as mentioned in the section “Use of Resources”) to encourage energy saving are incorporated throughout the manufacturing process in order to reduce the GHG emissions. The decrease in the GHG scope 1 emission in 2022 was mainly due to the effective implementation of (i) fuel saving policies in furniture manufacture activities and provision of hotel catering services; and (ii) refrigerant recycling policies during the reporting period. On the other hand, the increase in GHG scope 2 emission in 2022 was mainly attributable to the increase in production volume of furniture products during the reporting period. The Group will strive to reduce the emission of GHG by 10% by 2025.

The GHG emissions during the reporting period were as follows:

GHG Emission	Unit	2022	2021
Scope 1 ¹	tonnes of CO ₂ -e	743.60	1,151.87
Scope 2 ²	tonnes of CO ₂ -e	4,838.53	4,003.43
Total GHG emission	tonnes of CO ₂ -e	5,582.13	5,155.30
GHG emission intensity	tonnes of CO ₂ -e/ unit of production	0.01	0.01

¹ Scope 1: Direct emissions from sources that are owned or controlled by the Group.

² Scope 2: Indirect emissions from the purchased electricity consumed by the Group.

A. ENVIRONMENTAL ASPECTS

Solid Waste Management

Wastes generated are classified and handled with care to mitigate environmental impact. Each type of waste has specific handling procedure.

For hazardous waste, it is handled according to the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste 《中華人民共和國固體廢物污染環境防治法》. The Group has engaged a qualified waste collection company to handle and collect the hazardous waste produced so as to minimise the impact on environment.

For the manufacture and sale of furniture business, the non-hazardous waste mainly consists of wood waste generated from the manufacturing unit, and domestic waste, which is the waste generated from staff quarters and offices. The Group promotes waste sorting. Domestic wastes are collected and handled by the local environmental and hygiene department. All of the paper waste was recycled. For the hotel operation business, the non-hazardous wastes mainly consist of food waste generated from the dining area and domestic waste generated from the hotel guest rooms.

We continue to focus on reducing food waste in our operations by the cooperation with local partners with various upcycling capabilities, such as the production of nutrient-rich compost from food waste, as fertiliser in our gardens, or sent to local agricultural partners. We also partnered with local food banks to create meals and ingredient packs for local communities. Furthermore, we worked on minimising other waste types from entering landfills unnecessarily, such as the donation of soap bars and bottled amenities, with the aim of lessening hygiene-related illnesses in our local communities.

The total non-hazardous waste generation remained stable as there was effective implementation of waste management policies during the reporting period. The Group has set comprehensive reduction target by 10% reduction in non-hazardous waste generation by 2025.

During the reporting period, the wastes generated by the Group were as follows:

Non-hazardous Waste Generated	Unit	2022	2021
Wood waste	tonnes	860.00	900.00
Food waste	tonnes	16.25	12.80
Domestic waste	tonnes	229.51	192.34
Total non-hazardous waste generated	tonnes	1,105.76	1,105.14
Non-hazardous waste generated intensity	kg/unit of production	2.30	2.64

Wastewater

The Group has wastewater treatment facilities in our furniture manufacturing factories to ensure that the wastewater discharged complies with the Discharge Limits of Water Pollutants (DB44/26-2001). The Group has engaged qualified environmental testing company to carry out regular testing on the wastewater discharged. Wastewater is strictly forbidden to be mixed with rainwater. Wastewater discharge and rainwater collection systems are separately managed.

A. ENVIRONMENTAL ASPECTS

Noise

During furniture manufacture process, noise and vibration are inevitably generated by the use of machines. We strive to minimise noise produced and disturbances to the nearby through sound insulation, sound absorption and vibration reduction. For example, we choose to use low-noise equipment. All the noise emission must comply with the Emission standard for industrial enterprises noise at boundary (GB12348-2008).

For the hotel operation, noise is generated by all fans, equipment rooms, water towers, boilers and other equipment. The Group adopts silencing method, sound insulation method, sound absorption method and other sophisticated methods, uses low-noise equipment to ensure that noise emissions meet the “Noise Emission standard for community noise (GB22337-2008)” (《社會生活環境噪聲排放標準》(GB22337-2008)).

A2. USE OF RESOURCES

The Group has adopted a set of guidelines to achieve efficient use of energy, water and other materials for long-term sustainability.

Energy

To manage energy use and reduce energy consumption, the Group has established “Energy Resources Control Procedure” (能源資源控制程序). The Group believes that increasing environmental awareness is the basis for energy reduction initiative. The Group carries out educational activities in order to enhance employees’ energy-saving awareness. Every employee has the responsibility to save energy, they are encouraged to switch off all the electronic appliances when leaving the office.

