



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



Contents

Chapter 1 About This Report

Chapter 2 Stakeholder Engagement

Chapter 3 Community Participation

Chapter 4 Employment and Labor Practices

- 4.1 Proper Assignment of Roles and Responsibilities
- 4.2 Education, Training and Career Development
- 4.3 Comprehensive Remuneration and Benefits System
- 4.4 iCARE Project Implementation
- 4.5 Respect for Labor Rights
- 4.6 Employer–Employee Communication Mechanism
- 4.7 Workplace Safety

Chapter 5 Environmental Protection

- 5.1 Effective Use of Resources
- 5.2 Greenhouse Gas and Carbon Emission
- 5.3 Pollution Prevention and Control Management
- 5.4 Green Office

Chapter 6 Operating Practices

- 6.1 Customer Service and Product Management
- 6.2 Supply Chain Management
- 6.3 Moral Integrity and Anti-corruption



Chapter 1

About This Report

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 2016 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, 2016 to December 31, 2016.



Chapter 1

About This Report

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 information disclosed in this Report is derived from the results of internal statistics and analyzes of the Group’s internal management systems. The Company has complied with the “comply or explain” provisions set out in the “Environmental, Social and Governance Reporting Guide” for the period reported herein.

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 2016 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. As for the relevant policies and performance of the retail business, please refer to the 2016 Environmental, Social and Governance Report of Pou Sheng International (Holdings) Limited, a listed subsidiary of the Company.

Reporting Period

The information published in this Report covers the period from January 1, 2016 to December 31, 2016, which period is the same as the financial year as reported in the Group’s 2016 Annual Report.

On behalf of the Board

Tsai Pei Chun, Patty

Managing Director

Hong Kong, March 24, 2017



Chapter 2

Stakeholder Engagement

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 2016 included business cooperation proposals, shareholders/investors services, media affairs, requests for research and survey, and academic visits, etc. No complaints were received from stakeholders regarding social impacts and related issues.



Chapter 2

Stakeholder Engagement

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">• Economic 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



Chapter 2

Stakeholder Engagement

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/communication applications platform• Employee Welfare Committee/Occupational Safety and Health Committee/Labor Union/employer-employee meeting• Internal staff publications (regular)/bulletin board• Employee and manager forums/employee opinion surveys• Life counselling rooms located in production factories/staff consultation room
Community	<ul style="list-style-type: none">• Environmental issues/compliance with the laws• Commuting traffic during rush hours• 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



Chapter 2

Stakeholder Engagement

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">• The Group's business operation status• Labor slowdowns	<ul style="list-style-type: none">• Communication documents• Coordination of requests for 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



Chapter 3

Community Participation

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. In 2016, the community participation activities focused on three main aspects: education, health and medical care and local public relations.

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 female employees account for majority of our workforce, 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 housing renovations, 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:** employee forums, manager forums, activities for developing friendship for new employees, consultation in life counselling room, etc. The forums in each factory are held at least once quarterly. By the end of 2016, a total of 546 employee forums and manager forums have been held.
- **Recognition Ceremony of Outstanding Employees:** model employees, employees with outstanding performance in terms of 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.



Chapter 3

Community Participation

- **Recreational Activities:** employees recreation centers and provision of recreational instruments, ball game competitions, social events, second skills learning programs (information technology, 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, ticketing assistance for public transportation back to home town during holidays, Lantern Festival gathering for lantern riddles and garden party, etc.
- **Provision of Other Welfare and Convenience Facilities:** staff quarters, shuttle buses, bus stops within factory areas, swimming pools, playground, fitness equipment, convenience stores, etc.

Employee Forums



Manager Forums





Chapter 3

Community Participation

Employee Families Caring Visits

- Regular home visits (usually visit more than two employees of each factory in every two months) and donation of daily necessities and financial assistance for dependents of deceased employees. There were a total of 391 home visits to 1,167 employees' households in 2016.
- Scholarship for employees' children and infants caring (kindergartens), recognition of employees' outstanding children.
- Donation of consolation money for poor employees and free houses as gifts for the communities and employees (25 houses donated each year), which helped poor employees establish comfortable homes so that they feel at ease.

