



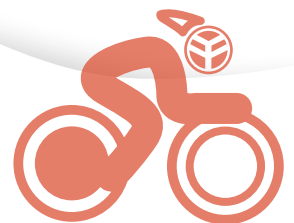
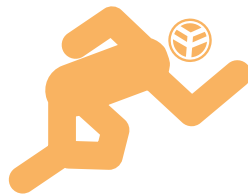
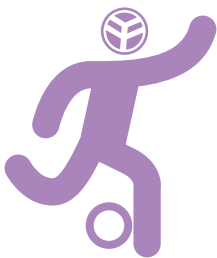
裕元工業(集團)有限公司
Yue Yuen Industrial (Holdings) Limited

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

Stock Code 股份代號 : 551

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT 2018

環境、社會及管治報告





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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 becoming 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 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 codes of conduct of the brand customers for sustainable operation, the compliance with laws and regulations of local regulatory authorities, the management of labor relations, and responses to the audits and inspections of the Group’s factories conducted by non-governmental organizations. The sustainable development team 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 2018 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, 2018 to December 31, 2018.



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 “Listing Rules”). The information disclosed in this Report is derived from the results of internal statistics and analyzes of the Group’s internal management systems. The Company has complied with the “comply or explain” provisions set out in the “Environmental, Social and Governance Reporting Guide” under Appendix 27 of the Listing Rules for the reporting period of this Report as set out below.

Scope of Reporting

The Group is engaged in two main businesses: (1) the footwear manufacturing business for international brand customers, and (2) the operation of an integrated sportswear retail network in the Greater China region as well as event management and sport services. For specific details of the above mentioned businesses, please refer to the Group’s 2018 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 and related businesses as mentioned in the aforesaid item (2). As for the relevant policies and performance of the retail and related businesses as mentioned in the aforesaid item (2), please refer to the Environmental, Social and Governance Report in the 2018 Annual 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, 2018 to December 31, 2018, which period is the same as the financial year as reported in the Group’s 2018 Annual Report.

On behalf of the Board

Tsai Pei Chun, Patty

Managing Director

Hong Kong, March 22, 2019



Chapter 2

Stakeholder Engagement

Identification of Stakeholders

Based on (1) the feedback from customers as received by the relevant business executives, and (2) the records of enquires and interactive communications between external organizations and internal staff, and according to such interaction frequency, the Group consolidated 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 seeks for stakeholders' opinions and suggestions through scheduled and ad hoc meetings with stakeholders and transparent and good interactive communications between relevant business contact windows. Internal meetings of the Group 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. The administrative centers of the Group's major production bases have also established dedicated sustainable development units to coordinate and process the communications with, and information and feedbacks from, stakeholders in relation to the issues on environmental protection, human rights and social impacts.

Through various communication channels as set out in the table below, the concerned issues 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 2018 included business cooperation proposals, shareholders/investors services, media affairs, requests for research and survey, and academic visits, etc. No complaint was received from stakeholders regarding social impacts and related issues.



Chapter 2

Stakeholder Engagement

The Group was dedicated to enhancing communications with shareholders and investors throughout the volatile and challenging year of 2018, and the Company was awarded the “Best Investor Event in Greater China” (Large Cap) by the “IR Magazine” in November 2018. The “IR Magazine” is a publication of IR Media Group, a commercial media company famous for its magazines, websites, activities and research.

Award of “Best Investor Event in Greater China” (Large Cap)



Regarding the issues which are of concerns to stakeholders, relevant internal department heads of the Company 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	Major Issues	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



Chapter 2

Stakeholder Engagement

Stakeholders	Major Issues	Communication Channels and Methods
Shareholders/ Investors	<ul style="list-style-type: none">• Economic performance• Corporate governance• Market image	<ul style="list-style-type: none">• Publish news on the Company/HKEx websites (such as announcements, circulars, quarterly results announcements, interim reports, annual reports, etc.)• Convene shareholders' meetings• Press releases• Roadshows• Factory visits• Analyst briefings
Customers	<ul style="list-style-type: none">• Product quality• Management of prohibited/restricted substances• Environmental, safety and health 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 contact
Employees	<ul style="list-style-type: none">• The Group's business condition (job security)• Salaries and benefits / social insurance and provident funds• Labor relations/labor rights/working hours management• Workplace safety/reasonableness of rules and regulations• Feedback channels for opinions• Living environment• Collective agreements	<ul style="list-style-type: none">• Company internal website/email/communication applications platform• Employee Welfare Committee/Occupational Safety and Health Committee/Labor Union/employee representative meeting/employer-employee meeting/Disciplinary Committee/Harmony Committee/Labor Union management meeting/workers' group meeting• Regular internal staff publications/bulletin board• Employee and manager forums/employee opinion surveys/employee suggestion box• Employee life counseling rooms/staff consultation rooms