Besides, we explore energy-saving measure in production process by choosing energy-saving equipment. For the manufacture and sale of furniture business, energy efficiency performance of the machines is one of the key considerations for procurement department when buying new equipment. We will consistently seek ways to improve energy efficiency and reduce energy consumption in our operation in future. For example, low-efficient equipment will be phased out gradually. For the hotel operation business, we began to undertake our LED lamp replacements of our back-office operations and guest rooms, which is an effective measure for cost and energy reduction.

The Group’s energy consumption consists of four types – (i) purchased electricity; (ii) petrol; (iii) diesel; and (iv) liquefied petroleum gas (“LPG”). The increase in total energy consumption in 2022 was mainly attributable to the increase in production volume of furniture products during the reporting period. The Group has set inclusive total energy consumption reduction target by 10% by 2025. During the reporting period, the energy consumption of the Group was as follows:

Energy	Unit	2022	2021
Purchased electricity	MWh	5,789.06	4,790.83
Petrol	MWh	633.73	625.54
Diesel	MWh	741.32	784.03
LPG	MWh	290.02	372.45
Total energy consumption	MWh	7,454.13	6,572.85
Energy consumption intensity	MWh/unit of production	0.02	0.02

A. ENVIRONMENTAL ASPECTS

Water

Water is another important natural resource. For saving water, water taps should be turned off right after using. Running, dripping and long-flowing water are avoided. Water pipes are checked regularly to identify any cracks or leakage to prevent water wastage. For the hotel operation services, water flow rate across our hotel operations is reviewed, and we installed low-flow sanitary fittings and faucet applications where possible. Owing to the reduction in water usage of hotel swimming pool and catering services for the continuing COVID-19 pandemic outbreak and the effective implementation of water saving policies by our furniture manufacture factories, the water consumption decreased during the reporting period. The Group has set a reduction target of 10% in water consumption by 2025. During the reporting period, the water consumption of the Group was as follows:

Water	Unit	2022	2021
Total water consumption	m ³	97,269	136,946
Water consumption intensity	m ³ /unit of production	0.20	0.33

Packaging Materials

The major packaging materials used in our furniture manufacturing business mainly include expanded polystyrene foam, expanded polyethylene foam and paper box. The total packaging materials in 2022 remained stable as there was effective implementation of the packaging materials saving strategies during the reporting period. The Group has set packaging material consumption reduction target by 10% by 2025. The consumption of packaging materials by the Group was summarised as below.

Packaging Materials	Unit	2022	2021
Expanded polystyrene foam	tonnes	75.00	77.20
Expanded polyethylene foam	tonnes	19.01	14.88
Paper box	tonnes	193.14	191.83
Total packaging materials consumption	tonnes	287.15	283.91
Packaging materials consumption intensity	kg/unit of production	0.60	0.68

A3. THE ENVIRONMENT AND NATURAL RESOURCES

As a furniture manufacturer, our manufacturing activities involve the consumption of valuable natural resource which is wood. To show our commitment in protecting forest and mitigating environmental impacts, the Group has obtained Chain of Custody Certification from Forest Stewardship Council. This certification demonstrates that our forest-based materials and products are originated from well-managed forests, controlled sources and reclaimed materials.

Apart from Chain of Custody Certification, our products are also certified with China Environmental Labelling (中國環境標誌) and China Ecolabelling (中國環保產品認證). These certifications show that our products meet the specific national requirement of environmental protection during production process. They have environmental advantage of low toxicity, low harm and saving resources when comparing with other similar products.

A. ENVIRONMENTAL ASPECTS

A4. CLIMATE CHANGE

Governance

Our Group addresses climate-related risks based on the nature of the risk to our operations. The physical impacts of climate change, including extreme weather events, or damage to facilities have immediate operational impacts and are treated as operational risks. Long-term challenges, such as emerging ESG issues and climate-related risks and opportunities, may be discussed by the Group's ESG Working Group.

Supported by our ESG Working Group, our Board oversees climate-related issues and risks regularly during board meetings and ensures that they are incorporated into our strategy.

To ensure our Board to keep up with the latest trend of climate-related issues, climate competence training will be provided to ensure it has the necessary expertise and skills to oversee the management of climate-related issues. Our Board also seeks professional advice from external experts when necessary to better support the decision-making process.