Home Visits



Mid-Autumn Festival Event at Little Sun Kindergarten, Vietnam



Graduation Ceremony at Little Sun Kindergarten, Vietnam



Opening Ceremony at Little Flower Kindergarten, Vietnam





Chapter 3

Community Participation

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, recycle and reuse creativity competition, making environmental protection handcrafts, etc. A total of approximately 8,000 persons participated.
- **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). A total of approximately 1,859 persons participated in blood donation and 2,450 persons participated and benefited from the free medical consultations.
- **Free Houses as Gifts:** for the poor and sick people residing in the area.
- **Food and Supplies Donation:** donation of rice; donation of paint and assistance in repairing and painting local school buildings; donation of lambs on Feast of Sacrifice; donation of used clothes and gifts. In January 2016, about 100 computers were donated to Shanggao County Special School in Jiangxi, China. In June 2016, 40 computers were donated to Wanquan Primary School in Zhong Shan Village, Yangxin County, Hubei, China, and the computer studies room of the school was painted. The Group also offered mineral water, instant noodles and other supplies to the residents of the local community when Go Cong, Tien Giang Province, Vietnam suffered from drought in July 2016.
- **Students Sponsorship:** “Seeds of Hope” scholarships were provided in Vietnam, helping about 500 students from various schools.
- **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.



Chapter 3

Community Participation

Free Medical Consultation



Donation of Computers, Classroom Refurbishment and Painting



Provision of "Seeds of Hope" Scholarships in Vietnam



Visit to Orphanage in Bình Dương, Vietnam





Chapter 4

Employment and Labor Practices

The Group upholds the idea of “Focus on People, for the People”. The Group believes that employees are important assets, and has planned a wholistic approach of recruitment, 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 compensation 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 an equal, safe and healthy work environment, as well as to comply with the local laws and regulations, and to enhance constructive employee relationship in order to build a high quality enterprise.





Chapter 4

Employment and Labor Practices

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, Myanmar and Taiwan, etc. As at December 31, 2016, the Group's employees in footwear manufacturing totaled approximately 326,000. The distribution of manpower among the major operating bases was as follows: approximately 49% in Vietnam, approximately 19% in Mainland China, approximately 29% in Indonesia, and approximately 3% in other regions. Apart from a small number of staff being seconded as cleaning workers in Mainland China, those in other areas were employed as formal staff.

Professionals in different fields are our greatest assets. Categorized by job function, employees in manufacturing accounted for approximately 84% of the total number of employees; engineering and technical accounted for approximately 7%; administration and management accounted for approximately 8%; and others accounted for approximately 1%. Categorized by employees' gender, female employees accounted for approximately 72% 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 42%, aged 30 to 49 accounted for approximately 56% and aged 50 and above accounted for approximately 2%.

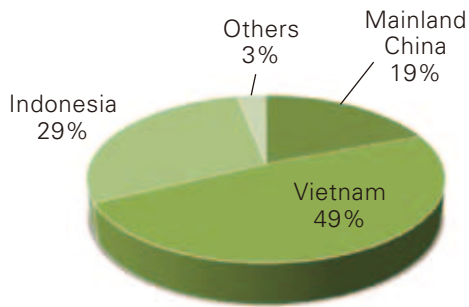


Chapter 4

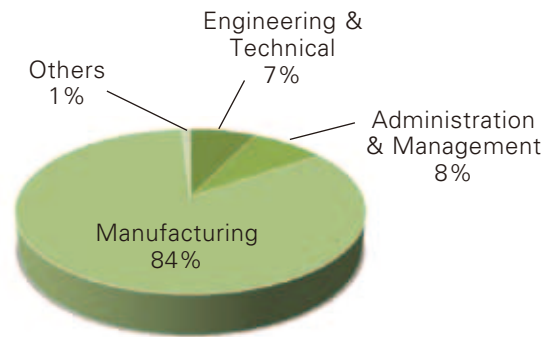
Employment and Labor Practices

2016 Manpower Structure

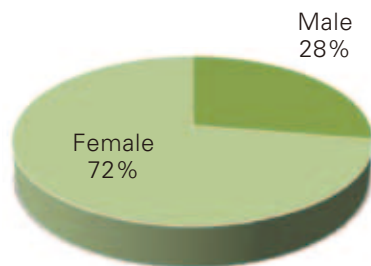
Manpower Statistics by Region



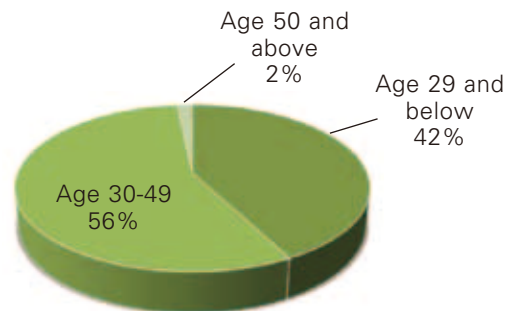
Manpower Statistics by Job Function



Manpower Statistics by Gender



Manpower Statistics by Age



2016 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%	10%	10%	16%	1%
Vietnam	8%	2%	6%	4%	0%
Indonesia	8%	1%	6%	3%	0%
Other	23%	8%	24%	6%	2%

