



裕元工業(集團)有限公司 Yue Yuen Industrial (Holdings) Limited

Incorporated in Bermuda with limited liability
於百慕達註冊成立之有限公司

Stock Code 股份代號 : 551

Environmental, Social and
Governance Report

2015

環境、社會及管治報告



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Introduction

Yue Yuen Industrial (Holdings) Limited (the “Company”) together with its subsidiaries (the “Group”) adheres to the core values of “Professionalism, Dedication, Innovation and Service”, and is committed to become the best sports and leisure goods manufacturer and retailer. Faced with the changes and challenges of international business operation, the Group has formulated four major business strategies and objectives. Through the establishment of a variety of internal communication channels, it is expected that the core values will be recognized and implemented by the employees, and the Group’s sustainable operation will be enriched by the employees’ enthusiasm and actions of accountability. Through strengthening strategic planning and enhancing implementation efficiency, OEM’s “economies of scale” business model will be transformed to “economies of value” business model with innovative services. By providing the most valuable solutions in the overall footwear industry supply chain, the customers will enjoy services of higher value, thus enhancing the competitiveness of our customers, and achieving win-win outcomes and co-prosperity for both the Company and its customers.

The Group also follows a sustainable development strategy by providing the employees with safe and healthy working environment as well as talent training and development, promoting and implementing supply chain management policies, and administering a set of comprehensive policies, mechanisms and measures for environmental protection, and community involvement and participation, with the objective to carry through sustainable development and operation. The Sustainable Development Team established by the Group is responsible for the consolidation and provision of strategic studies, proposals and project management of corporate social responsibility issues of the sustainable production of the manufacturing plants in different regions. These include the code of conduct of the brand customers for sustainable operation, the compliance with laws and regulations of local regulatory authorities, the management of labor relation, and responses to the audits and inspections of the Group’s factories conducted by non-governmental organizations. It also regularly reports to the management on the performance of the aforesaid affairs and provides recommendations.

The board of directors (the “Board”) of the Company is responsible for evaluating and determining the Group’s environmental, social and governance risks, the formulation of the corresponding strategies, and ensuring that appropriate effective environmental, social and governance risk management and internal control systems are established and maintained. Through regular analyzes and independent assessments by the internal audit function, the Board also determines whether the aforesaid systems are sufficient and effective.

The Board of the Company is pleased to submit the Group’s 2015 Environmental, Social and Governance Report (the “Report”) with respect to the policies and performances in the four main areas including environmental protection, employment and labor practices, operating practices and community participation during the period from January 1, 2015 to December 31, 2015.



Report Compilation Basis

This Report is prepared with reference to the “Environmental, Social and Governance Reporting Guide” under Appendix 27 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Listing Rules”). The information disclosed in this Report is derived from the results of internal statistics and analyzes of the Group’s internal management systems.

Scope of Reporting

The Group is engaged in two main businesses, one is the footwear manufacturing business for international brand customers, while the other is the retail business in the Greater China region selling international brand footwear and apparels directly to consumers or through sub-distributors on wholesale basis. For specific details of the above mentioned businesses, please refer to the Group’s 2015 Annual Report. This Report only covers the relevant policies and performance of the footwear manufacturing business of the Group, and does not include the relevant information with regard to the retail business.

Reporting Period

The information published in this Report covers the period from January 1, 2015 to December 31, 2015, which period is the same as the financial year as reported in the Group’s 2015 Annual Report.

On behalf of the Board

Tsai Pei Chun, Patty

Managing Director

Hong Kong, March 23, 2016



Identification of Stakeholders

Based on the experience and frequencies of enquires and interactive communications between relevant business executives and customers, and those between external organizations and internal staff, the Group consolidated and identified eight different groups of stakeholders that are related to footwear manufacturing business. These include shareholders/investors, customers, employees, local community, government/regulatory authorities, suppliers, media, and non-governmental organizations.



Interactive Communication with Stakeholders and Identification of Major Issues

Regarding issues that are of concerns to the stakeholders, the Group via relevant business contact windows, seeks for their opinions and suggestions through scheduled and ad hoc meetings and transparent and good interactive communications. Internal meetings are conducted to report and discuss the information received from the stakeholders' feedback, which will then be used as important reference for the Group's sustainable development strategy.

Through various communication channels as set out in the table below, the issues concerned will be sorted according to their categories and nature before sending to relevant departments to handle and respond. Letters received through relevant communication channels in 2015 included business cooperation proposals, shareholders/investors services, career opportunities, requests for research and survey, and academic visits, etc. No complaints were received from stakeholders regarding social impacts and related issues.



Regarding the issues which are of concerns to the stakeholders, relevant internal department heads have filtered and selected major issues according to the “Four Principles for the Internal Assessment of Major Issues” as follows.

Four Principles for the Internal Assessment of Major Issues



Stakeholders	Issues of Major Concerns	Communication Channels and Methods
Government/ Regulatory Authorities	<ul style="list-style-type: none"> Corporate governance Compliance with laws and regulations 	<ul style="list-style-type: none"> Cooperate with the government and regulatory authorities on compliance inspections Due submission Participate in conferences/seminars
Shareholders/ Investors	<ul style="list-style-type: none"> Financial performance Corporate governance Market image 	<ul style="list-style-type: none"> Publish news on Company/HKEx websites (such as announcements, circulars, quarterly reports, interim reports, annual reports, etc.) Convene shareholders' meetings Press releases Road shows



Stakeholders	Issues of Major Concerns	Communication Channels and Methods
Customers	<ul style="list-style-type: none"> • Product quality • Management of prohibited/restricted substances • Environmental, safety and hygiene management performance • Code of Conduct implementation performance (labor relations/labor rights/compliance with the laws and regulations) • Transparency and reliability of information disclosure 	<ul style="list-style-type: none"> • Business visits/regular meetings/regular and ad hoc communication meetings • Audit feedback/self-management performance feedback • Email and phone contacts
Employees	<ul style="list-style-type: none"> • The Group's business condition (job security) • Salaries and benefits • Labor relations/labor rights/work hours management • Workplace safety/reasonableness of rules and regulations • Feedback channels for opinions 	<ul style="list-style-type: none"> • Company internal website/email/employee suggestion box • Employee Welfare Committee/Occupational Safety and Health Committee/Labor Union • Committee for Complaints, Rewards and Penalties/internal staff publications (regular) • Employees/managers forums/surveys (from time to time) • Life counselling rooms located in production factories
Community	<ul style="list-style-type: none"> • Environmental issues/compliance with the laws • Transportation • Career opportunities/community welfare outreach activities 	<ul style="list-style-type: none"> • Proactive visits • External feedback communication windows • Sponsorship of public welfare activities/community visits/Company website



Stakeholders	Issues of Major Concerns	Communication Channels and Methods
Non-Government Organizations (such as Fair Labor Association)	<ul style="list-style-type: none"> • Labor relations/labor rights • Compliance with laws and regulations • Environmental issues 	<ul style="list-style-type: none"> • Improvements and responses to Fair Labor Association's audit results/cooperation with non-government organizations • Communication documents of relevant topics/press releases • Ad hoc communication meetings/emails and phone contacts
Media	<ul style="list-style-type: none"> • Employee complaints • Illegal activities/accidents • Labor strikes 	<ul style="list-style-type: none"> • Communication documents of relevant issues/press releases • Coordination of requests for factory visits by media and provision of information
Suppliers	<ul style="list-style-type: none"> • Management of prohibited/restricted substances • Fair competition/quality and price • Suppliers evaluation 	<ul style="list-style-type: none"> • Letters of undertaking • Business communication/procurement contracts/email and phone contacts • Suppliers evaluation mechanism



The Group adheres to the belief of “taking from the society, and giving back to the society”. Apart from maintaining sound business development, the Group also actively demonstrates its corporate core value of Service. With its commitments to community care and participation, the Group has continuously engaged in a variety of educational, cultural and social welfare activities.

The Group upholds the idea of “Co-prosperity with the Community” in each of the production bases in different regions so as to achieve the objective of sustainable operation. The Group is committed to enhance the social value and maintain the relationship with interest groups which are relevant to business operation. This is realized by first meeting the needs of the factory employees and then further extending the caring and services to their families and to the surrounding community.

Since most of the employees are female, the employee caring facilities are specifically focused on female employees’ health services and child care. Apart from providing career opportunities to the locals and promoting the development of the community’s economy, the Group also shows its care for the employees through home visits, regular free medical consultations in remote rural areas, assistance in building repairs, student sponsorships and caring the underprivileged in the local communities. These specific activities not only represent the Group’s care and giving back to the families of the local employees but also bring in more resources to the local community for social caring and benefits, thus strengthening the relationship of interdependence and co-prosperity between the Group and the communities. Please refer to the summary of major activities below.