Our ESG Working Group provides effective governance for integrating and addressing ESG issues, including climate change, within our business. The ESG Working Group is responsible for approving operational emissions targets for the Group and commissioning an ESG benchmarking, as well as gap analysis exercise to identify gaps in both disclosure and policy relative to the best practice standards. Moreover, the ESG Working Group works closely with the Group's different operation departments, with an aim to develop consistent and enhanced approaches on addressing ESG risk issues and report to the management.

Strategy

Climate change risk forms part of our overall risk profile through its role in increasing the frequency and intensity of certain diseases, and the health and mortality impacts resulting from natural disasters. We assess the overall level of risk by taking into consideration a range of diverse risk factors across the many categories in our services range. This diversity of risk is combined with our business strategy and broad geographic footprint helps us mitigate risk and provide protection against the impacts of short-term climate change effects.

Our products and services continue to provide protection for people in our communities against weather and heat-related disease. Besides, we continue to explore opportunities to engage our business partners and encourage them to develop climate resilience and reduce their operational carbon footprint by taking into consideration of different climate-related scenarios, including a "2°C or lower scenario" through the following steps:

Step 1: Set Future Images Assuming Climate Change Effects

As climate change measures proceeds, there is a possibility that the industry will be exposed to substantial changes, such as stricter policies including the introduction of and increases in carbon pricing, as well as advances in technology and changes in customer awareness.

In light of these climate change effects, based on the International Energy Agency ("IEA") scenarios and others, we developed multiple future images as the external environment that will surround our Group. With regard to the IEA scenarios, we put focus on the 2°C scenario (2DS) and pictured future images in case where climate change measures do not progress and where such measures progress further "Beyond 2°C scenario".

A. ENVIRONMENTAL ASPECTS

Step 2: Consider the Impacts

We considered the impacts on our Group for each of the future images developed in Step 1. We believe that in such a society, it will be possible to expand carbon dioxide reduction effects.

With regard to effects on raw material procurement and production, introduction of and increases in carbon pricing is anticipated in accordance with the global advance of climate change measures, leading to the possibility of higher raw material procurement and production costs.

On the other hand, in the case where climate change measures are not adequate throughout society, production interruptions and supply chain disruptions are likely to increase as a result of higher frequency and intensification of natural disasters such as flooding.

Step 3: Respond to the Strategies

Our Group will begin promoting the reduction of non-renewable energy in our daily operation. This strategy will allow for flexible and strategic responses to each demand for the regions where the emission factors of purchased electricity consumptions are high. By promoting real carbon emissions reductions throughout the world through comprehensive energy-saving policies and introduction of renewable energy, we are working to achieve zero carbon emission in our business.

We minimize carbon emissions through comprehensive energy-saving and introduction of renewable energy. With respect to renewable energy in particular, we have set a new target, achieve a reduction rate for purchased electricity in coming few years.

With regard to the ongoing confirmation of the suitability and progress of the Group's strategies, we believe that we will have opportunities for stable funding and sustainable increases in corporate value through appropriate information disclosure, dialogue with institutional investors and other stakeholders.

Risk Management

Our Group identifies the climate change related risks or to test the existing risk management strategies under climate change with the aid of risk assessment. Hence, the areas where new strategies are needed could be identified.

The risk assessment takes a standard risk-based approach using national data, local information and expert knowledge, which can identify how climate change may compound existing risks or create new ones. The risk assessment is conducted through the following steps:

Step 1: Establish the context

- Objective/goal
- Scale
- Time frame
- Climate change scenario for most climate variables and sea level

A. ENVIRONMENTAL ASPECTS

Step 2: Identify existing risk (past and current)

- Identify the record of occurrence of climatic hazard in the past in the area
- Risk management strategies in place to tackle future occurrence of the hazard

Step 3: Identify future risk and opportunities

- Explore climate change projections for the selected time frame(s) and emission scenario(s)
- Identify potential hazards
- Investigate whether any existing risk from Step 2 may get worse under future projected changes
- Identify new risks that can emerge under future projected changes

Step 4: Analyse and evaluate risk

- Identify a set of decision areas or systems (i.e., geographical areas, business operation, assets, ecosystems, etc.) that has the potential to be at risk in future

As outlined within the Governance section above, the Group has robust risk management and business planning processes that are overseen by the board of directors in order to identify, assess and manage climate-related risks. The Group engages with government and other appropriate organizations in order to keep abreast of expected and potential regulatory and/or fiscal changes.