Note: Attrition Rate = No. of Employee Turnover in the Respective Category in the Respective Region/(No. of Employees in the Respective Region as at December 31, 2016 + No. of Employee Turnover)



Chapter 4

Employment and Labor Practices

Recruitment Rate (Approximate) – By Gender and Age

Region	Gender		Age		
	Female	Male	29 and below	30~49	50 and above
Mainland China	69%	31%	41%	59%	0%
Indonesia	76%	24%	78%	22%	0%
Vietnam	76%	24%	89%	11%	0%
Other	73%	27%	82%	18%	0%

Note: Recruitment Rate = No. of New Recruits in the Respective Category in the Respective Region/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, Myanmar and Cambodia. For entry level employees, the improvement of their day-to-day work performance is assisted primarily through a monthly assessment mechanism. Based on individual and organizational goal setting and implementation, the performance assessments of management personnel (mid-level and above) are carried out in mid-year and year-end every year, through formal performance interviews to help the supervisors and employees understand the organizational goals and expectations on personal developments, and to ensure that work directions of the organization and the individuals are clear and aligned. Performance management training sessions, with a number of experiential learning activities, are held. Through observation, analysis and sharing of experience and feedback, the participants acquire knowledge and get inspiration, which they can readily apply to work and daily lives.

The implementation of performance management is primarily used to measure employees' overall progress in the achievement of goals and performance. The final results of which are the basis for the employees' promotions, rewards, training and personal development plans. With a comprehensive performance management system, we create a performance-oriented corporate culture, incentivize employees' performance and functional results and further nurture and develop employees' personal capabilities.



Chapter 4

Employment and Labor Practices

Enlightenment Course for Performance Management Process



Training and Development Policies and Objectives

Talents play 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 as the Group’s intangible assets.
- Actively establish a talent pool of the Group through systematic and professional evaluations to identify talents, and according to personal and organizational needs, develop a comprehensive talent development plan and 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 proactive learning to bring out the employees’ potentials and realize individual achievement.



Chapter 4

Employment and Labor Practices

Group Training and Development Planning

The Group's objectives of training and development are to upgrade the quality of manpower and expertise through systematic frameworks and methods, 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 achievements, capability deficiencies, as well as personal development plans. 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 digital learning, the employees are offered all-round and comprehensive training and at the same time their professional expertise and management capabilities are 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 2016, the Group held a total of approximately 31,000 training classes, with total training hours of approximately 8,507,000 hours, total participation of approximately 1,675,000 trainees, and average training hours of approximately 26 hours per staff.

Total No. of Training Courses (Approximate)	Total Participants (Approximate)	Total Training Hours (Approximate)	Average Training Hours per Staff (Approximate)
31,000	1,675,000	8,507,000	26

The analysis of the Group's training by gender and job level of the employees is shown as below:

Region	Job Level	Gender	Participants (Approximate)	Total Training Hours (Approximate)
Group	Entry	Male	290,000	1,448,000
		Female	1,353,000	6,903,000
	Middle	Male	10,000	60,000
		Female	21,000	93,000
	Senior	Male	600	2,000
		Female	400	1,000



Chapter 4

Employment and Labor Practices

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, the development focus and training requirements of different business units are collected and comprehended 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. We also formulated "Training Course Management Policies" to govern implementation of training courses.

(1) Training System Courses

These courses are planned to enhance the employees' job skills at different positions 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 self-management 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 formulated. Apart from strengthening the employees' professional knowledge, management skills, personal development in soft skills and transferable job skills are also the focus for the provision of training resources, thus enhancing the employees' capabilities, overall qualities and business performance.