Caring Activities for Factory Employees

- **Discussion Forums:** employees forums, managers forums, activities for developing friendship for new employees, handicapped employees caring forums, consultation in life counselling room, etc.
- **Recognition Ceremony of Outstanding Employees:** model employees, employees with outstanding performance in the Group’s core values.
- **Health Caring Measures:** health examinations and special health examinations, setting up clinics with ambulances in factory areas, employees’ health management system, promotion of health knowledge, health promotion activities (cancer screening, health and physical fitness, weight reduction, health seminars, relaxation massage), visits to injured and sick employees and emergency assistance, etc.
- **Occupational Health Caring Activities for Female Employees:** gynecological medical examinations and counseling, promotion of maternal knowledge and pregnancy tests, care for pregnant women at work, parenting knowledge consulting, health expos, etc.



- **Recreational Activities:** employees recreation centers and provision of recreational instruments, ball games competitions, social events, second skills learning programs (computers, cosmetics, cooking, etc.), singing competitions, dance competitions, tug of war competitions, carnival activities, employee travels, hiking activities, employees activities days, etc.
- **Festive Events and Gifts:** monthly birthday parties, Children's Day, Women's Day, Ramadan Iftar Events, making of rice dumplings and sachets for Dragon Boat Festival, Mid-autumn Festival Party and Lanterns Design Competition, National Day Celebration, Christmas Party, Year-end Thanksgiving Dinner and Raffles, Spring Festival couplets distribution and Spring Festival celebration, bus tickets purchase arrangement for home returning, Lantern Festival gathering for lantern riddles and garden party, etc.
- **Provision of Other Welfare and Convenience Facilities:** staff quarters, shuttle buses, bus stops within factor areas, swimming pools, playground, fitness equipment, convenience stores, etc.

- Outstanding Employees Recognition Ceremonies: 253 person-times
- Health Inspection and Health Promotion Activities: 29,456 person-times
- Female Occupational Health Care (Special Examination and Health Consultation) Event: 9,848 person-times
- Health Promotion Events: 2,551 person-times
- Skills Training (Computer, Cosmetics, iCARE Professional Knowledge and Communication Skills): 961 person-times
- Visits of Injured and Sick Employees: 160 person-times
- Employees Poverty Relief: 55 person-times
- Employees' Family Day Activities: 17,600 person-times
- Birthday Parties: 2,679 person-times
- Discussion Forums: 5,085 person-times
- Recreational Events (Hiking/Tug of War/Cycling/Cooking) and Ball Games (Basketball/Soccer/Billiard/Badminton): 15,624 person-times
- Festive Events: Dragon Boat Festival Event (305 person-times), Women's Day Event (700 person-times), Mid-Autumn Festival Event (4,484 person-times), Lantern Festival Event (729 person-times), Spring Festival Event (8,367 person-times), Christmas Party (9,000 person-times)
- Bus Tickets Purchase Arrangement for Home Returning during Spring Festival: 19 vehicles, 494 person-times
- Environmental Protection Day Activities in Factories: 1,360 person-times





Employees Families Caring Visits

- Regular home visits and donation of daily necessities and financial assistance for passed away employees.
- Grants for employees' children and infants caring (kindergartens), recognition of employees' outstanding children.
- Donation of consolation money for poor employees and donation of "sentimental houses", which helped poor employees establish comfortable homes so that they feel at ease.

- Home Visits: 3,147 person-times
- Scholarship for Employees' Children: 1,452 person-times
- Recognition of Employees' Outstanding Children: 8,167 person-times
- Donation of "Sentimental Houses": 4 houses
- Family Events: 3,380 person-times
- Financial Assistance for Families of Passed Away Employees: 16 families
- Donation of a total of approximately USD45,200

Home Visit





Participation in Local Community Charitable Activities

- **Environmental Protection Day:** donation of seedlings and tree planting activities, cleaning services for the community and local schools, promotion of environmental protection knowledge, creative waste recycling competition, making environmental protection handcrafts, etc.
- **Free Medical Consultation and Blood Donation:** regular blood donation events, free medical consultations for and donation of supplies to residents in remote rural areas (with the coordination of local medical resources).
- **Donation of "Sentimental Houses":** for the poor, wounded veterans residing in the area.
- **Food and Supplies Donation:** donation of rice and quail eggs; donation of paint and assistance in repairing and painting local school buildings; donation of lambs on Feast of Sacrifice; donation of used clothes, gifts, etc.
- **Students Sponsorship:** sponsorship of 10 schools for the scholarships of 100 students and donation of repair costs for 2 schools in Vietnam; donation of books to China Huang Jiang Town No. 2 Primary School; visits and donation to 3 schools in the remote area of Long An Province in Vietnam; donation to Vietnam's Huyền Bình Chánh Learning Association for the assistance of poor students.
- **Community Visits and Care for the Under-privileged:** visits to community nursing homes, caring visits to the handicapped and handicapped children, visits to orphanages, volunteer public service in the community.
- **Employees' Family Day and Family Camps Activities:** parent-child activity camps for left-behind children, summer camps, parent-child sports day and carnival fun events, lovely baby contests, etc.



- Community Environmental Protection Day: 121 person-times
- Seedlings Donation and Tree Planting: 344 person-times
- Blood Donation: 2,360 person-times
- Community Free Medical Consultations: 320 person-times
- Donation of "Sentimental Houses": 10 houses
- Food and Supplies Donation: rice (2,000 packages), painting services (96 person-times), donation of lambs on Feast of Sacrifice (19 lambs), donation of birds eggs (140 schools), gift donation, used clothing donation (2,338 pieces)
- Students Sponsorship: Vietnam Pou Chen "Seeds of Hope" Scholarships and Grants (approximately USD13,400), donation of books (150 sets), donation to schools in remote areas in Vietnam's Long An Province (approximately USD8,900), donation to Vietnam's Huyện Bình Chánh Learning Association (approximately USD4,500)
- Visits to Senior Citizens: 957 person-times
- Visits to the Handicapped and Handicapped Children: 121 person-times
- Volunteer Public Service in the Community: 700 person-times

Summer Camp – Family Fun Activities





The Group upholds the idea that “employees are valuable assets and policies should be people-oriented”. The Group believes that employees are important assets, and has planned a wholistic approach of selection, employment, training and retention of employees. Team events are organized to build the employees’ sense of belonging, as well as to increase the employees’ understanding and identification to the Group’s core values of “Professionalism, Dedication, Innovation and Service”. In order to attract talents, the Group provides comprehensive training, competitive salaries and diversified communication channels with an aim to improve the employees’ professionalism and enthusiasm at work. The performance management system has been introduced to effectively motivate the employees to engage in continuous development, to help the employees in career planning, and to achieve succession of talents and the Group’s objective of sustainable operation. The Group is also committed to provide the employees with a fair, safe and healthy work environment, as well as to comply with the laws and regulations of the host countries, and to enhance harmony between the employer and the employees in order to build a high quality enterprise.





4.1 Proper Assignment of Roles and Responsibilities

Diversified Recruitment Channels

The Group actively recruits talents of different nationalities, genders, ages and religions in a fair and equitable manner through various channels including newspaper advertisements, internet advertisements, cooperation with local governments and registered human resources agencies, consultants, social networking websites, recruitment notices posted in areas around the factories, student internship programs, and internal staff referrals, etc.

Bring Together Talents of Diverse Backgrounds

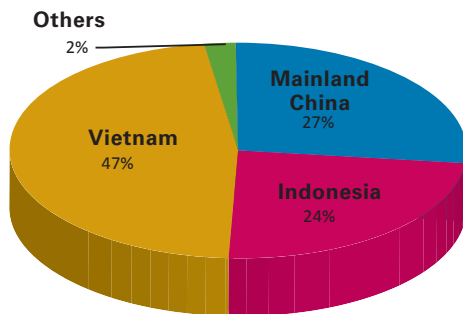
The Group has a number of operations across the globe, which include Mainland China, Indonesia, Vietnam, Hong Kong, Macau, The United States, Mexico, Bangladesh, Cambodia and Myanmar, etc. As at December 31, 2015, the Group's employees in footwear manufacturing totalled approximately 386,000. The distribution of manpower among the major operating bases was as follows: approximately 47% in Vietnam, approximately 27% in Mainland China, approximately 24% in Indonesia, and approximately 2% in other regions.

Professionals in different fields are our greatest assets. Categorized by job function, employees in manufacturing accounted for approximately 86% of the total number of employees; engineering and technical accounted for approximately 6%; administration and management accounted for approximately 7%; and others accounted for approximately 1%. Categorized by employees' gender, female employees accounted for approximately 82% because of the nature of the industry and the major production sites located in Vietnam and Indonesia. As for employees distribution by age, aged 29 and below accounted for approximately 43%, aged 30 to 49 accounted for approximately 55% and aged 50 and above accounted for approximately 2%.

