



Environmental and Social Due Diligence Executive Summary

Sichuan Luli Wood Co., Ltd.

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Acronyms and Abbreviations

Name	Description
CAI	Completion Acceptance Inspection
CCRA	Climate Change Risk Assessment
BEE	Bureau of Ecology and Environment
EHS	Environmental, Health, Safety
EIA	Environmental Impact Assessment
EP	Equator Principle
ERM	ERM (Shanghai) Limited
ERP	Emergency Response Plan
E&S	Environmental and Social
ESA	Energy Saving Assessment
EPAP	Equator Principle Action Plan
ESDD	Environmental and Social Due Diligence
ESIA	Environmental and Social Impact Assessment
ESMP	Environmental and Social Management Plan
ESMS	Environmental Social Management System
GHFIP	China Western (Guangyuan) Green Home Furnishing Industrial Park
GHG	Greenhouse Gas
HR	Human Resources
IFC PS	International Finance Corporation Performance Standard
MDF	Medium Density Fiberboard
NMHC	Non-methane Hydrocarbon
ODH	Occupational Disease Hazard
ODHA	Occupational Disease Hazard pre-Assessment
OECD	Organization for Economic Co-operation and Development
OHPFDA	Occupational Health Protection Facility Design Assessment
PDP	Pollutant Discharge Permit
PM	Particulate Matters
PPE	Personal Protective Equipment
RTO	Regenerative Thermal Oxidizer
SEP	Stakeholder Engagement Plan
SIA	Social Impact Assessment
SPA	Safety Pre-Assessment
SWCP	Soil and Water Conservation Plan
TCFD	Task Force on Climate-related Financial Disclosures
UNGPs	United Nations Guiding Principles
VOCs	Volatile Organic Compounds
WESP	Wet Electrostatic Precipitator System
WWTS	Wastewater Treatment Station

1 INTRODUCTION

Sichuan Luli Wood Co., Ltd. (the "Borrower" or "Sichuan Luli") commissioned ERM (Shanghai) Limited ("ERM") to conduct an independent Environmental and Social Due Diligence (ESDD or the "Assessment") of a new development of wood processing plant (the "Luli 3 Project") located in Zhaohua District, Guangyuan City, Sichuan Province, P.R. China (the "Sichuan Site"). ERM understands that Natixis Corporate & Investment Banking ("Natixis") and Commerzbank jointly acting as the Mandated Lead Arranger ("MLA", or "the Lenders") in the ECA Facility (the "Facility") to be covered by Euler Hermes (collectively with MLA referred to as the "Beneficiaries") is considering to finance Sichuan Luli for its development of Luli 3 Project.

Besides, in 2024, Natixis and Commerzbank jointly acted as the MLA in an ECA facility covered by Euler Hermes to finance Shouguang Luli Wood Co., Ltd. ("Luli Wood", parent company of Sichuan Luli) for its development of four (4) furniture production lines (the "Luli 2 Project") planned at three sites located in Shandong Province, Jiangxi Province and Hunan Province, respectively. ERM was commissioned as the independent environmental and social consultant and undertaken an ESDD of the three sites in August 2024. However, based on the updated information shared by Luli Wood recently, one (1) out of the four (4) furniture production lines would be installed at Sichuan Site, along with Luli 3 Project. Since this furniture line was not covered during the Luli 2 ESDD in 2024, this Assessment also has extended to the furniture line development of Sichuan Luli as a supplementary assessment in response to the need of the MLA.

Hence, the independent ESDD of Sichuan Site has covered Luli 3 Project and the one furniture production line of Luli 2 Project (collectively referred to as the "Project").

According to the site representative, the currently ongoing construction of Sichuan Site commenced in February 2025. Shouguang Ruisen New Construction Material Co., Ltd. ("Ruisen Construction") has been contracted for the Project's construction.

Sichuan Site occupies a land area of approximately 1,023,874 m² which accommodates **Luli 3** and **one production line of Luli 2 Project**. The Project comprises the following components and associated facilities:

TABLE 1-1 PROJECT COMPONENTS AND ASSOCIATED FACILITIES

Project	Components and Associated Facilities		Land Area (m ²)	Operations
Luli 3 Project	Components	An ultra-thin fibreboard production line with a designed capacity of 250,000 m ³ per year, including an onsite wastewater treatment station (WWTS) with a designed capacity of 2,000 m ³ /day	116,754.26	<p>Urea-Formaldehyde Resin Adhesive Production: raw material feeding, pH adjustment, addition reaction, polycondensation reaction, neutralization, cooling, and inspection.</p> <p>Ultra-thin fibreboard production: debarking, washing, lumber flaking, screening, cooking, wax application, thermal grinding, gluing, drying, sorting, matting, hot pressing, board cutting, cooling, sanding, edge sawing, and inspection.</p> <p>WWTS: regulating, air flotation, acidification, anaerobic-anoxic-oxic, coagulation sedimentation, and activated carbon filtration.</p>
		A particle-based board production line with a designed capacity of 800,000 m ³ per year	171,484.73	Debarking, lumber flaking, chipping, cleaning, drying, gluing, mat formation, hot pressing, cutting, cooling, packing.
		A decorative thin fibreboard production line with a designed capacity of 600,000 m ³ per year	102,571.09	Board cleaning and sanding, gluing, mat formation, hot pressing, cooling, sanding, cutting, inspection, and packing.
		A melamine veneer board production line with a designed capacity of 500,000 m ³ per year	121,183.41	Particleboard cleaning and dust removal, matting and lay-up, hot pressing, edge trimming, inspection, and packing.
		A biomass cogeneration facility, which consists of: <ul style="list-style-type: none"> - Three 170 t/h circulating fluidised bed boilers, one 30 MW extraction back 	115,207.67	Biomass cogeneration: raw material feeding, combustion, water purification, steam generation and power generation.