Chapter 4

Employment and Labor Practices

Management Associate Development Program



Senior Management Strategy Session



Senior Management Strategy Session



Lecture Tour



Lecture Tour



Overseas Internship for Management Associates



Induction for New Recruits – Dynamic Camp



Training Course on Liberal Studies



Training for Internal Instructors





Chapter 4

Employment and Labor Practices

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 market conditions. The basis of reward and promotion depends 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 vacation policy of the Group is established according to the relevant laws and regulations of different operating bases. Employees are allowed to arrange paid leaves on their needs according to the policy.



Chapter 4

Employment and Labor Practices

Comprehensive Insurance 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.

Insurance Plans Applicable to Employees in Different Regions

Region	Taiwan	Mainland China	Indonesia	Vietnam	Cambodia	Bangladesh	Myanmar	Hong Kong	Macau
Insurance Plans	Labor insurance, Health insurance, Group insurance, Travel safety insurance	Unemployment insurance, Industrial injury insurance, Maternity insurance, Medical insurance, Housing fund, Pension insurance	Insurance for elderly, Retirement insurance, Industrial injury insurance, Death insurance, Medical insurance	Social insurance, 24-hour accidental insurance, Unemployment insurance, Medical insurance	Industrial injury insurance, Medical insurance	Industrial injury insurance for employees	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; free libraries; 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, movies), 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



Chapter 4

Employment and Labor Practices

effective solutions, to develop the synergies from cross department integration of functions, and to strengthen the employer's brand name. The 2016 iCARE Project which continued to focus on "self-management" was launched by different model factories according to their respective business objectives. For instance, the factory in Sukabumi, Indonesia, integrated iCARE and the core values into routine trainings. 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) under the local 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 views, 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 is strictly subject to the relevant local laws and regulations. During the reporting period, there was no discriminatory misconduct reported or complaint received in relation to equal opportunity, rotation, promotion, recruitment, termination, severance, vacation, 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.



Chapter 4

Employment and Labor Practices

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 Employer – Employee Communication Mechanism

Strengthening the Employees' Suggestion and Complaint System

The Group encourages communication between the management and the employees. We established various channels to collect the feedbacks of the employees. By consolidating the inputs from complaint channels of various regions, we analyze, handle and resolve employees' problems periodically. This year the Group further improved the staff consultation rooms in Vietnam, continued to hold employees forums for better practices and observation, as a way to facilitate more effective communication with employees 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 advance its objective of becoming the employer of choice.



Chapter 4

Employment and Labor Practices

Multi-Channel Communication

All employees and managers of the Group are allowed 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 resolution, the Group utilizes the tracking mechanism implemented by the life counseling room or staff consultation room. In 2016, the issues of concerns to the employees were primarily related to topics of social insurance and internal communication.

Means of Communication	Communication Channels	Means of Response
Face to Face	<ul style="list-style-type: none">Life counseling room/staff consultation roomEmployer-employee meetingUnion meetingStaff welfare committeeEmployee and manager forums	Face to Face Written Reply Notice
Traditional Written Form	<ul style="list-style-type: none">Employee suggestion boxEmployee opinion surveyBulletin boardInternal staff publications	Written Reply Notice
Electronic	<ul style="list-style-type: none">EmailCompany's internal websiteMobile SMS (Indonesia)Communication applications 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.



Chapter 4

Employment and Labor Practices

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, occupational disaster investigation, machine safety management, contractors' work management, and abnormal incidents management, the following areas were specifically strengthened in 2016:

- (1) Internal Training for Safety and Hygiene Management Personnel: The Group's factories deploy safety and hygiene management personnel in accordance with local laws. In addition to compliance with legal and regulatory requirements, the Group plays an important role in the implementation of internal safety and hygiene management. The expertise of relevant personnel is therefore strengthened by means of regular internal trainings with standardized propaganda and education in the Group this year.
- (2) Ongoing Strengthening of Abnormal Incidents Management: Standardization of investigation management process for occupational incidents to ensure that incident reporting, tracking and confirmation are put into effect. This year the review on investigation reports is enhanced, and assistance is provided by safety and hygiene management personnel from various regions to examine the ability to continuously strengthen the incident investigation and rectification processes.