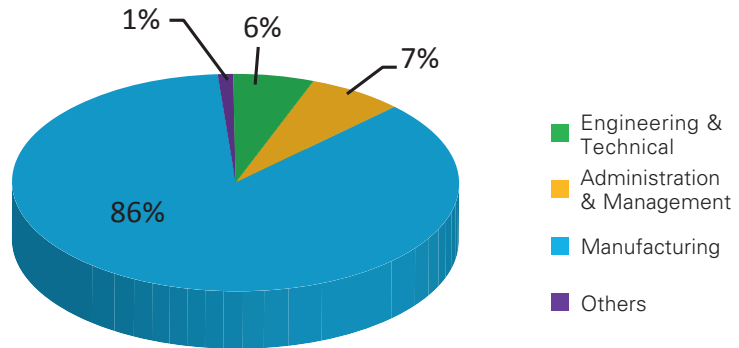


2015 Manpower Structure

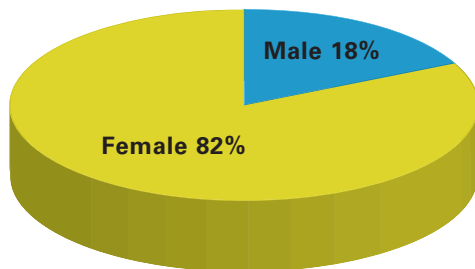
Manpower Statistics by Region



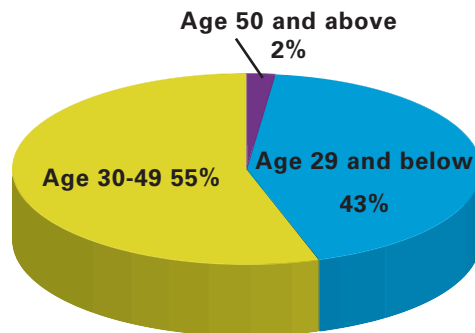
Manpower Statistics by Job Function



Manpower Statistics by Gender



Manpower Statistics by Age



2015 Employees Turnover

The Group welcomes talents from the same industry to join our team to accumulate professional experiences from the industry, as well as to bring in new talent from different industries to stimulate innovative ideas.



Attrition Rate (Approximate) – By Gender and Age

Region	Gender		Age		
	Female	Male	29 and below	30~49	50 and above
Mainland China	18%	13%	14%	17%	1%
Indonesia	7%	1%	6%	2%	0%
Vietnam	9%	2%	8%	4%	0%
Other Regions	16%	9%	20%	5%	0%

Note: Attrition Rate = $\frac{\text{No. of Employee Turnover in the Respective Category in the Respective Region}}{(\text{No. of Employees in the Respective Region as at December 31, 2015} + \text{No. of Employee Turnover})}$

Recruitment Rate (Approximate) – By Gender and Age

Region	Gender		Age		
	Female	Male	29 and below	30~49	50 and above
Mainland China	56%	44%	48%	51%	1%
Indonesia	92%	8%	88%	12%	0%
Vietnam	81%	19%	71%	29%	0%
Other Regions	61%	39%	81%	19%	0%

Note: Recruitment Rate = $\frac{\text{No. of New Recruits in the Respective Category in the Respective Region}}{\text{Total No. of New Recruits in the Respective Region}}$

4.2 Education, Training and Career Development

Performance Management System

The Group has implemented performance management system to achieve operational goals and enhance employees' capabilities. The scope covers employees in various operating bases including Mainland China, Hong Kong, Macau, Indonesia, Vietnam and Myanmar. The setting and implementation of personal and organizational goals are communicated between the supervisors and the colleagues to ensure work directions of the organization and the individuals are clear and aligned. Performance assessments are carried out in the middle and the end of each year to measure employees' overall status in the achievement of goals and performance. With a comprehensive performance management system, a performance-oriented corporate culture can be created, employees' performance and functional results incentivized and employees' personal capabilities nurtured and developed.



Training and Development Policies and Objectives

Talent plays a pivotal role in the sustainable development of a corporation. The Group is the best strategic partner to world-renowned brand customers and is committed to become the employer of choice for talents. We actively nurture core personnel and adhere to the business philosophy of “continuous innovation”. Through systematic, diversified and comprehensive talents development mechanism, we broaden the international perspectives of the talents, deepen their professional knowledge, instill corporate culture and create competitive advantages, in order to lay a foundation for the Group’s sustainable development.



- Align corporate mission, vision, business strategies and objectives, formulate talents development strategies, actively nurture leaders and professionals for the Group, and enhance our talents pool.
- Strengthen corporate vision, shape cultural and value systems so as to create irreplaceable soft power of the Group.
- Actively establish a talent pool of the Group through systematic and professional evaluations and identification of organizational needs and personal needs; develop plans to nurture talents and design training blueprint.
- Continuously introduce innovations, new technologies, ideas or tools to improve personal growth and organizational learning; help the Group and the individuals meet their objectives.
- Care about the employee’s self-development, provide diverse learning channels, encourage self-learning to bring out the employees’ potentials and realize individual achievement.

Group Training and Development Planning

The objectives of training and development are to continuously upgrade the quality of manpower and job skills, to motivate employees’ job enthusiasm and welcome challenges, thereby creating greater corporate value and achieving operational goals and future development. To achieve the policies and goals of the Group’s training and development, it is necessary to consider not only the Group’s business vision and objectives, but also the assessment of employees’ performance and capability deficiency. In line with the Company and its management systems, training structures are established to plan internal and external training courses including new employees training, professional training, management training at all levels, environmental safety training and corporate core values training. Through classroom learning or e-learning, the employees are offered all-round and comprehensive training and their professional and management capabilities are continuously enhanced. Meanwhile, the employees can identify their own personal objectives and platforms for development, allowing them to grow with the Group and become long-term and stable partners of the Group.



Implementation of the Group's Training and Development

In 2015, the Group held approximately 21,000 training classes, with a total training hours of approximately 1,420,000 hours, and participation by approximately 1,430,000 person-times.

Total No. of Training Courses (Approximate)	Total Participants (Approximate)	Total Training Hours (Approximate)
21,000	1,430,000	1,420,000

Courses Offered by the Training System

To ensure the training courses meet the requirements of corporate strategies, in addition to the evaluation of training and development performance in annual business review meeting, regular reviews on operations of different business units are done in the said meeting to serve as the basis for future development planning. Talents' competitive advantages are enhanced according to the Group's overall business strategies, and a comprehensive training system is established according to its mission. Our annual training plan not only follows the Group's business vision and targets, but also considers the employees' personal development plans, functional training system at various levels, quality management system and law-related courses in relation to labor, safety and hygiene licenses, while a set of "Training Course Management Policies" has also been formulated for the operation to follow.

(1) Training System Courses:

These courses are planned to enhance the colleagues' job skills and bring the employees to mutual understanding and identification to organizational values, in order to achieve the best operating performance for the Group.

General staff: Job knowledge and skills training, corporate core value training, and personal development training.

Professional stream: "Professional skills training" is designed according to the roles and professional requirements.

Management stream: "Management skills training for senior, middle management personnel and management associates" is designed for various management levels according to corporate core and management function development.



(2) Personal Development Plan :

Based on the results of the functional evaluation and annual performance assessments, personal development plans and annual training plans for all divisions are designed. Apart from strengthening the colleagues' professional knowledge, management skills, personal development in soft skills and generic job skills are also the focus for the provision of training resources, thus enhancing the employees' capabilities, overall qualities and business performance.

Management Associate Development Program



Policy Guidance and Training for Managers



Factory Operation Class in Indonesia



Strategy Alignment Camp for Managers



Southern China Region's Chemistry Sharing Session



Senior Management's Systematic Thinking and Performance Optimization Seminar



Training Program of Coordination and Integration in Indonesia





4.3 Comprehensive Remuneration and Benefits System

Competitive Remuneration Scheme

The Group recognizes the employees as its greatest assets. In order to attract, motivate and retain talents, we offer attractive and competitive remuneration packages. We uphold the principle of equal pay for the same position regardless of gender, race, religion, political affiliation, sexual orientation or marital status of the employees. The remuneration of an individual will be determined with reference to his educational background, experience, job duties, professional skills and technical capacities, the salary levels in the industry as well as the condition in the manpower market. The basis of reward and promotion is dependent on an employee's work attitude, disposition of professional ability and overall performance. The Group also reviews the remuneration policies regularly to make sure our salary standards are competitive. The performance management system is introduced to assess individual employee's performance, the results of which will be used as the basis for salary adjustment and job promotion, thus helping the recruitment and retention of talents.

As a global enterprise, the Group complies with the relevant laws and regulations that are applicable to each of the operating bases with respect to remuneration. We also take a certain percentage of profits according to the annual performance of the Group as year-end bonus to reward the employees' contributions and work enthusiasm, so that the employees can share the operating results of the Group.

Comprehensive Employee Benefits

Balance between Work and Family Life is Encouraged

The time-off mechanism of our Group is established according to the relevant laws and regulations of the operating bases. Employees are allowed to arrange their time-off according to their own needs within stipulation.

Comprehensive Protection Plans

For the interests of the employees, the Group provides tailor-made insurance plans to production bases of different regions, so as to protect the employees' livelihood and reduce the employees' burden of medical expenses. The Group has also provided pension fund contributions for employees and withdrawals by employees in compliance with the laws and regulations of the local jurisdictions so as to safeguard employees' retirements.