We continue to raise awareness of climate change in regard to monitoring of carbon and energy footprint in our daily operation. However, there remains gaps in understanding how such climate risks and opportunities may impact our operations, assets and profits. Our Group assesses how the business addresses climate change risks and opportunities and takes the initiative to monitor and reduce their environmental footprint.

A. ENVIRONMENTAL ASPECTS

Significant Climate-related Issues

During the reporting period, the significant climate-related physical risks and transition risks, which have impacted and/or may impact our Group’s business and strategy in (i) operations, products and services, (ii) supply chain and value chain, (iii) adaptation and mitigation activities, (iv) investment in research and development, and (v) financial planning, as well as the steps taken to manage these risks, are as follows:

Climate-related risks description	Financial impact	Steps taken to manage the risks
Physical Risk		
Acute physical risks		
<ul style="list-style-type: none"> Increased severity and frequency of extreme weather events such as cyclones and floods. These have the potential to cause both idiosyncratic and systemic risks, resulting in potential damage to machinery and equipment. 	<ul style="list-style-type: none"> Operating cost and repairing expense increase 	<ul style="list-style-type: none"> Planned to establish a natural disasters emergency plan. Planned to devise an action plan to articulate the goals and targets of the reductions in GHG emission and energy consumption. Outlined the plan to achieving those targets and defined responsibilities.
Chronic physical risks		
<ul style="list-style-type: none"> Changes in precipitation patterns and extreme variability in weather patterns. Frequent extreme weather events and rising in sea levels are likely to pose disruptions to communities across the region over the long term, affecting economic output and business productivity. Governments that have been pushing for new regulation to reduce GHG emission will pose a threat to financial performance of a business and increase regulatory risk. 	<ul style="list-style-type: none"> Revenue reduces Operating cost increases 	<ul style="list-style-type: none"> Planned improvements, retrofits, relocations, or other changes to facilities that may reduce their vulnerability to climate impacts, and increases climate resilience in long term. Record the energy consumption to identify peaks in usage, thus significant savings could be determined. Engaged with local or national governments and local stakeholders on local resilience.
Transitional Risk		
Policy risk		
<ul style="list-style-type: none"> As a result of energy efficiency requirements, the carbon-pricing mechanisms by the PRC Government, which increase the price of fossil fuels. 	<ul style="list-style-type: none"> Operating cost increases 	<ul style="list-style-type: none"> Planned to conduct a carbon footprint survey, in order to work out the company’s footprint, to prioritize energy and waste reductions. Monitor the updates of the relevant environmental laws and regulations against existing products and services, to avoid the unnecessary increase in cost and expenditure due to non-compliance.

A. ENVIRONMENTAL ASPECTS

Climate-related risks description	Financial impact	Steps taken to manage the risks
<p>Legal risk</p> <ul style="list-style-type: none"> Exposure to litigation risk. We have to adapt the tightened law and regulations imposed by the government due to climate change, as well as bear the risk of potential litigation once we fail to obligate the new regulations. Enhanced air pollutant emissions-reporting obligations for local government, and we may have to spend more time on fulfilling the ESG reporting standards to comply with the Hong Kong Listing Rules. 	<ul style="list-style-type: none"> Operating cost increases 	<ul style="list-style-type: none"> Monitored the updates of environmental laws and regulations and implemented GHG emissions calculations in advance. Continued monitoring of the ESG reporting standards of the Hong Kong Listing Rules.
<p>Technology risk</p> <ul style="list-style-type: none"> Low-carbon, energy-saving technologies are launched. Lagging behind of technology advancement may weaken our competitive edges. 	<ul style="list-style-type: none"> Capital investment increases Research and Development (R&D) expense increases 	<ul style="list-style-type: none"> Planned to invest in the innovations of energy saving products. Examined the feasibility and benefits of applying the latest low-carbon and energy-saving technologies into our operation.
<p>Market risk</p> <ul style="list-style-type: none"> More customers are concerned about climate-related risks and opportunities, which may lead to changes in customer preference. Inability to attract co-financiers and/or investors due to uncertain risks related to the climate. 	<ul style="list-style-type: none"> Revenue decreases Operating cost increases Production cost increases 	<ul style="list-style-type: none"> Fulfilled the climate-related regulations by the government. Prioritize the climate change as a high concern in the market decisions to show to the clients that the company is concerned about the problem of climate change.
<p>Reputational risk</p> <ul style="list-style-type: none"> Risk of stigmatization of our business sector, as there will be more stakeholder concern or negative stakeholder feedback on our Group. Negative press coverage related to support of our Group's business projects or activities with negative impacts on the climate (e.g., GHG emissions and energy conservation), which may affect our reputation and image. 	<ul style="list-style-type: none"> Revenue decreases Operating costs increases 	<ul style="list-style-type: none"> Fulfilled the social responsibility by organizing more public relation activities to show how our Group places importance on climate change. Reviewed the business projects to ensure the production and the projects are environmental-friendly.