Chapter 4

Employment and Labor Practices

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 2016 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		
Region/ Category	Group	Male	Female	Male	Female	Group	Male	Female	Group	Male	Female
Group	714	283	431	34%	66%	0.96	0.38	0.58	29	9	19
Mainland China	167	87	80	32%	68%	1.03	0.54	0.49	84	26	57
Indonesia	115	33	82	29%	71%	0.65	0.18	0.46	4	1	2
Vietnam	375	137	238	37%	63%	0.99	0.36	0.63	16	6	10
Cambodia	9	1	8	17%	83%	1.50	0.16	1.33	4	0	3
Bangladesh	17	16	1	97%	3%	2.04	1.92	0.12	37	36	1
Myanmar	13	0	13	0%	100%	2.05	0.00	2.05	30	0	30
Note	<div><div>1.</div><div>The source of statistical data is from the Group’s internal occupational injuries management system.</div></div> <div><div>2.</div><div>The indicators for the year 2016 have included the newly established Myanmar factory as disclosed in the Group’s 2015 Environmental, Social and Governance Report.</div></div> <div><div>3.</div><div>Disabling Injury Frequency Rate = Disabling frequency number x 1,000,000/ Total working hours in the region</div></div> <div><div>4.</div><div>Disabling Injury Severity Rate = Total number of days lost x 1,000,000/ Total working hours in the region</div></div>										

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. A unified management mechanism has also been established for the design, construction, inspection and acceptance, maintenance and repair of fire-fighting equipment.



Chapter 4

Employment and Labor Practices

- (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 a 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 Fire-Fighting, Safety and Hygiene Department on an annual basis. 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, kitchens and restaurants, etc. for inspection. Daily power control and inspections during night-time are also strengthened. At the same time, educational trainings on fire-fighting equipment for relevant personnel are conducted in various factories to strengthen the factories' self-inspection abilities which are important for the prevention of 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 on electrical equipment can be enhanced to mitigate the operational risks of the factories.
- (5) Management of repair and maintenance vendors for fire-fighting equipment: 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-fighting 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) Safety management of explosion-proof electrical equipment: With an aim to enhance the safety of hazardous sites (such as chemical storage, gel preparation room etc.), the Group has formulated safety management standards so as to improve the safety level of electrical equipment at the hazardous sites, and to strengthen the installation, construction safety, maintenance and inspection to reduce the risks of accident occurrence.



Chapter 4

Employment and Labor Practices

- (8) Strategy for procurement of key safety equipment: To strengthen the inherent safety of key safety facilities, relevant management flows and relevant equipment specifications were formulated to operate with the supply chain, such that there are consistent standards for the procurement of key safety equipment by the Group, and at the same time in compliance with the safety requirements requested by relevant international or local governments, with an aim to enhance the safety for critical equipment.
- (9) 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 employees' 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.
- (10) Damage control: To ensure the safety of people and properties and substantially reduce the operational risks of factories, the Group will establish a monitoring mechanism in the future on risks arising from natural disasters other than fire (such as earthquakes, storms, floods, etc.). The Group will carry out appropriate improvements for projects with substantial potential risks. We have prepared a set of damage control specifications for the Group's newly constructed factories to ensure newly constructed factories are able to conduct in-depth risks assessments and mitigate the risks accordingly.

Factory Self-management

In respect of factory 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.



Chapter 5

Environmental Protection

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 and Procurement of Raw Materials

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 raw 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.

There are around 1,800 material suppliers with which the Group has entered into procurement transactions for three consecutive years (2014 – 2016).

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.



Chapter 5

Environmental Protection

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 the Group’s footwear manufacturing factories in 2016 include: electricity, fossil fuels, coal fuel, biomass fuels and natural gas, as well as liquified petroleum gas. The use of biomass fuels involves mostly the fuel for steam thermal energy supplied by external vendors.

2016 Energy Consumption and Average Energy Consumption per Pair of Shoes shown in the following table:

Energy Type	Electricity	Fossil Fuels	Coal Fuel	Biomass Fuels	Natural Gas	Liquified Petroleum Gas
Consumption	1,018,567.81 MWh	6,091.81 KL	6,900 tonnes	84,500 tonnes	18,000 M ³	420.92 tonnes
Average Energy Consumption per Pair of Shoes	3.1600 KWh	0.0189 L	0.0215 kg	0.2625 kg	0.0001 M ³	0.0013kg

In the implementation of energy management, we place emphasis on full introduction of energy monitoring system. The factories in Southern China (Dongguan), the newly constructed factory in Myanmar, and some operating bases in Indonesia had completed the installation of the online energy monitoring system in 2016. 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.