Protection Plans Applicable to Employees in Different Regions

Region	Mainland China	Indonesia	Vietnam	Bangladesh	Cambodia	Myanmar	Hong Kong	Macau
Protection Plans	Unemployment insurance, Industrial injury insurance, Maternity insurance, Medical insurance, Housing fund, Pension insurance	Industrial injury insurance, Death insurance, Medical insurance, Insurance for elderly, Retirement insurance	24-hour accidental insurance, Unemployment insurance, Medical insurance, Social insurance	Industrial injury insurance	Industrial injury insurance	Medical insurance, Industrial injury insurance	Medical insurance, Labor insurance, Personal accident insurance, Mandatory provident fund	Medical insurance, Labor insurance, Personal accident insurance

Diverse Employee Benefits

The Group offers a wide range of employee benefits, so as to motivate the employees to contribute in their job positions under a sound employee benefits system. In addition, the Group also provides various benefits including: work performance and year-end bonuses; staff dormitories, staff canteens, shuttle bus services; reading rooms with free lending service of books and magazines; basketball courts, gyms, tennis courts, and other recreational centers; on-site kindergartens and clinics in some operating bases; a wide range of regular activities (singing, sports, film shows), etc.

4.4 iCARE Project Implementation

iCARE is a culture of caring as well as one of the platforms for the promotion of the Group's core values. Through a series of activities, local talents who are consistent with the Group's core values are identified and developed. All employees are encouraged to actively care for the community and participate in activities which are beneficial to the factories and the organization. These activities can develop the participants' sense of accountabilities, and at the same time, provide opportunities to identify the best teams and the most effective solutions, to develop the synergies from cross department integration of functions, and to strengthen the employer's brand name. The 2015 iCARE Project which focused on "self-management" was launched by different model factories according to their respective business objectives. With the use of iCARE's methodology and tools, the factory in Serang, Indonesia, gradually uplifted the model production line employees' concept of quality through special topic workshops and through building of core value teams and activities such as "Quality Star" (an interactive employees' assessment system). During the implementation process, the local teams were able to contribute independently and creatively. The local cross-departmental colleagues were responsible to design the logos, establish the assessment indicators for "Quality Star", and plan and execute the activities. Thus local talents can be nurtured and developed locally with the influence of iCARE.



4.5 Respect for Labor Rights

The Group complies with the local laws and regulations in various production bases as well as the relevant international human rights conventions. The Group is committed to promote the principle of fairness and human rights policies.

Equal Opportunity and Protection of the Right to Work

The Group protects the employees' right to work. Employees are not discriminated in employment (including recruitments, salaries, promotions, disciplinary actions, dismissals, and retirements) because of their backgrounds in gender, race, religion, age, disability, sexual orientation, nationality, political opinion, participation in social organization or ethnicity. At the time of appointment for every new recruit, the employee is required to sign an employment contract which clearly defines the employer's and the employee's rights, responsibilities and obligations. All employees have the right to terminate the employment relationship with the Group. The setting up, amendment, cancellation and termination of the relevant employment contract are strictly subject to the relevant local laws and regulations. During the reporting period, there was no discriminatory act reported or complaint received in relation to equal opportunity, transfer, promotion, recruitment, termination, severance, holidays, benefits and training.

Child Labor

The Group does not hire child labor aged below the relevant legal threshold of the respective markets. At the time of interview, the Human Resources Department will request the job applicants to produce valid identity document for the verification of actual age of the applicants. If it is discovered that a child labor has been mistakenly employed, the child will be suspended from work immediately and sent to the original residing address for the supervision by the parents or guardians. The Group will be responsible to pay for the necessary transportation and accommodation, as well as the wages for the actual work done.

No Practice of Forced Labors

The working hours of the employees strictly comply with the local laws or brand customers' requirements pursuant to agreements. The employees' resting time is well respected and the employees enjoy paid holidays in accordance with the laws. To maintain the physical and mental balance of the employees, computerized attendance systems are put in place to effectively manage the working hours and resting dates of the employees. To prevent forced overtime work, any necessary arrangements of overtime must be agreed by the employees voluntarily. Overtime and overtime pays are in line with the local laws and regulations. During the working hours, employees are allowed to move freely within the factory areas except for certain controlled areas. The local religious requirements are well respected with the provision of prayer time. The employees are not required to reside in the factory quarters, nor does the Group require the employees' identity or work documents to be kept by the employer.



4.6 Labor-Management Communication Mechanism

Strengthening the Employees' Suggestions and Complaints System

The Group encourages communication between the management and the employees. Various channels to collect the feedbacks of the employees have been established. By consolidating the inputs from complaint channels of various regions, data of employees' problems are periodically analyzed, handled and resolved. Through the efforts and interpersonal skills of relevant personnel, a communication platform between the employees and the management was established in 2015. The complaint communication system is standardized to effectively handle employees' complaints and provide suggestions for improvement. Through annual internal and external employee relations activities, it is expected that internal cohesiveness and organizational identity can be gradually enhanced to ensure a harmonious employer-employee relationship and to help the Group advancing its objective of becoming the employer of choice.

Multi-Channel Communication

All employees and managers are welcome to use various communication channels for horizontal or vertical communication, such as suggestion boxes, emails, discussion forums and bulletin boards. The Group is required to respond to the employees' comments and questions within 10 working days. To ensure the quality of the solutions, the Group utilizes the tracking mechanism implemented by the life counseling offices. In 2015, the issues of concerns to the employees were primarily related to social insurance, rewards and penalties and workplace behavior.

Means of Communication	Communication Channels	Means of Response
Face to Face	<ul style="list-style-type: none"> • Employer-employee meeting • Union meeting • Staff welfare committee meeting • Departmental meeting • Employee discussion forum 	Face to Face Written Reply Notice
Traditional Written Form	<ul style="list-style-type: none"> • Employee suggestion box • Employee satisfaction survey • Bulletin board 	Written Reply Notice
Electronic	<ul style="list-style-type: none"> • Email • Company's internal website • Complaints, suggestions and consultation APP. • Wechat platform 	Written Reply Notice



4.7 Workplace Safety

Safety and Hygiene Management

Occupational Safety and Hygiene Management Policy

The Group's policy on occupational safety and hygiene management is to "provide a safe and healthy working environment for the employees and avoid occupational hazards". To fulfill commitment of providing a safe working environment to the employees, the Group has gradually established a standardized safety management system with the establishment of organizations, horizontal cross-division cooperation and top-down execution.

Safety and Hygiene Management System

With respect to occupational safety and hygiene management, in addition to compliance with the corresponding local laws and regulations in the region where the relevant factory is located and brand customers' requirements, the Group also follows international standards OHSAS 18001 and the FLA Workplace Code of Conduct. The Group has established a series of management directives for all departments to follow, and at the same time implemented management and hazards prevention measures. Every factory of the Group and the administrative centers regularly meet with the Environmental Protection, Safety and Hygiene Committee to review relevant management issues related to safety and hygiene. The Group also requires all factories to regularly review the internal safety and hygiene management policy, and establish electronic surveillance system to monitor abnormal incidents, as well as the prevention mechanism by way of conducting data analysis to help focus on major risks.

Standardized Management Measures

The Group continues to strengthen various safety and hygiene management issues by phases. In addition to fire safety, chemical safety, special hazards operation control, and occupational disaster investigation, the following areas were specifically strengthened in 2015:

- (1) Machine Safety Management: Conduct comprehensive machine safety management by defining high-risk machineries, setting up guidelines for safety devices and safe operation, reviewing procurement sources, conducting inspection of on-site safety, pursuing safe production by machinery, conducting periodic safety inspection, etc.
- (2) Contractors' Work Management: Define a group-wide standard specification for requirements ranging from contractors entry control, hazards notification, special hazards operation control, on-site supervision to violation penalties. These have been gradually implemented in various regions.



- (3) Abnormal Incidents Management: Standardized investigation management process for occupational incidents to ensure that incident reporting, tracking and confirmation are put into effect, and continue to strengthen the factory incident investigation and rectification processes to avoid recurrence and parallel implementation.

Safety and Hygiene Indicators

The management indicators for workplace safety and prevention of occupational injuries include: the number of occupational injuries, ratio of days lost, disabling injury frequency rate and disabling injury severity rate. The 2015 statistics for various operating bases are as follows (excluding traffic incidents):

Item	Number of occupational injuries			Ratio of days lost (approximate)		Disabling injury frequency rate			Disabling injury severity rate		
	Group	Male	Female	Male	Female	Group	Male	Female	Group	Male	Female
Group	930	375	555	44%	56%	1.22	2.34	0.92	28	58	20
Mainland China	271	128	143	49%	51%	1.36	2.20	1.02	61	102	43
Indonesia	170	55	115	24%	76%	0.90	1.67	0.74	7	10	7
Vietnam	458	171	287	35%	65%	1.26	2.25	0.99	20	35	17
Cambodia	11	2	9	25%	75%	1.96	3.49	1.78	9	23	8
Bangladesh	20	19	1	99%	1%	2.79	4.33	0.36	53	87	1
Note	<ol style="list-style-type: none"> 1. The source of statistical data is from the Group's internal occupational injuries management system. 2. The indicators for the year 2015 have not included the newly established Myanmar factory which is expected to be included in the management system in 2016. 3. Disabling Injury Frequency Rate = Disabling frequency number x 1,000,000/ Total working hours in the region 4. Disabling Injury Severity Rate = Total number of days lost x 1,000,000/ Total working hours in the region 										