Project	Components and Associated Facilities		Land Area (m ²)	Operations
		<p>pressure steam turbine generator set and one 30MW condensing steam turbine generator set to supply steam and power for the Project;</p> <ul style="list-style-type: none"> - A 110kV step-up substation for grid connection; and - An autoclaved aerated concrete production facility to beneficially consume the biomass combustion wastes as raw materials of the concrete production. 		Concrete production: mixing, concrete casting, cutting, steaming and packaging.
		A raw material storage yard	147,359.72	/
		A high-strength plywood production line with a designed capacity of 300,000 m ³ per year	168,679.23	Debarking, cooking, veneer peeling, veneer drying, veneer splicing, veneer mat formation, heating & continuous hot pressing, raw board edge trimming, manual puttying, raw board sanding, sorting, and packing.
	Associated Facilities	Two bridges (122m×16m and 142m×13m, respectively) connecting the west portion and east portion of Sichuan Site, which are being constructed by a local government-appointed company for exclusive use by Sichuan Luli	/	/
One furniture production line of Luli 2 Project	Component	A furniture production line with a designed capacity of 10 million m ² per year	80,633.48	Panel cutting, grooving, milling, edge banding, drilling, inspection, and packing.

The currently ongoing construction of the Sichuan Site commenced in February 2025 scheduled with staged completion below:

TABLE 1-2 PROJECT SCHEUDLE

	Project Components and Associated Facilities	Estimated Completion Time of Building Construction	Estimated Completion Time of Project Construction
Luli 3 Project	An ultra-thin fibreboard production line with a designed capacity of 250,000 m ³ per year	September 2025	December 2025
	A particle-based board production line with a designed capacity of 800,000 m ³ per year	June 2026	August 2026
	A decorative thin fibreboard production line with a designed capacity of 600,000 m ³ per year	July 2026	October 2026
	A melamine veneer board production line with a designed capacity of 500,000 m ³ per year	June 2026	August 2026
	A biomass cogeneration facility, which consists of:		
	- Three 170 t/h circulating fluidised bed boilers, one 30 MW extraction back pressure steam turbine generator set and one 30MW condensing steam turbine generator set to supply steam and power for the Project;	October 2025	June 2026
	- a 110kV step-up substation for grid connection; and	Completed in July 2025	June 2026
	- an autoclaved aerated concrete production facility.	June 2026	August 2026
	A raw material storage yard	June 2026	September 2026
	A high-strength plywood production line with a designed capacity of 300,000 m ³ per year	August 2026	October 2026
	Two bridges connecting the west portion and east portion of Sichuan Site	March 2026	May 2026

Project Components and Associated Facilities	Estimated Completion Time of Building Construction	Estimated Completion Time of Project Construction
One furniture production line A furniture production line with a designed capacity of 10 million m ² per year of Luli 2 Project	Completed in July 2025	June 2026

According to the information provided by the site representative, the Sichuan Site accommodates Luli 3 and one production line of Luli 2 Project with a total area of 1,023,874 m². The Project land area is covered in eight Real Estate Certificates (RECs) held by Sichuan Luli, all designated for industrial use and valid from 26 November 2024 to 25 November 2074, as listed below:

- Luli 3 Project
 - Plot 1: Land area of 116,754.26 m² (~175.13 Mu).
 - Plot 2: Land area of 171,484.73 m² (~257.23 Mu).
 - Plot 3: Land area of 102,571.09 m² (~153.86 Mu).
 - Plot 4: Land area of 121,183.41 m² (~181.77 Mu).
 - Plot 5: Land area of 115,207.67 m² (~172.81 Mu).
 - Plot 6: Land area of 147,359.72 m² (~221.04 Mu).
 - Plot 7: Land area of 168,679.23 m² (~253.02 Mu).
- Luli 2 Project
 - Plot 8: Land area of 80,633.48 m² (~120.95 Mu).

The land acquisition for the Project area involved both economic displacement and physical displacement. The cash compensation for both physical and economic displacement was completed in 2024.