A. ENVIRONMENTAL ASPECTS

During the reporting period, the primary climate-related opportunities and the corresponding financial impacts were as follows:

Detailed description of climate-related opportunities	Financial Impact
<p>Resource efficiency</p> <ul style="list-style-type: none"> • Use of more efficient modes of transport • Use of more efficient production and distribution processes • Use of recycling • Reduce water consumption 	<ul style="list-style-type: none"> • Operating cost reduces through efficiency gains and cost reductions
<p>Energy source</p> <ul style="list-style-type: none"> • Use of lower-emission sources of energy • Use of supportive policy incentives • Use of new technologies • Shift toward decentralized energy generation 	<ul style="list-style-type: none"> • Operating cost reduces through use of lowest cost abatement • Returns on investment in low-emission technology increases
<p>Products and services</p> <ul style="list-style-type: none"> • Development of climate adaptation and insurance risk solutions • Ability to diversify business activities • Development of new products or services through R&D and innovation 	<ul style="list-style-type: none"> • Revenue increases through new solutions to adaptation needs, such as insurance risk transfer of products and services
<p>Markets</p> <ul style="list-style-type: none"> • Access to new markets 	<ul style="list-style-type: none"> • Revenue increases through access to new and emerging markets
<p>Resilience</p> <ul style="list-style-type: none"> • Participation in renewable energy programs and adoption of energy-efficiency measures • Resource substitution or diversification 	<ul style="list-style-type: none"> • Market valuation increases through resilience planning, such as planning of the research in the use of electric vehicles • Reliability of supply chain and ability to operate under various condition increases • Revenue increases through new products and services related to ensuring resiliency

A. ENVIRONMENTAL ASPECTS

Metrics and Targets

Our Group adopts the key metrics to assess and manage climate-related risks and opportunities. The energy consumption and greenhouse gas (GHG) emissions indicators are the key metrics used to assess and manage relevant climate-related risks where we consider such information is material and crucial for evaluating the impact of our operation on global climate change during the reporting period. Our Group regularly tracks our energy consumption and GHG emissions indicators to assess the effectiveness of emission reduction initiatives, as well as set targets to contribute our effort to have minimal impact on global warming.

The details of time frames over which the target applies and base year from which progress is measured are described in the section A1: “Emissions” and section A2: “Use of Resources” of this Report. Our Group adopts absolute target to manage climate-related risks, opportunities and performance.

B. SOCIAL ASPECTS

EMPLOYMENT AND LABOUR PRACTICES

B1. Employment

The Group recognises that employees are the most important asset. Hence, we are committed to establishing a close relationship with our employees and providing a favourable working environment where our employees can thrive. We have established a set of human resources management policies in order to comply with relevant labour laws and regulations including the “Labor Law of the People’s Republic of China” (《中華人民共和國勞動法》), the “Labor Contract Law of the People’s Republic of China” (《中華人民共和國勞動合同法》) and other applicable laws and regulations. During the reporting period, no non-compliance regarding employment was noted.

Equal Opportunities

The Group strives to create a diverse and equitable workplace where all individuals are treated equally in every aspect of their employment. For example, our hiring process is unbiased. The candidates are selected solely based on their performance, experience and skills. We have zero tolerance to any discriminatory act or harassment based on gender, age, nationality, race, religion, marital status and physical ability, etc.

Competitive Employment Terms

The Group is committed to offering competitive remuneration and benefits in attracting, retaining and motivating high performing employees. The Group’s remuneration policies are in line with local market practices where the Group operates and are normally reviewed on an annual basis. In addition to salary payments, there are other staff benefits including provident fund, medical insurance and performance related bonus. Shares may also be awarded to eligible employees or persons of the Group.

Work-life Balance

The Group recognises that a proper balance between work and rest can help employees to release their full potential. Hence, the Group is dedicated to help employees to maintain a work-life balance through reasonable contractual working hours and vacation entitlements.

Employees are entitled to statutory holidays, paid annual leave, marriage leave and maternity leave, etc. to balance their work and life.

B. SOCIAL ASPECTS

As at 31 December 2022, the total number of employees of the Group was 1,490 (2021: 1,328). Below is the detailed breakdown of the number of employees by gender, age group, employment category and geographical region.