Chapter 2

Stakeholder Engagement

Stakeholders	Major Issues	Communication Channels and Methods
Community	<ul style="list-style-type: none">• Environmental issues/compliance with the laws and regulations• Commuting traffic during rush hours• Career opportunities• Community welfare outreach activities	<ul style="list-style-type: none">• Proactive visits• External feedback communication windows• Orangize or sponsor public welfare activities/community visits• Company website
Non-governmental Organizations (such as Fair Labor Association, World Federation of the Sporting Goods Industry)	<ul style="list-style-type: none">• Labor relations/labor rights• Compliance with laws and regulations• Environmental issues	<ul style="list-style-type: none">• Fair Labor Association's affairs (e.g. meeting and training attendance)• Cooperation with non-governmental organizations• Communication documents of relevant topics/press releases• Ad hoc communication meetings/emails and phone contact
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, sustainable development and price• Suppliers selection and management	<ul style="list-style-type: none">• Letters of undertaking/procurement contracts• Business communication/email and phone contacts• Suppliers selection and management mechanism• Regular assessments of suppliers



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. The Group has internally established various employee relations channels in order to stabilize communication between the management and the employees, maintain continuous dialogues with the employees, and develop diversified employee activities according to local characteristics and the employees’ needs. In 2018, the community participation activities continuously focused on three main aspects: education, health and medical care and local public relations.

Since female employees account for majority of our workforce, the employee caring facilities of various production bases 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 actions including 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 care 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 Employees

- **Employee Forums:** In order to facilitate smoother communication between the management and the employees and to actively collect feedbacks from the employees, currently over 90% of the factories hold employee forum at least once a month. By the end of 2018, a total of 756 employee forums and manager forums have been held with a total of 31,413 employees participating.
- **Recognition Ceremony of Outstanding Employees:** Recognition of model employees, employees with outstanding performance in terms of the Group’s core values.
- **Home Visits to Employees:** The Group values the implementation of sustainable services and includes home visit as part of compliance management so as to provide an opportunity for the direct supervisors of the employees and the management of factories to care for the employees’ families and understand their culture and living conditions. In 2018, home visits to 1,265 employees’ households were conducted, including those of outstanding employees, poor employees and injured and sick employees, with a total visiting time of about 10,036 hours.
- **Health Caring Measures:** Health examinations and special health examinations, setting up clinics with ambulances in factory areas, establishing employees’ health management system, promotion of health knowledge, organizing 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.



Chapter 3

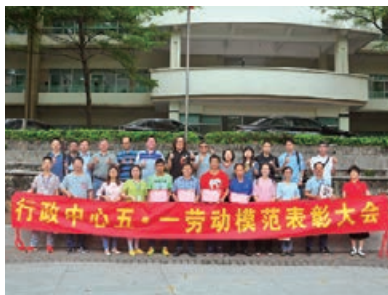
Community Participation

- **Occupational Health Caring Activities for Female Employees:** Gynecological medical examinations and consultation, promotion of maternal knowledge and pregnancy tests, care for pregnant women at work, parenting knowledge consulting, health expos, etc.
- **Diversified Employee Activities:** Providing employee recreation centers and recreational instruments, organizing ball game competitions, social events, second skills learning programs (information technology, make up, cooking, etc.), singing competitions, dance competitions, tug of war competitions, carnival activities, employee travels, hiking activities, employee days, festival activities and gift-giving activities, etc. A total of 205 activities were organized in 2018.

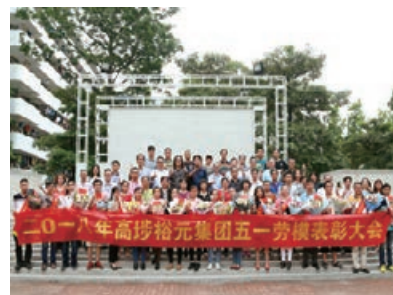
Forum
(China)



Selection of Model Workers in
Administrative Center
(China)



Selection of Model Workers in
Worker's Union
(China)



Home Visit (China)



Home Visit (Myanmar)



Home Visit (Vietnam)



Home Visit (Indonesia)



Running Competition (Vietnam)





Chapter 3

Community Participation

Employee Families Caring Activities

- **Scholarship:** Scholarship for employees' children and infants caring (kindergartens), recognition of employees' outstanding children.
- **Charity House:** The Group has been implementing the Charity House Scheme in Vietnam since 2009. As of December 31, 2018, a total of 218 houses have been donated with a contribution of approximately US\$400,000, which helped poor employees establish comfortable homes so that they can be stable at work and feel at ease.