Sichuan Luli contracted ERM to conduct the Assessment, by evaluating the Project's environmental and social (E&S) performance against the following standards ("Applicable Standards"):

- Applicable local and national environmental and social laws and regulations of PRC;
- Equator Principles IV (EP IV), October 2020;
- IFC Performance Standards (IFC PS) on Environmental and Social Sustainability (2012);
- The applicable World Bank Group Environmental, Health and Safety (EHS) Guidelines, including:
 - General EHS Guidelines;
 - EHS Industry Sector Guidelines for Board and Particle-based Products (2007);
 - EHS Industry Sector Guidelines for Waste Management Facilities (2007);
 - EHS Industry Sector Guidelines for Sawmilling and Manufactured Wood Products (2007);
- The Voluntary Principles on Security and Human Rights;
- The relevant published E&S Policies from the confirmed beneficiaries, i.e., Natixis, Euler Hermes, and Commerzbank; and

- Organization for Economic Co-operation and Development (OECD) Common Approaches.

Based on ERM's review, the IFC PS 1-6 were determined to be applicable to the Project, while PS 7 and 8 were considered not applicable.

The Assessment consisted of 1) desktop review of relevant E&S documents provided by the Company and publicly available information pertaining to Sichuan Luli; 2) a physical site visit at Sichuan Site; 3) onsite interviews with the site representative, Project affected people and corresponding village head, and local government representatives; and 4) preparation of an ESDD report.

2 PROJECT CATEGORIZATION

The physical displacement of the entire Sichuan Site (Luli 3 Project and Luli 2 Project) was completed at the end of 2024. A total of 69 households (345 people) in Daba Village and Xinghua Village were affected by the physical displacement. The cash compensation was paid to the villagers at the end of 2024. The land was previously owned by Daba Village and Xinghua Village.

- **Luli 2 Project:**

ERM categorizes the Luli 2 Project to be Category B since:

- Luli 2 Project involved physical and economic displacement of few household (approximately 10 households with around 30 people).
- According to the EIA reports of the Project, the nearest area of significant biodiversity value is a fish germplasm resource protection area approximately 9.5 km north of the Project location. Given that the protection area is at a distant location and the Project will not discharge wastewater to the local surface water bodies, impact on the protection area is not anticipated.
- Based on the review of the EIA report of the Luli 2 Project, the Project's environmental impacts are estimated to be site-specific and could be readily addressed through mitigation measures.

- **Luli 3 Project**

ERM categorizes the Luli 3 Project to be Category A since the number of physically displaced villagers being over 200 (i.e., approximately 315 individuals in total).

3 FINDING SUMMARY

To facilitate a focused summary of the gaps against the Applicable Standards and propose mitigation measures relating to the Project, the qualitative risk evaluation criteria provided in **Table 3-1** has been adopted. Where one or more aspects at risk correspond to the definitions below, a Risk Level of H (High), M (Medium), or L (Low) is provided.

TABLE 3-1 PROJECT RISK LEVEL AGAINST IFC PERFORMANCE STANDARDS AND EHS GUIDELINES

Risk Level	Definition
H	Major regulatory permitting non-compliances and other risk-based issues that may: <ul style="list-style-type: none"> result in closure or temporary suspension of the business, and/or induce potential significant adverse environmental or social risks and/or impacts that are diverse, irreversible or unprecedented
M	Moderate permitting non-compliance or inconsistency with applicable E&S standards, which may result in non-material rectification cost or fine but not shut down. Impacts are generally confined to the Project boundary or its immediate surroundings, are amendable to mitigation and are largely reversible.
L	Legal non-compliance or inconsistency with applicable E&S standards, which may result in minimal adverse environmental or social risks/impacts. May affect workers but generally would not cause significant impacts beyond the project boundary.
-	Not applicable or no negative findings.

The ESDD did not identify high risk issues but several medium and low risk issues in connection with the Project, which primarily include:

- Lack of a Stakeholder Engagement Plan (SEP) with a strategy of engagement appropriate to the nature of the stakeholders as well as an external grievance mechanism;
- To-be-strengthened communication with the Project affected communities, especially for Daba and Xinghua villagers with regard to the progress of the pension subsidy program;
- Pending approval for the Soil and Water Conservation Plan (SWCP) of the Project;
- Lack of Environmental Impact Assessment (EIA), Safety Pre-Assessment (SPA) and Safety Protection Facility Design (SPFD) for the 110kV step-up substation and autoclaved aerated concrete production facility, and Energy Saving Assessment (ESA) for the autoclaved aerated concrete production facility, and corresponding approvals;
- Pending Occupational Disease Hazard Pre-Assessment (ODHA), Occupational Health Protection Facility Design (OHPFD), and fire-fighting design for the Project;
- Lack of a water availability study, and a Climate Change Risk Assessment (CCRA) related to physical risk;
- Inconsistency between the Company's maternity leaves, paternity leaves, parental leaves and breastfeeding breaks, and the local regulations;
- Lack of requirements on labour and working conditions of the contractors in the contractor management procedure;

- Incomplete supply vetting program, which did not specifically incorporate child labour and forced labour.

Based on the main findings identified during the Assessment as briefed above, as well as the consideration of the actions to be implemented cooperating with the operation commencement schedule, an Environmental and Social Action Plan (ESAP) is proposed and provided in the following section.



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