Employee Compositions	2022	2021
By gender		
• Male	915	825
• Female	575	503
By age group		
• Age 30 or below	409	351
• Age 31–40	481	426
• Age 41–50	374	353
• Age 51 or above	226	198
By geographical region		
• The PRC	1,478	1,315
• Hong Kong	12	13
By employment type		
• Senior management	52	40
• Middle management	214	188
• General staff	1,224	1,100
• Contract/short term staff	–	–
Total	1,490	1,328

B. SOCIAL ASPECTS

The employees' turnover rate during the reporting year by gender, age group and geographical region were as follows:

Employee Turnover Rate	2022	2021
By gender		
• Male	71%	41%
• Female	84%	47%
By age group		
• Age 30 or below	98%	66%
• Age 31–40	72%	40%
• Age 41–50	67%	28%
• Age 51 or above	59%	39%
By geographical region		
• The PRC	77%	44%
• Hong Kong	8%	–
Overall	76%	43%

B2. Health and Safety

Upholding the belief that safety is the first priority in our workplace, we are committed to providing a healthy and safe working environment for all our employees by establishing a comprehensive "Safety Production and Occupational Health Working System" (安全生產與職業衛生工作制度).

Our safety management system for furniture production meets regulatory requirements and has received OHSAS 18001:2007 occupational health and safety management accreditation. The Group complies with related health and safety laws and regulations such as the "Work Safety Law of the People's Republic of China" (《中華人民共和國安全生產法》) and the "Law of the People's Republic of China on the Prevention and Control of Occupational Diseases" (《中華人民共和國職業病防治法》). During the reporting period, the Group was not aware of any non-compliance with laws and regulations related to health and safety.

Cares for Employees

The Group cares about employees' health and safety. We believe that safety education is essential to ensure employees are well-equipped with knowledge and skills to handle the machineries. For example, safety training is arranged for every new employee to raise their awareness of emergency responses and procedures. Apart from training, all employees are informed with the potential occupational hazards in workplace by signing "Occupational Hazards Notification" (職業危害因素告知書) before working with us.

We provide employees with necessary protective equipment such as helmets, masks, gloves, safety shoes, goggles, etc to minimise the risks of work-related injuries during operation. The protective equipment and machineries are checked regularly for maintenance to prevent deterioration that may lead to incident. We also arrange pre-placement body checks for new employees and annual body checks for existing employees. Occupational hazards assessment is conducted regularly by qualified third party to detect and evaluate the occupational hazards in workplace.

B. SOCIAL ASPECTS

The Group strictly abides by the Law of the People's Republic of China on Prevention and Treatment of Infectious Diseases (《中國人民共和國傳染病防治法》), and stringently implements relevant regulations for the pandemic prevention and control. During the COVID-19 epidemic, in accordance with relevant pandemic prevention requirements, our hotel stored sufficient prevention and disinfection products, strictly implemented the disinfection and pandemic prevention policies in the public areas and guest rooms, and adopted several pandemic prevention measures for all employees and visitors, such as temperature testing and entry-exit registration.

During the reporting period, there were 26 employees (2021: 29 employees, 2020: 50 employees) injured and 795 lost days (2021: 214 lost days, 2020: 91 lost days) due to work-related injuries. There was no fatality case (2021: nil, 2020: nil) during the reporting period. The Group will continue to improve the safety management system in order to protect employees' health and safety in workplace.

B3. Development and Training

The Group considers the development of employees as a key contributor to the success of sustainable growth of the Group. We recognise changes take place in the market and industry which necessitate continuous learning of employees.

The Group's "Training Management System" (培訓管理制度) is in place to provide training for employees to improve their knowledge, skills, attitude and behaviour. In general, internal and external trainings are provided for employees.

Internal training includes orientation training for new employees and on-the-job training for existing employees conducted by human resources department and individual department. For external training, the Group arranges trainings for employees in professional institutions based on operation and management needs. The trainings are provided through different means, including lectures, media and site visits.

During the reporting period, we launched a series of training programmes for our employees as below:

- Warehouse planning and management training was provided for staff working in warehouse.
- Orientation training for new employees was organised to help them to understand the corporate culture and their job duties.

Assessment is conducted after the training for the Group to understand the effectiveness of the training and performance of the employees.

The Group's human resources department is responsible for formulating annual training plan in accordance with the Group's development objectives and employees' needs. The plan is reviewed regularly with reference to the employees' feedback and assessment to ensure continuous improvement. All employees have equal access to training and development opportunities.