Damage Prevention and Control Management

Fire Safety Management

To ensure the protection of lives and properties, the Group actively promotes fire safety work, fire prevention at the source, containment of disasters, emergency response and disaster relief. The risk of fire is reduced by investing fund to improve and adopt relevant control mechanism:

- (1) Improvement of fire-fighting equipment: The Group has clearly specified that factories should be equipped with fire-fighting equipment and plant safety design. All factories which are newly constructed, extended or the use of which is altered should comply with the design requirements specified by the Group, such as: fire prevention zoning, safety passages, fire extinguishers, fire sprinkler systems, chemical fire suppression systems, fire alarm devices, emergency exit lights, emergency lighting, etc. An unified management mechanism has also been established for the design, construction, inspection and acceptance, maintenance and repair of fire-fighting equipment.
- (2) Enhancement of fire-fighting team's capability: Fire-fighting teams have been formed in 13 locations across Vietnam, Indonesia and Mainland China. The Group has developed an unified standard for the firefighters in day-to-day duties and training. The abilities of the fire-fighting teams are verified by the Group's Environmental Protection, Safety and Hygiene Department. It is expected that standardization can bring out the best capabilities of the fire-fighting teams.
- (3) Execution of fire safety inspections: Fire safety self-inspections are carried out monthly by the factories. The administrative centers in various regions carry out fire prevention inspections and appraisals quarterly, targeting power source management, power switches/power sockets, motors, high-temperature machineries, operating processes involving fire, fire prevention zoning, firefighting equipment, dust collectors, etc. for inspection. Daily power control and inspection during night-time are also strengthened to prevent potential fire hazards.



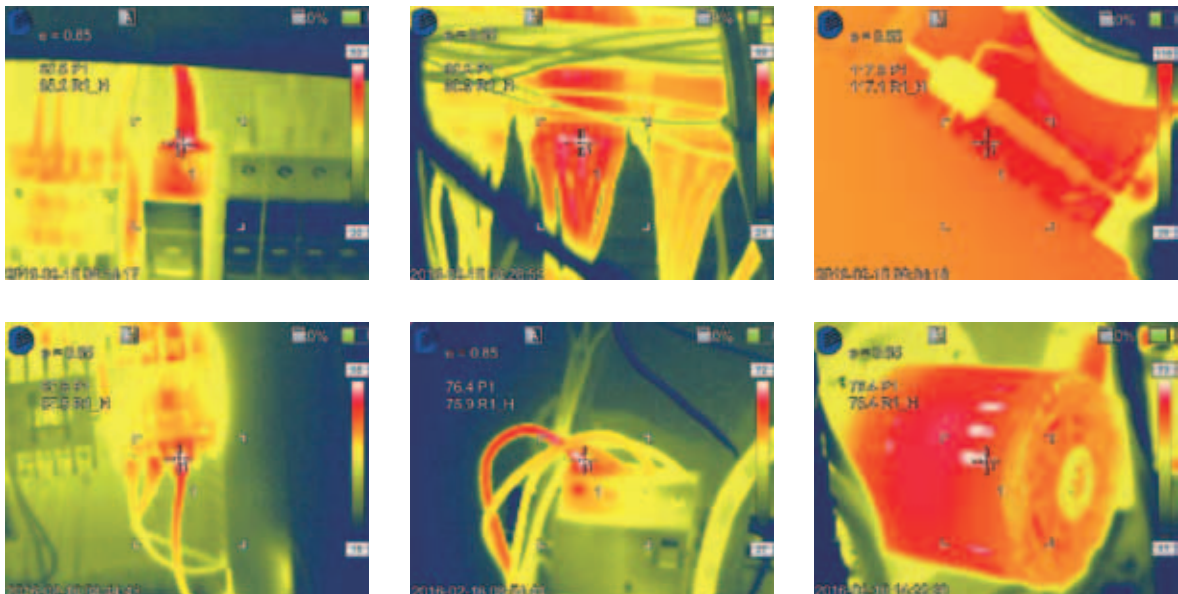
- (4) Establishment of electric technician workshops: Periodic electric technician workshops were held in various regions. Factory electricians are required to participate in training and experience sharing and are submitted to verification, in order to strengthen their capabilities in electrical work and enhance their professional skills. It is expected that the electric technicians can put what they learn into practice and the factories' self-management capability can be enhanced to mitigate the operational risks of the factories.



- (5) Management of repair and maintenance vendors: Develop a standard form of fire prevention equipment maintenance contract and inspection checklist, so as to verify the abilities of the repair and maintenance vendor, and to improve the quality of the maintenance work, with an aim to ensure the proper functioning of fire-prevention equipment. Vendors of poor qualities are eliminated by audit and inspections which are carried out from time to time.



- (6) Implementation of infra-red scanning: Electrical safety is an essential part in fire prevention. The Group has set up a system in which electrical equipment are scanned regularly through infra-red thermal imaging devices. Most of the factories are equipped with infra-red thermal imaging instruments. Appropriate personnel are selected from professional electricians to attend professional training, and all factories are required to perform regular scanning of electrical equipment.



- (7) Strengthening of emergency response capability: In order to build employees' immediate response and disaster relief capabilities, the Group has established standard specifications to enhance the colleagues' response capability so as to cope with disaster and ensure personal safety. The emergency response teams established in various factories are trained and drilled regularly. Disaster relief drills are also carried out jointly with external governmental fire-fighting units from time to time in order to improve the emergency response coordination capability.
- (8) Damage control: To ensure the safety of people and properties and substantially reduce the operational risks of factories, the Group will perform a full range of risk identification for risks other than fire (such as earthquakes, storms, floods, etc.). The Group will carry out appropriate improvements for projects with substantial potential risks. A set of damage control specifications for the Group's factories will be prepared to ensure newly constructed factories are able to conduct in-depth risks assessments and mitigate the risks accordingly.



Factory Self-management

On the basis of self-management, the Group has appointed designated personnel with hierarchical supervision accountability. Personnel designated in all factories for the responsibilities of environmental, safety and hygiene (“SD personnel”) will regularly inspect the operation of various fire prevention facilities on the production floor to ensure full implementation of safety precautions. Situations of non-compliance and deficiency are immediately referred to the relevant parties for timely attention. The designated SD personnel of different business units visit factories of their respective business units from time to time to provide supervision and assistance according to the requests of relevant customers. The SD personnel of administrative centers in various regions inspect the items in accordance with the requirement of local laws and regulations, as well as the implementation status of internal management practices on a monthly basis. The sustainable development team also arranges annual special audit so as to efficiently implement corresponding measures.



The Group's footwear manufacturing business is closely related to environmental protection and the usage of natural resources. The Group has established a set of management policies, mechanisms and measures on environmental protection and natural resources conservation to help ensure the sustainable development and operation of the Group. The Group strives to enhance the efficiency in the usage of energy, water and materials and also complies with relevant local environmental regulations and international general practices, with an aim to reduce the use of natural resources and protect the environment. The actions taken are aligned with international standards. These include greenhouse gas emission inspections, reduction, classification and recycling of wastes, and consultations on energy conservation and carbon reduction in factories with high energy consumption levels.

5.1 Effective Use of Resources

Use of Raw Materials and Procurement

The raw materials used in the footwear manufacturing industry can be largely categorized into upper materials and sole materials. The upper materials primarily include woven fabrics/non-woven fabrics, synthetic leather, natural leather, foam and accessories. Sole materials are primarily ethylene/vinyl acetate copolymer (EVA resin), polyurethane (PU resin) and rubber. In recent years, the green material thermoplastic polyurethane (TPU resin) has also been gradually introduced to be used as upper and sole materials.

The Group has always maintained close communication with brand customers and shoe material suppliers in the course of material selection. We follow brand customers' quality requirements and standards in selecting materials. All related materials must pass customer's prohibited/restricted substances list and relevant standard checking by the American Society for Testing and Materials. The Group also explores jointly with the customers on the application of various types of green materials in footwear manufacturing.

With respect to material procurement, we rely on the respective local suppliers to supply the materials in order to reduce the risk of supply interruption as well as to reduce carbon emissions in transportation.

Usage of Energy

The Group's energy usage management strategy focuses on:

- (1) Gradually phase out fossil fuels which are of high pollutants/high carbon emission, and replace with electrical power or clean fuel.
- (2) Carry out energy usage examination and monitoring, and focus on the implementation of equipment efficiency enhancement projects to reduce energy consumption.
- (3) Promote ISO 50001 energy management system for the continuous improvement in energy usage efficiency.



The Group has also formulated the “Guidelines on Energy Management”, of which the principles are the reasonable use of energy resources and gradual improvement of energy usage efficiency.

The type of energy used by our Group’s footwear manufacturing factories in 2015 include: electricity, fuel oil, coal, biomass fuels and natural gas. The use of biomass fuels involves mostly the fuel for steam thermal energy supplied by external vendors.