Meanwhile, energy saving and carbon reduction programs were actively promoted within the Group. Energy-saving projects for some key factories on high energy consumption facilities were launched continuously in 2016. Measures implemented in the projects achieved expected energy efficiency, including 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 motors and water pumps, as well as diversion of cooling water intake pipes. In the meantime, the procurement standards for high energy consumption machineries, as well as the design specifications for ventilation, cooling and energy-saving of newly constructed factories were formulated, so as to satisfy energy-saving requirements starting from the purchase of machineries and construction of plants.



Chapter 5

Environmental Protection

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 various footwear manufacturing bases in 2016 was approximately 18.91 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 domestic 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 especially 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 legally permitted means. For the sewage discharge of the Group's factories in 2016, a



Chapter 5

Environmental Protection

sewage spill incident occurred in a factory in Vietnam due to sewage pipe rupture. We managed the contingency immediately and passed the re-inspection by local environmental authorities. There was no material environmental impact on the receiving waters and the surrounding environment arising from this incident. Meanwhile, in 2016, we proactively conducted self-checking against the Group's factories, and we are evaluating and planning to add wastewater treatment plants for the factory expansions of the production areas in Vietnam and Indonesia, so as to implement a proper and due management of sewage.

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 2016, the average effluent water reuse ratio of the Group in the footwear manufacturing bases was approximately 13%. The effluent water recycle ratios of the leather factories, where water usage in the manufacturing process was higher, were over 44%.

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 was not included in the calculation. Estimation was made according to emission factors, calculated as: activity data x emission factor x global warming potential (GWP) = carbon emission (CO_{2e}).

The activity data for different kinds of greenhouse gas emission varies according to their sources of generation. The sources are recorded, and the emission in weight or volume are measured in units of kilograms, kiloliters or liters. Emission factors for different emission sources are mainly based on the emission factors published by the Intergovernmental Panel on Climate Change (IPCC) in 2006. According to the published emission factors and calorific values for different fuels, the emission factors for different emission sources are calculated. The emission factors for electricity are calculated according to the emission factors released by different areas, or the emission factors published by the International Energy Agency (IEA) in 2013. The Global Warming Potentials (GWP) for different greenhouse gases are all based on IPCC's Fourth Assessment Report (2007).



Chapter 5

Environmental Protection

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)
2016	862,400 tonnes	Electricity (75%) Fuel (19%)	Between 1.97 ~ 4.77 kg CO ₂ e/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 2016, 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 established factories, newly operational factories (new factory in Indonesia and new factory in Myanmar) have been formally included in the reporting of the Group's greenhouse gas emission this year.

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 continue 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, save energy and reduce carbon emission in order to enhance the Group's environmental protection results.



Chapter 5

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.

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 recent years, the awareness of sustainable development has been gradually strengthened, and the environmental protection laws of every country are becoming more stringent. The Group has also actively responded to the international sustainable development goals. We have strengthened our environmental management, and have conducted compliance checks for the environmental impact on the Group's factories with a view to achieving continuous improvement. In 2016, we actively cooperated with the air quality improvement requirement in Mainland China. To ensure the Group's operation and production comply with laws and regulations, our factories have also added necessary air pollutant control and treatment facilities according to the requirement from environment assessments.

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.



Chapter 5

Environmental Protection

Wastes in the factories are mainly classified into four categories, 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, 2016, all transportation and disposal of wastes were in compliance with local requirements. Some factories pushed forward the zero incineration and landfill strategy for solid wastes by transferring all solid wastes which were for incineration and landfill to cement mills and thermal power plants for use as fuel. Some factories also implemented reduction programs for empty plastic barrels and reduced an average of 2.16 tonnes of hazardous wastes generated per month. In addition, the developments of factories were carried out in line with the Manufacturing Excellence program (automatic laser cutting machines, outsole rubber granulator machines, and process flow reviews and adjustments) to reduce the amount of wastes generated.



Chapter 5

Environmental Protection

5.4 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 the frequency of printing and/or copying, and reduce 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.



Chapter 6

Operating Practices

6.1 Customer Service and Product Management

Customer Service

The Group has established long-term customer relations with multiple international eminent 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 through 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, so to strengthen the relationship with the brand customers and their reliance 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.



Chapter 6

Operating Practices

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, before packaging, 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 qualified finished shoes 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, for the sake of strengthening its product safety management, the Group also continued to promote the importance of product safety in 2016, not only to the employees at entry levels with respect to the introduction and enhancement of product safety awareness, but also to the supervisors by sharing the key points in product safety management.