B. SOCIAL ASPECTS

During the reporting period, the percentage of employees trained by gender and employee category was as follows:

Percentage of employees trained	2022	2021
By gender		
• Male	100%	100%
• Female	91%	100%
By employee category		
• Senior management	63%	83%
• Middle management	87%	100%
• General staff	100%	100%
Overall	100%	76%

Furthermore, the detailed breakdown for employees trained in each of the gender and employee category during the reporting period was as follows:

Breakdown of employees trained in relevant categories	2022	2021
By gender		
• Male	66%	62%
• Female	34%	38%
By employee category		
• Senior management	2%	2%
• Middle management	12%	14%
• General staff	86%	84%

B. SOCIAL ASPECTS

Besides, the average training hours by gender and employee category during the reporting period were as follows:

Average training hours (hours/employee)	2022	2021
By gender		
• Male	3	2
• Female	2	2
By employee category		
• Senior management	4	6
• Middle management	3	5
• General staff	2	1
Overall	2	2

B4. Labour Standards

The Group respects human rights and strives to prohibit the use of child and forced labour in its operation. According to "Recruitment Management" (聘用管理) section in the staff handbook, only candidates aged 18 or above are provided with equal employment opportunities. Candidates are required to give identity proof for verification to prevent child labour recruitment. Apart from prohibition of child labour, the Group also upholds the elimination of forced labour.

All works should be performed voluntarily and shall not involve forced labour. Our suppliers and other business partners are expected to follow the same standard of labour practices when working with us.

The Group strictly complies with the Labour Law of the PRC and the Labour Contract Law of the PRC. During the reporting period, the Group was not aware of any non-compliance in relation to child and forced labour in its operation.

B. SOCIAL ASPECTS

OPERATING PRACTICES

B5. Supply Chain Management

The Group relies on suppliers to supply different raw materials for furniture manufacture, including woods, paints, etc. We are aware of the potential environmental and social risks associated with our supply chain. In order to manage and mitigate these risks, the Group has implemented “Procurement Department Management System” (採購部管理制度). We select suppliers carefully and maintain stable relationship with qualified suppliers through strict selection criteria and supplier assessment. During the reporting period, the Group had 636 suppliers (2021: 668 suppliers) in the PRC.

Selection Criteria

The Group chooses suppliers based on a list of criteria, including compliance and raw material price. On-site inspection is carried out during the selection process to assess the scale of production, production management, productivity and quality control of suppliers.

We also strive to work with suppliers with environmental, quality and social certifications, such as ISO 14001 environmental management and ISO 9001 quality management. Suppliers with the highest performance-to-price ratio and the best overall performance would be selected.

Every supplier needs to sign an environmental quality commitment (環保質量承諾書) on taking environmental responsibility before starting the cooperation with us. This is to ensure that the raw materials supplied should meet relevant national standards to reduce the impact on the environment and our customers.

Supplier Assessment

The Group undertakes regular review on supply chain to ensure the product quality and environmental performance of suppliers meet our expected standards. Annual assessment is carried out to evaluate the suppliers' performances on supply stability, product quality and after-sales services. The Group maintains a long-term relationship with suppliers based on the results of annual assessment.

B6. Product Responsibility

As one of the top-selling home furniture brands in the PRC, maintaining a high-quality product standard is the utmost importance for the Group's sustainable growth.

Apart from pursuing product quality, the Group understands that our consumers are increasingly concerned with choosing products that are responsibly sourced and made. The Group and its products attained the following certifications and awards which recognised our effort in achieving product environmental and social responsibility while upholding product quality during the reporting period.

- Furniture Customization Service Certification – Guangdong ZhongYu Certification Co., Ltd.
- After-sales Service Certification – Guangdong ZhongYu Certification Co., Ltd.
- 廣州裕發綠色供應鏈證書－廣東中認聯合認證有限公司
- 2021家居產業匠心智造品牌金致獎－「智見」• 2021中國家居新時代盛典暨金致獎頒獎典禮」
- 2021年度喜馬拉雅設計之巔獎－《TOP裝潢世界》雜誌與高定展、中國高定俱樂部
- 全國百佳品質檢驗誠信標桿企業－中國品質檢驗協會

