Risk Assessment : Impact of Climate Change on Raw Material Costs

This risk assessment statement aims to highlight the impact of climate change on the cost of essential raw materials, namely particle board, PVC leather, and leather, which are critical to our furniture production. Due to climate change, the cost of these materials has risen significantly, posing an emerging risk to our business operations and profitability.

Impact of Climate Change on Raw Material Costs

Recent observations indicate that the cost of particle board, PVC leather, and leather has increased by a range of 2% to 10%. This significant rise in costs can be attributed to several factors associated with climate change, including:

- **Swing Weather Patterns**: Unpredictable and extreme weather conditions have disrupted the supply chain, leading to delays and increased transportation costs.
- **Longer Drying Processes**: Prolonged periods of adverse weather, such as extended rainy seasons, have resulted in longer drying times for raw materials. This delay affects the overall production timeline and increases costs.
- **Regulatory Changes**: Governments worldwide are implementing stricter environmental regulations to combat climate change. Compliance with these regulations often requires investment in new technologies and processes, contributing to the increased cost of raw materials.

The above factors present an emerging risk for our business. The rising cost of raw materials directly impacts our production costs and profit margins. As a result, it is imperative to address this risk proactively.

Proactive Measures and Contingency Plan

To mitigate the impact of climate change on our raw material costs, we propose the following measures:

- **Development of Eco-Friendly Products**: We have both long-term and short-term research and development plans to create more eco-friendly products. By using sustainable materials and processes, we aim to educate the market on the benefits of eco-products. This initiative will help us align with environmental regulations and reduce our dependency on standard non-eco materials.
- **Market Education**: The development of eco-products and environmentally friendly packaging serves to educate customers about the benefits of eco-friendly materials. By raising awareness and generating demand for sustainable products, which can command higher prices in the market, this strategy helps offset the increased costs of raw materials.
- **Use Product Development in Production of Traditional Products**: While we develop eco-friendly product lines, we will continue to produce standard products using particle board, PVC leather, and leather. This will involve managing design efficiency, waste management from the company's value chain, and improving packaging methods using technology to reduce packaging size. This aims to decrease transportation cycles, lower transportation costs, reduce waste emissions from transportation, and help compensate for the increased cost of raw materials.
- **Contingency Planning**: The company has a comprehensive supply chain management strategy to mitigate the risks associated with climate change. This includes identifying alternative suppliers, increasing inventory levels of critical materials, and investing in technologies that reduce dependency on weather conditions.

Climate change poses a risk to the furniture business due to the increase in raw material costs. To address this emerging risk, the company is committed to product development to create environmentally friendly products, educate the market, and maintain a balance between traditional and sustainable products. The company aims to ensure long-term sustainability and profitability. This commitment is made to mitigate the impact of climate change on the company's operations and to contribute to a more sustainable future.