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, the 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.



Chapter 6

Operating Practices

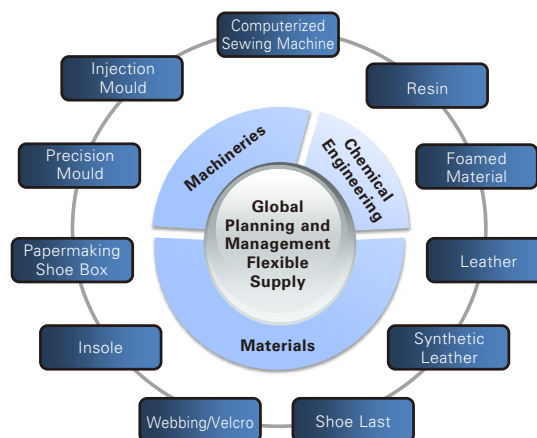
Lean Production and Manufacturing Excellence

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

The suppliers of the Group largely comprise four categories: raw material suppliers, mechanical equipment suppliers, work contractors and service contractors. Through our strategy of vertical integration and horizontal division of labor to integrate industrial know-how and technology, the Group connects the upper, middle and lower streams of the footwear manufacturing industry, covering the areas in mechanical and chemical engineering as well as in materials to form a complete supply chain.

With a view to providing instant-response services to the customers, the Group continued to improve the manufacturing processes and enhance flexibility in the production capacity, and built a material supply system which is quick in response and close to the market, so as to develop sustainable value of the Group.





Chapter 6

Operating Practices

Suppliers Management

To assist customers in developing unique and innovative products of high quality, and to perform our responsibilities as citizens of the planet earth, the Group focuses primarily on aspects of quality and green management with respect to raw material suppliers management. Through procedures in the selection of suppliers, setting up of various quality and green standards, and establishing a risk assessment mechanism specific to the industry, industry risk levels and applicable judgment criteria for corresponding risk indices are identified. With factory operation audits conducted by professional teams, the systematic quality management abilities of raw material suppliers are ensured for the establishment of a green supply chain. In addition, regular annual or quarterly reviews are conducted with suppliers according to the properties of different supplied items, so as to ensure the continued maintenance of quality standards and compliance with green environmental requirements of the production and supply of the daily raw materials, which are critical to quality assurance for the customers and forthwith consistent with the trend of green development.

In 2016, the Group has publicly acknowledged our suppliers with excellent green performance. For the suppliers with relatively high deficiencies, consultations and improvement measures were provided in accordance with the seriousness of the cases. In some cases, situations were reported to the customers with joint effort to track the improvement progress. The objective is to promote among the suppliers the continued improvement of the green production cycle, to fulfill social responsibilities and to put the concept of sustainable operation into practice.

Major Focus on Product Quality and Green Management

Within the Group's supplier audit system, there are 11 scoring categories for quality management and 3 scoring categories for green management.

Major Focus Areas for Supplier Quality Management Audit



Major Focus Areas for Supplier Green Management Audit





Chapter 6

Operating Practices

Quality Management Highlights in 2016

1. According to the basis of ISO 9001:2015 Quality Management System, the criteria for the selection and evaluation of suppliers were established, and the suppliers' operation conditions, quality management systems, production capabilities, service qualities and delivery capabilities, etc. were comprehended by using an inquiry form.
2. To effectively manage suppliers and ensure that procurement quality can meet the requirements of the Group and the brand customers, we require suppliers to adopt improvement measures after supplier audit based on the principles of "Plan, Do, Check, Action". The objective is to enhance the suppliers' control on quality to reduce the costs of quality failures, and to ensure that the quality control of all incoming materials to the factories are in line with requirements of the brand customers.

Green Management Highlights in 2016

With the growing concerns of the global community, government environmental authorities and brand customers over green 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. The concept, requirements and control indicators of green management have been fully introduced to the cooperated suppliers through green supply chain management program in 2016, with environmental protection, forbidden/restricted substance management as basic control items.

A stable supply chain is the key to the maintenance of sustainable production. The Group's supply chain management continuously enhanced the suppliers' self-management capabilities through evaluation and improved tracking mechanism. The Group also continued to implement green supply chain management, and encourage suppliers with excellent performance in green management (such as green designs, green manufacturing, green innovations, green marketing, green procurement, green recycling, and green products).