2015 Energy Consumption and Average Energy Consumption per Pair of Shoes shown in the following table:

Energy Type	Fuel Oil	Coal	Biomass Fuels	Natural gas	Electricity
Consumption	6,388.49 KL	5,100 tonnes	52,600 tonnes	760,100 M ³	898,338.77 MWh
Average Energy Consumption per Pair of Shoes	0.020 L	0.016 kg	0.166 kg	0.002 M ³	2.829 KWh

In the implementation of energy management, we place priority on full introduction of energy monitoring system. Select operating bases in Mainland China had completed the installation of the online energy monitoring system in 2015. The system will be installed in more operating bases over the following years, in order to help the factories to identify abnormal energy consumption and opportunities for energy conservation.

In the implementation of energy saving and carbon reduction, a pilot energy-saving project was launched and completed for a high energy consumption factory in 2015. The project achieved a 10% reduction in energy usage. Measures implemented in the project included the establishment of energy-saving organization and implementation of management system, modification of injection machines, leakage inspection and process optimization for pneumatic systems, installation of frequency transformers for some motors and water pumps. The energy-saving projects will be further expanded in 2016. Energy-saving specifications for machineries will also be formulated, and the design of factories with ventilation, insulation and energy-saving features will be introduced to ensure effective energy management at the source.



Water Resources Utilization

Footwear manufacturing process does not involve high water consumption. As such, most of the water resources used in the factories are for the daily use of employees, and only a small part is used for the soles manufacturing process. With respect to water resources management policies, the Group ensures that water provided meet the specified water quality standards, and that processing of discharged water is in compliance with the local discharge regulations.

In order to manage the safe use of water resources in each factory, large-scale water purification plants and reverse osmosis water purification system equipment have been set up. Relevant operation criteria for the treatment of fresh water and sewage have also been formulated. The laboratory at the administrative centers within each of the factory campus performs sample testing of water quality every month, and releases the results to all factories. External parties are also engaged in water quality tests on a regular basis as required by law to ensure the water is safe and clean.

Currently the water resources supply comes primarily from local municipal water supply, river and lake, without encountering any problem in sourcing suitable water supply. The amount of water used in the footwear manufacturing bases (which did not include the factory in The United States) in 2015 was approximately 24 million cubic meters (M³). The Group's water supply source and water usage are within the local government's permitted range, thus having minimal impact on the water supply.

Sewage Discharge

The Group has formulated the "Guidelines on Sewage Pollution Control Measures", which focuses on the priority of reducing usage at the source and preventing generation of waste water. Secondly, sewage is to be recycled and reused, and lastly, proper handling of sewage according to the regulatory requirements.

Most of the sewage of the shoe factories comes from water used by employees for personal use, and small amount of sewage comes from the cleaning and painting operations of the soles manufacturing process. All factories have set up chemical pre-processing equipment specially for the treatment of industrial sewage. Highly polluted industrial sewage is first treated to reach the discharge standard before it is put into a large scale sewage treatment plant for secondary biodegradation process.



The industrial parks where the factories are located have large biological sewage treatment system. To ensure the effectiveness of treatment, different modes of processing are used depending on the water quality processing requirements. There is a dedicated water quality laboratory in every water plant to perform the testing and monitoring of water quality. We also regularly entrust inspection agency approved by competent local authority to conduct water sampling and testing according to laws. The sewage is properly discharged through legal discharge batches. In 2015, the factories within the Group did not receive any notification of sewage discharge violation, and the discharged sewage posed no material impact on the receiving waters and the surrounding environment.

Recycling of Effluent Water for Reuse

According to the management principles of the Group, all production bases will continue to explore opportunities to recycle water for reuse. In 2015, the average effluent water reuse ratio of the Group in the footwear manufacturing bases was approximately 11%. The effluent water recycle ratios of the leather factories, where water usage in the manufacturing process was higher, were over 36%.

5.2 Greenhouse Gas and Carbon Emission

The Group follows closely the “Paris Agreement” and the relevant laws and regulations implemented and specific actions taken by different countries on the reduction of greenhouse gas emission. In addition to compliance with relevant laws and regulations, measures are also established and implemented to reduce greenhouse gas emission accordingly. Currently, the Group primarily adopts energy-saving projects and gradual replacement of high pollutant/high carbon emission fossil fuel to help the factories achieve energy-saving and carbon emission reduction.

The inspection of the Group’s greenhouse gas emission in factory areas in the production bases is based on ISO 14064-1 standard. The scope of inspection is primarily based on category 1 and category 2. Category 3 and carbon emission from biomass fuels were not included in the calculation. Estimation was made according to emission factors.

The greenhouse gas emission generated by footwear manufacturing, such as carbon dioxide, methane and nitrous oxide, are produced mainly by the use of electricity and burning of fossil fuels. Methane and nitro oxide emissions also come from septic tanks. As for hydrofluorocarbons, perfluorocarbons and sulfur hexafluoride (SF₆), currently only a small amount of SF₆ is used as the insulation filling gas in high voltage power distribution equipment. According to suppliers’ data, the probability of daily usage leakage is very low, and as such the carbon emission caused by dissipation is calculated only when the equipment is refilled.

Total Carbon Emission of Greenhouse Gas			
Year	Total Carbon Emission of Greenhouse Gas (Approximate)	Primary Source (Approximate Percentage)	Range of Average Carbon Emission per Pair of Shoes in Factories of Respective Regions ^(Note)
2015	767,500 tonnes	Electricity (78%) Fuel (16%)	Between 1.658 ~ 4.626 kg CO ₂ /pr

Note: Expressed in range as different production processes were used in different factories and there are differences in the carbon emission factors in different regions.

In 2015, the Group continued to enhance the inspection process for greenhouse gas emission of all factories in order to improve the reliability and completeness of the collected data. In addition to random on-site inspections of reported data from more established factories, there were also training and promotion on inspection and reporting for newly operational factories in Indonesia and Myanmar in 2015, of which the factories will be included in the reporting of the Group's greenhouse gas emission in 2016.

5.3 Pollution Prevention and Control Management

Environmental Management Policy

By adhering to the principle of maintaining a balance between environmental protection and production, the Group is committed to the following environmental protection measures:

1. Adopt effective environmental management system, implement environmental pollution prevention and impact management, and continued improvements to ensure sustainability of environmental resources.
2. Comply with relevant environmental laws and regulations and other requirements, and develop and implement relevant standard operating procedures.
3. Optimize production processes, promote clean production, reduce pollutants emission, implement pollution control and management, and perform regular tests and inspections.
4. Reduce the use of hazardous substances, promote industrial waste reduction, recycle resources, and save energy and reduce carbon emission in order to enhance the performance of corporate environmental protection.
5. Strengthen education and training and enhance staff awareness of environmental protection so as to thoroughly carry out environmental protection.

In the actual operation management, the Group has established guidelines related to environmental protection as implementation standards for all factories under the Group. With reference to ISO 14001 environmental management system, we have established the self-management system for the factories.



Environmental Management Compliance

Based on the respect and protection of environmental resources, the Group's factories have installed facilities for the collection and treatment of pollutants generated during the production process. This is to ensure that pollutants are treated according to local regulatory requirements before emission.

In 2015, there was no report of serious environmental impact caused by major non-complied emission and leaks in the Group's factories.

Biodiversity Impact Management

The Group has already conducted various assessments on the environment of the industrial sites and reviewed relevant laws at the beginning of the planning stage of each production site. The sites chosen for the production bases are within the economic development area permitted by the local government. It does not belong to local protected or reserved biological habitat area. There is also no presence of international conserved and endangered species. We have strived our best in preventing adverse effects and impacts on local biodiversity.

Air Pollution Source Management

Currently, the main sources of air pollution produced by factories are volatile organic compounds, fuel boiler gas, and gas emitted from the electricity generation room and kitchen. With respect to the prevention of air pollution, the Group has formulated the "Guidelines on Air Pollution Control Management". The first guiding principle is to keep the factory emission in line with the local emission standards. The next guiding principle is the introduction of pollution assessment on production processes with the aim of proper handling of the pollution in accordance with the regulatory requirements.

In 2015, the Group's factories in Mainland China initiated environmental impact assessments, and carried out pollution control and improvement projects specifically for the diffusible gas of organic solvent according to the requirements of the environmental impact assessments. The inspection results of the pollutants emission from operation bases other than Mainland China were in line with the local emission standards.



Waste Management

Waste management strategy of the Group's factories focuses on the legal transportation, disposal, and reduction and reuse of wastes. All the waste disposal and processing must be carried out by government-certified service providers according to local laws. Recyclable wastes are collected according to classifications specified by brand customers.

Wastes are mainly classified into four categories in the factories, including: general wastes (household wastes), general industrial wastes (industrial wastes), statutory hazardous wastes (hazardous wastes), and recyclable wastes. A local qualified disposal service provider is engaged for household wastes and general industrial wastes disposal. Statutory hazardous wastes and reusable wastes are centralized in the recycling material control center within the factory area, where classification, necessary measurement and reporting are performed. Vendors are identified to help with the disposal of recyclable wastes for recycling or reuse. As for the hazardous wastes, the Group follows local rules and regulations to identify and classify the hazardous wastes, establish dedicated temporary storage area and appoint dedicated staff to manage. Local recycle companies that have hazardous waste disposal operation licenses are engaged to handle subsequent delivery and processing. We do not carry out any waste disposals which involve transnational transportation.