B. SOCIAL ASPECTS

- 廣東省重點商標保護名錄－廣東商標協會重點商標保護委員會
- 2021消費者喜愛品牌－中國家居品牌力量榜
- 全國產品和品質誠信示範企業－中國品質檢驗協會
- 全國傢俱行業品質領先品牌－中國品質檢驗協會
- 全國品質標桿企業－中國品質檢驗協會
- 全國品質檢驗穩定合格產品－中國品質檢驗協會
- 2022年(第十九屆)中國500最具價值品牌－世界品牌實驗室
- 中國家居經銷信賴品牌－中國傢俱協會銷售商委員會
- 中國家居新零售傑出企業－中國傢俱協會銷售商委員會
- 產品認證證書(CQC認證)－中國品質認證中心
- 安全生產標準化管理體系認證證書－廣東中認聯合認證有限公司
- 品質管制體系認證證書－廣東中譽認證有限公司
- 環境管理體系認證證書－廣東中譽認證有限公司
- 職業健康安全管理体系認證證書－廣東中譽認證有限公司
- 售後服務證書－廣東中譽認證有限公司
- 資訊安全管理體系認證證書－上海澤履認證服務有限公司
- 中國環境標誌產品認證證書－中林天合(北京)森林認證中心有限公司

The Group is in strict compliance with the laws and regulations related to product responsibility, including the Product Quality Law of the PRC, the Trademark Law of the PRC and the Advertising Law of the PRC. During the reporting period, we had no violation record on relevant laws and regulations that had significant impact on the Group relating to product responsibility issues.

Quality Management

The Group has established “Quality Control Process Management Procedure” (品質控制過程管理程序) to maintain product quality. Our product quality management system for furniture production meets regulatory requirements and has ISO 9001:2015 quality management system certification. Inspections are carried out in different stages of the production line, including the testing on raw materials, semi-finished products and finished products to ensure high product quality. Procedures for control of nonconforming products (不合格品控制程序) shall apply to protect our customers against safety risks for any products which are inspected to be unqualified. Analysis is carried out for quality improvement.

For the hotel operation, the Group strictly abides by the “Food Safety Law of the People’s Republic of China” (《中華人民共和國食品安全法》), to establish and improve a public hygiene and food safety management system and a long-term mechanism for food safety and epidemic prevention, and adopts a food safety responsibility system.

B. SOCIAL ASPECTS

Complaint Handling

The Group adheres to stringent customer compliant operational procedures as stipulated in “Customer (Distributor) Complaint Handling System” (客戶(經銷商)問題處理制度) to ensure the customers’ opinions are handled and responded. All customers’ complaints are considered and carefully followed up by responsible departments within a reasonable timeframe. Relevant investigation is carried out and improvement measure is implemented to improve the product and service quality and customer experience. During the reporting period, no complaint (2021: nil) related to manufacture and sale of furniture and hotel services was received. Besides, there was no furniture unit sold (2021: nil) subjected to recalls for safety and health reasons by the Group during the reporting period. The Group believes that complaints are valuable opportunities to obtain feedback from customers so as to identify the need for quality and policy improvements.

Customer Data Protection

The Group takes privacy issues seriously. According to the staff handbook, we have established “Confidentiality System” (保密制度) in order to demonstrate our firm commitment to privacy issue. The system provides guidance to employees on data control and usage. We limit the collection and use of personal information to that which is necessary to administer our business, and the collected data are accessible by authorised personnel only. Documents containing confidential information are required to be kept with the strictest standards of security and confidentiality. During the reporting period, no substantial complaints regarding breaches of customer data and privacy were received.

B7. Anti-Corruption

The Group operates with a high standard of integrity and ethics. Our commitment to preventing any forms of corruption is stipulated in the “Integrity System” (廉政制度), which can be found in our staff handbook. The Group strictly prohibits employees to solicit and accept advantages without prior approval by the Group. Every employee is required and has the responsibility to adhere to this system. We take disciplinary actions to combat against any violation of this system. Our customers and suppliers are expected to follow the same standards when working with us.

The Group strictly complies with laws and regulations related to anti-corruption, including the Criminal Law of the PRC and the Customs Law of the PRC. During the reporting period, there was no legal case regarding corrupt practices brought against the Group or its employees.

COMMUNITY

B8. Community Investment

As a socially responsible company, the Group is committed to supporting the community by implementing related policies and participating in different community activities. Contribution to and maintaining harmonious relationship with the community in the region of operation are crucial for the sustainable development of the Group.

We believe that this can nurture great corporate culture and practices in the Group. During the reporting period, we actively and continually took part in community activities and encouraged our employees to participate in these activities. In 2022, we made a donation of 20,000 mattresses to Hong Kong mobile cabin hospital to support the anti-epidemic project aided by the Central Government to Hong Kong. Besides, our hotel rooms were offered to tourists and people in need for quarantine purpose. We continuously take part in different community activities for the benefit of the community.

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