As the scales, management capabilities and degrees of cooperation vary between suppliers, the suppliers who were unable to meet the Group's requirements in quality and green management indicators were requested to improve within specified time, after the expiry of which they would be removed from the suppliers list if the requirements were not met, in order to reduce the risks in the supply chain. This is to ensure the Group's supply chain management is in compliance with the basic requirements of quality management in ISO 9001, and consistent with the global sustainability trend.



Chapter 6

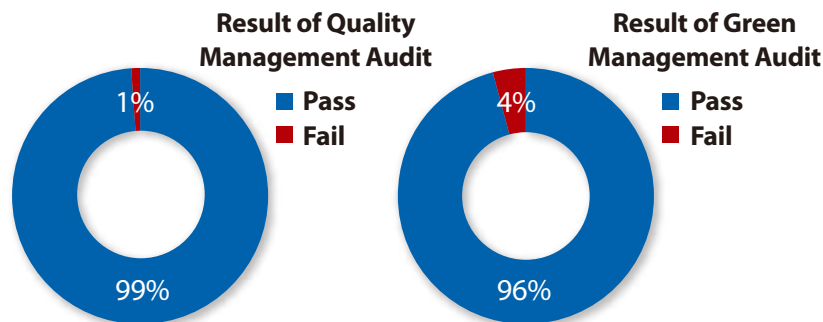
Operating Practices

Results of Supplier Audits and Tracking of Improvement Progress

The Group adopts corrective and preventive measures to manage quality issues. The basic control items under green management are environmental protection and prohibited/restricted substances management. With supplier audits conducted by professional teams, 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.

The results of supplier audits are categorized into pass, rectification within a time limit, and fail. Suppliers who fail to meet the Group's quality requirements and green management indicators are requested to rectify within given deadlines.

The Group focuses on progressive management of critical areas, according to the significance and transaction volumes of raw material items. 138 quality management audits were conducted in the year 2016, of which 2 supplier factories were unable to pass. 132 green management audits were conducted, with 5 supplier factories unable to pass. The procurement ratio of the suppliers who failed were adjusted through a supplier management mechanism, in order to establish a high quality supply chain management system.





Chapter 6

Operating Practices

Suppliers Development

The Group regards the suppliers as cooperative partners. In 2016, exhibitions of suppliers' materials were held in Mainland China and Vietnam, providing a platform for the exchange and sharing of information on the demand and development trends of products and materials among the customers, suppliers and related research and development personnel. Feature seminars were also organized for the interchange and sharing of new technologies and future trends.

The Group is committed to meet customers' needs, facilitate suppliers' development and fulfill social responsibilities. With a vision of "resources integration and value enhancement", the Group expects to establish a sustainable green supply chain that can satisfy the needs of the customers and ensure its performance of social responsibilities.



Suppliers' Materials Exhibition at Gaobu, Dongguan, China (participated by 42 suppliers)



Suppliers' Materials Exhibition at Binh Chánh, Vietnam (participated by 66 suppliers)

Promoting Carbon Management among Suppliers

In view of the increasing awareness of global climate change, the Group conducted the "2015 Organizational Greenhouse Gases Check" on 392 supplier factories, and organized 8 sessions of seminars on the trend of greenhouse gases and greenhouse inventory check training in Taiwan, Mainland China, Vietnam and Indonesia. A total of 260 supplier factories participated and feedbacks with quantifiable data from 336 supplier factories were received.



Chapter 6

Operating Practices

The Group actively promoted to its suppliers the visions of the 2015 United Nations Climate Change Conference (COP 21) and the provision of services to customers with low carbon emission, with a view to uplifting the knowledge of the suppliers on carbon management and fulfilling social responsibilities in reversing the trend of extreme weather conditions together.

To connect the upstream and downstream suppliers of products and optimize the structure of the green supply chain, the Group progressively promoted a long term carbon reduction campaign to its suppliers. To further implement environmental protection, the most practical action was demonstrated by avoiding the use of materials which would have impact on the environment. Prime Asia Leather Corporation, a subsidiary of the Group, formally signed and joined the Zero Discharge of Hazardous Chemicals program in October 2016, and committed to the vision of zero hazardous chemicals discharge in production.

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 “Code of Conduct” 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.



Chapter 6

Operating Practices

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 2016, 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 complaints and reporting channels according to "Code of Conduct": (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.

In addition, 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.