As at December 31, 2015, all transportation and disposal of wastes were in compliance with local requirements.

5.4 Eco-Friendly Constructions

Subsequent to the Group's building of the "Little Flower Kindergarten" green building in Vietnam in 2013, the Group continued to apply the concept of sustainable development on the design of new production plants.

In 2015, the newly established factory in Indonesia adopted a design utilizing natural light and the concept of transparent and efficient ventilation. Brick walls are replaced with blinds and glass windows to maximize natural light and ventilation. Tiles with light transmittance of 15% are used for the roof (fire-proof materials) to improve lighting and insulate the heat. Unpowered fans in the production plant bring cool air from the outside, while hot air in the plant rises and is transported out by the unpowered fans. Both indoor and outdoor area are decorated with ecological greenbelt to create a sense of comfort similar to what can be experienced in a park, and to provide a working environment which is cool and comfortable.



As for water recycling management, rainwater storage tanks are installed in the factory and staff canteen. Water recycling becomes part of the design in the water resource recycling project. The reclaimed water is used for greenery irrigation, toilet flushing and fire-fighting services. The factory area also features an ecological pool. Treated sewage water from the sewage treatment plant together with the reclaimed water from the water system is directed to the ecological pool. This ecological pool area has the benefits of water storage, flood detention and at the same time provides a resting place for employees.

Sewage treatment facilities and reclaimed water tanks are also set up in the factory area. The water from the reclaimed water tank is used in irrigation, toilet flushing and other water usages with no human contact. The employees' dormitory features solar water heaters, and the outdoor streetlights are equipped with solar panels. LED lighting is used extensively in the factory.

Newly Established Footwear Manufacturing Plant in Indonesia



The factory newly established in Myanmar in 2015 is characterized by its strong wind-resistance architecture (120 km per hour), which provides a secured working environment. The production plant adopts the design of natural lighting, with high ceilings and white corrugated sheets to minimize the use of air-conditioning. The insulated ceiling, together with suction fans and water curtain system, effectively reduce the temperature of the production plant.



5.5 Green Office

The Group promotes and implements green office with the following measures:

- **Office Power Saving:** Policy to turn off lights when not in use, partitioned control of office lighting circuit, infra-red monitoring device to control office lighting, air-conditioning temperature control, printer and computer hibernation management, shut down of computers during lunch break, increase the temperature of water chillers, and automatic ventilation control with carbon dioxide concentration detection, etc.
- **Paper Saving:** Implement paperless office, use email and online signature system for document review, signing and communication where possible, reduce copying and the use of office paper.
- **Reduce the Use of Bottled Water:** Provide reverse osmosis drinking water supply equipment at all factory production bases for the use by factory employees, meetings and visitors. Employees are encouraged to bring along their own reusable cups to reduce the use of bottles.



6.1 Customer Service and Product Management

Customer Service

The Group has established long-term customer relations with multiple international brands, to whom we are committed to provide the best services. We are able to provide design and production services to customers according to their needs. Dedicated technical research and development centers are set up for customers, with strictly separated production areas and zoned processing operation areas so that the brand customers' privacy and trade secrets are protected. As such, we are able to become the best skilled production partner for the brand customers, and establish deep trusts between the brand customers and the Group. As an original equipment manufacturer for footwear products, the Group respects the intellectual property rights of the brand customers. The customers' intellectual property rights (such as trade marks) are only applied to products according to the scopes authorized by the brand customers, and would not be used for any other unauthorized purposes. As for employees, they are obliged to protect the confidential information and intellectual property rights due to the implementation of the Group's "Code of Business Integrity" and the employees' signing of the "Confidentiality Undertaking". In the event of any breach discovered in the protection of privacy or intellectual property rights, the Group will immediately stop the breach, review the mechanism and take improvement measures.

Nowadays in the global sports footwear, leisure footwear, and outdoor footwear market, the emerging trend of production is small volume but large variety and more customization but shorter product life cycles. Leverage on production process reengineering and assistance of electronic systems, the Group's capability and efficiency in research and development are greatly enhanced. We build close relationship with brand customers by having a proactive and innovative team that work with brand customers in early development and design process, and provide innovative materials for brand customers' selection.

The Group continually improves its service quality and responds immediately to customers' needs in terms of delivery lead time, quality and price. Customers' needs are attended to immediately so to strengthen the relationship with the brand customers who increasingly rely on the Group's product development capability and quality service.



Product Management and Service

Product Service Policy

The Group is committed to provide customers with products of high quality and safety and places high importance on any customer demand for product quality. From product development to production, the Group strictly follows international legal requirements and complies with the brand customers' lists of prohibited and restricted substances and the Sustainable Chemistry Guidance in the selection of raw materials. We also monitor the production from start to finish to ensure products are consistent with the principles of eco-friendliness and human health.

Product Quality and Safety Management

Before the Group's developed products are officially put into mass production, standardized production procedures are formulated, and stringent test of physical properties and chemical properties are performed on the products.

In mass production process, all materials must go through sampling tests before warehousing to prevent inappropriate materials from being used in footwear production. All finished shoes must go through the scanning and inspection by specialists or metal detection devices to ensure there is no metal scrap or sharp objects remaining. The packaging for all inspected footwear is carried out under the supervision of trained staff with the adoption of sealed records for shipments so as to prevent any placing of dangerous items into the packages during delivery.

In order to meet our customers' requirements, our overall production processes (including production, packaging, labeling, etc.) are subject to the monitoring and auditing from customers. Immediate actions are taken and results are reverted to customers when customers raise any suggestions for improvements.

In addition, since 2014 the Group further strengthened its product safety management by conducting multiple training and briefing sessions, and starting 2015, these trainings have been extended to the entry level employees.



Product Service

The products manufactured and supplied by the Group are not directly sold to consumers. As such, there is no mechanism in place for the return of defective products or the recycling of packaging materials. Nevertheless, our Group has kept close business relationship with our brand customers and will work with the brand customers to carry out the return of products if required. All of our products need to pass high standard quality testing by the customers, and we follow the customers' requirements and the exporting countries' laws and regulations to provide a reasonable packaging and detailed product information labeling which include product size, material, ingredients, instructions etc. As such, the consumers not only can obtain related product information and service through the brand customers, but they can also identify the production plant through the factory code on the product information label, and contact the relevant production plant to inquire about product related issues. Since the Group does not sell products to consumers directly, the Group needs not promote the products by advertising. The advertising of products are conducted by brand customers according to their operating strategy and applicable laws.

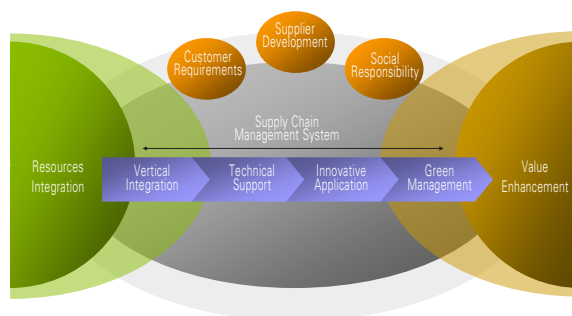
Lean Production and Manufacturing Excellence

In recent years, the Group has been actively promoting production transformation through Manufacturing Excellence program. Lean Production concept has been introduced to the manufacturing processes. The existing production capacity is continually optimized and the supply chain is further integrated. We continue to develop and promote the automated production mode and introduce plans to expedite the replacements of energy-inefficient processes and equipment. With the successful implementation of the Manufacturing Excellence program, it is expected that production efficiency will be uplifted and the use of energy and chemicals per unit produced will be reduced.

6.2 Supply Chain Management

Vision and Strategy: Resource Integration, Value Enhancement

The Group aims to provide comprehensive solutions that meet customers' needs and establish a comprehensive vertical supply chain management system through resource integration and suppliers screening and management. In addition to improving product quality and cost competitiveness, we also focus on the suppliers' development capability and their ability of sustainable development. We hope to collaborate with supplier in innovation development and application, participating in production process enhancement and materials improvement for the continuous optimization of supply chain capabilities as well as performing responsibilities in social and environmental protection.





The Group is committed to meet customers' needs, suppliers' development and social responsibilities. With the vision of "resource integration and value enhancement", long-term strategies have been formulated to develop more new materials, new production processes, new technologies and applications; to create product innovation and green value; and to realize the concept of corporate social responsibility and sustainable operation.

Strategic Supplier Management Strategy and Implementation Plan

The Group works with over 1,900 suppliers. The strategies of the Group in respect of supplier management are based on strategic supplier screening and management system, and the objectives are to deepen the collaborative relationship with the strategic suppliers and to create competitive advantages in the value chain, with the aim to strengthen the positive impact on the society and the environment.

A potential supplier in the supplier screening process is subject to on-site inspection by relevant internal audit departments, competitiveness analysis by the procurement department and finally the approval by a committee which is made up of production business units and relevant departments, through fair, just and open voting before becoming an approved strategic supplier of the Group. With this stringent screening mechanism of strategic suppliers, it ensures that their performances can meet the Group's requirements, which are important for the development of long-term strategic partnership and the establishment of a quality supply chain management system.

The suppliers are required to strictly follow the relevant regulations and requirements in labor safety and hygiene, human rights and environmental protection. In addition, the Quarterly Business Review is introduced to the supplier management mechanism for the quarterly assessment and review of suppliers' performance in all aspects. The Quarterly Business Review indicators cover six aspects including quality, price (cost), delivery lead time, service, research and development management as well as green supply chain. Qualitative and quantitative indicators are defined for each aspect, which will be weighted differently according to the specific items supplied and procurement strategies. The assessments are made jointly and systematically by the procurement team, the factory production team and the audit team. The contents of the indicators are adjusted flexibly according to the environment or the Group's strategies with the objective to achieve the control of supply chain risks. Through collaborative review with the suppliers of the assessment results, the suppliers are able to improve continuously, uplift the performance of business operation, and achieve the goal of mutual growth with the Group.

The Quarterly Business Review was officially launched in 2015. In addition to giving recognitions to suppliers with outstanding performance, a "Green Supplier Team" has been set up against the indicator of the green supply chain to specifically evaluate the suppliers' fulfilment of corporate social responsibility. This is to fulfill the Group's mission in sustainable development while the competitiveness of the supply chain is improved.

Quarterly Business Review



Supplier Audit Program and Results

The Group annually visits the major suppliers to review and audit on-site their product qualities and green management. In addition to clearly establish audit rules and procedures for suppliers' product quality and green management, the suppliers who are found to have deficiencies are requested to provide improvement plans and prevention measures, which then will be followed up periodically for improvement progress. The Group works cooperatively with the suppliers and utilize multiple means to uplift the capabilities of the suppliers and the Group. Through the supplier screening and management mechanism, together with supplier audit program, the Group is able to select highly qualified suppliers which meet the expectation of the Group.

On-site Audit of Product Quality and Green Management and Tracking of Major Problem Improvement Progress

The Group insists that all strategic suppliers go through the stringent review and audit system. Within on-site review and audit, there are 11 scoring categories for quality management and 3 scoring categories for green management. The Group adopts corrective and preventive actions to manage quality issues. The basic items under green management are environmental protection and prohibited/restricted substances management. With on-site audit by a professional team, non-compliant items are pointed out and relevant improvements are proposed. The suppliers have to make improvements within specified periods or produce substantial improvement plans. Audit reports are issued to the suppliers and the tracking of deficiency improvements would be completed within 14 days after the issuance of the reports.

Major Focus Areas for Supplier Quality Management Audit

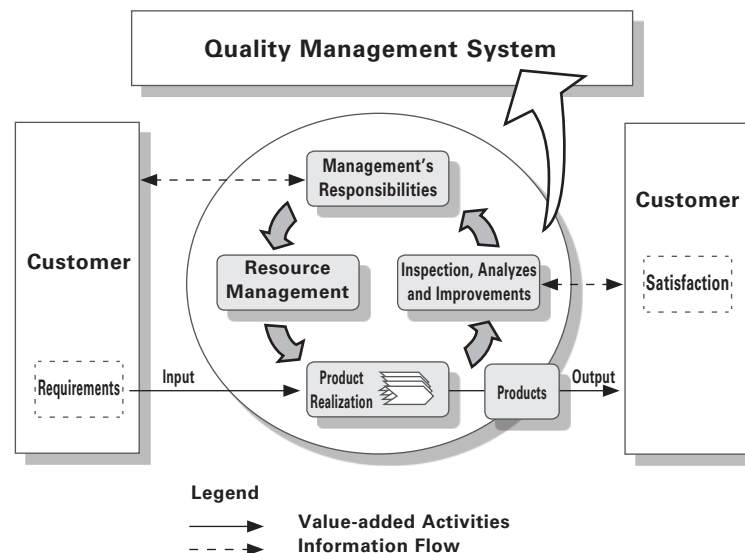


Major Focus Areas for Supplier Green Management Audit



Quality Management Highlights in 2015

1. We have requested suppliers to comply with ISO9001: 2008 quality management system (see below). We have established guidelines for the selection and evaluation of suppliers. An investigation form is used to understand the suppliers' business conditions, quality management systems, production capacities, service qualities and delivery capabilities, etc. The results of the risk assessment based on the aforesaid elements serve as a base for the selection of strategic suppliers
2. To effectively manage suppliers and ensure that the procurement quality can meet the requirements of the Group and the brand customers, we request suppliers to adopt improvement measures after supplier audits based on principles of "Plan, Do, Check, Action". The objective is to enhance the suppliers' control on quality, reduce the costs of quality failures, and to ensure that the quality control of all incoming materials to the factories are in line with the brand customers' requirements.





Green Management Highlights in 2015

1. With the growing concerns of the global community, government authorities and brand customers over environmental protection, the Group attaches great importance to the performance of green management in the supply chain. The Group is gradually implementing green supply chain management policies in order to achieve environmental sustainability through green design, green procurement, green manufacturing and value creation of green products, thus fulfilling social responsibility and putting the concept of sustainable operation into practice. The concept, requirements and control indicators of green management have been fully introduced to the Group's strategic suppliers through green supply chain management program in 2015.
2. The Group considers the suppliers as our important partners. A stable supply chain is key to maintain continuous production. Therefore, continuously making improvements and enhancement of the suppliers' self-management capabilities is a major task in supply chain management for the Group. With improved tracking mechanism, the suppliers can understand the objectives of global management and effectively enhance their self-management capability.
3. To encourage suppliers with excellent performance in green management (such as green design, green manufacturing, green innovation, green marketing, green procurement, green recycling, and green products), we formally recognized these suppliers for their efforts in 2015, such that all suppliers are motivated to achieve the objective of green manufacturing, and reach the goal of creating a green supply chain.

2015 Quality and Green Management Audit Results

1. The scales, management capabilities and degrees of cooperation vary between suppliers. The strategic suppliers who are unable to meet the Group's requirements in quality and green management indicators are requested to improve within specified timespan, after which they will be removed from the strategic supplier list if the requirements are not met in order to reduce the risks in the supply chain. This is to ensure the Group's supply chain management can comply with the basic requirements of quality management in ISO 9001, and conform to the global green management trend.
2. In 2015, the Group pushed forward quality management and green management for materials suppliers in order to enhance their quality management and green management capabilities. Unqualified suppliers were removed from the supply chain.



6.3 Moral Integrity and Anti-corruption

Setting Standards and Compliance with Laws and Regulations

A system with good moral integrity and anti-corruption mechanism is the cornerstone for the sustainable and healthy development of the Group. In addition to compliance with relevant laws and regulations in different regions, the Group also maintains a “Code of Business Integrity”, which requires the employees, during the course of business engagement, not to (whether directly or indirectly) provide, undertake, request or receive any improper benefits, or take any other actions which are in violation of integrity, illegal or dishonest behaviors which are in breach of fiduciary duties. Such behaviors to be prevented include criminal acts such as bribery, extortion, fraud, money laundering and other acts such as the provision of illegal political contributions, inappropriate charitable donation or sponsorship, provision or acceptance of unreasonable gifts, entertainments or other improper benefits, infringement of trade secrets, trademarks, patents, copyrights and other intellectual property rights, and engagement in acts of unfair competition, etc.

The Group’s “Regulations of Work” requires the employees to sign the “Employee Business Integrity Undertaking” and the “Confidentiality Undertaking” and to strictly adhere to the relevant regulations.

The Group requires the suppliers to follow the Group’s principles on honest transactions. The suppliers are required to sign the “Undertaking of Honest Transactions”, or provide their declaration of probity or information on their moral integrity systems for the review by the Group. Except for special cases, suppliers are required to sign the “Undertaking of Honest Transactions” before any procurement can be carried out by the Group.

Communication and Training

The Group discloses its business integrity policies on internal website or other media channels. The objective is to ensure that the employees of the Group, suppliers, customers or personnel of other organizations relevant to the business can clearly understand the Group’s philosophy and standards on business integrity.

During the course of business engagement, the Group’s employees are required to explain to business counterparts the Group’s policies and regulations on business integrity, and should clearly reject any direct or indirect provisions, undertakings or requests for any type or receipts of improper benefits in whatever manner or form.

In 2015, the Group held a number of educational and training sessions on moral integrity across the Group. It is expected that the Group’s philosophy and standards on business integrity will be further promoted.



Complaints Reporting Principles and Communication Channels

In response to the employees' opinions and grievances, the Group has established the following three types of appeals and reporting channels according to "Regulations of Work":

(1) The direct supervisor of the employee; (2) Human Resources Department; and (3) complaints mailbox.

Following the development of the Group's global footprint and information technology, electronic complaints and reporting channels (including email box and intranet) are available to enhance the convenience and efficiency of usage. If any person of the Group is suspected to have involved in illegal or dishonest acts, anyone can provide relevant information through the above channels.

If the Group discovers any event of corruption, bribery, extortion, fraud and money laundering, necessary legal actions will be taken to protect the interests of the Group. In 2015, there was no incident of corruption, extortion, fraud and money laundering case, and the Group's Internal Audit Department did not discover or receive any report in relation to any immoral behaviors by the Group or the employees.