Scholarship (Vietnam)



Donation of Charity House (Vietnam)





Chapter 3

Community Participation

Participation in Local Community Charitable Activities

- **Health and medical care:** Health and well-being are the foundations of life. The Group provides services such as promotions on health and medical issues and free medical consultations from time to time at its operating bases. It also takes actions to promote the prevention of region-specific or seasonal diseases and assist in the enhancement of health knowledge, including blood donation, free medical consultations and promotion of disease prevention. In 2018, 20 relevant activities were organized with a total of 10,698 participants. Meanwhile, the Group also invested in long-term local medical projects. Since 2017, the Group started a “Corporate and Medical Cooperation” project through a subsidiary in Vietnam. With the investment from the subsidiary and sponsorship from the Australian government, a BlueStar clinic which meets the international standard of Marie Stopes was built to provide high-quality and necessary reproductive health and family planning services as well as education and promotion activities, in order to improve the reproductive health knowledge of female employees and provide necessary reproductive and family planning services.
- **Education:** In order to promote a globally inclusive society and increase the opportunity for impactful conversations, the Group uses education as a platform and focuses on the educational service initiatives in each region. The Group upholds the spirit of service and exerts continuous efforts in different regions based on the education and development needs of each region.
 - Mainland China: Summer camps have been organized for left-behind children in mainland China since 2010. As at the end of 2018, there were a total of 3,893 participants.
 - Vietnam: A long-term “Seeds of Hope Scholarship” plan has been set up since 2012 to support the education of school-age children. As at the end of 2018, there were a total of 7,924 beneficiaries with a contribution of approximately US\$335,239. Regular English camps have been held for employees in Vietnam since 2000. As at the end of 2018, there were approximately 1,000 participants.
 - Indonesia: Approximately US\$14,022 of scholarship has been granted to school-age children in Indonesia since 2016 with a total of 491 beneficiaries. The Group also actively assisted in school construction in 2018, with a total contribution of approximately US\$6,867.

Medical Care Services (Myanmar)



Medical Care Services (Vietnam)



BlueStar Clinic (Vietnam)



BlueStar Activity (Vietnam)





Chapter 3

Community Participation

- **Local Public Relations:** A large number of local staff at each production base were employed. In order to deepen the connection with the local community and enhance interaction and cooperation, we actively communicate with local community-based organizations, building a sustainable harmonious relationship through means such as aiding the construction and strengthening of local community hardware, holding festive activities along with service visits to local organizations. In 2018, a total of 127 relevant activities were held with a total of 36,860 participants.

Summer Camp for Left-behind Children (China)



School Building Donation (Indonesia)



Water Festival (Myanmar)



Service Visits (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 holistic 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 of the Group and recognition to the Group’s core values of “Professionalism, Dedication, Innovation and Service”. The Group provides comprehensive training, competitive compensation and diversified communication channels with an aim to improve the employees’ professionalism and enthusiasm at work, as well as to attract talents. 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 providing the employees with an equal, safe and healthy work environment, complying with the local laws and regulations, as well as fostering labor harmony and building a high quality enterprise.





Chapter 4

Employment and Labor Practices

The Group is generally in compliance with the applicable laws and regulations that have a significant impact on the Company regarding compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, prevention of child labor, prevention of forced labor and other benefits and welfare, including but not limited to:

- Mainland China: the Labor Law of the People's Republic of China (《中華人民共和國勞動法》), the Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》), the Labor Dispute Mediation and Arbitration Law of the People's Republic of China (《中華人民共和國勞動爭議調解仲裁法》), the Employment Promotion Law of the People's Republic of China (《中華人民共和國就業促進法》), the Social Insurance Law of the People's Republic of China (《中華人民共和國社會保險法》) and relevant labor regulations;
- Vietnam: the Labor Law (《勞動法》), the Social Insurance Law (《社會保險法》), the Medical Insurance Law (《醫療保險法》), the Syndical Law (《工團法》), the Employment Law (《就業法》), the Labor Safety and Health Law (《勞動安全衛生法》) and relevant labor regulations;
- Indonesia: the Labor Law (《勞動法》), the Social Insurance Law (《社會保險法》) and relevant labor regulations.

In addition, the Group has not received any complaint or notification from governmental authorities for material contravention of any of the employment and labor practices referred to above.



Chapter 4

Employment and Labor Practices

The Group is also committed to respecting human rights and complying with the human right standards and principles expressed in the “Universal Declaration of Human Rights” and in the International Labour Organization’s “Declaration on Fundamental Principles and Rights at Work”; and has formulated its code of conduct (“Group Code of Conduct”) by referring to the codes of conduct adopted by International Labour Organization, Fair Labor Association, and various brand customers. The Company has been a manufacturer member of the World Federation of the Sporting Goods Industry since 2016 and has always been complying with its code of conduct. In addition, Pou Chen Group (comprising Pou Chen Corporation and the Group) has joined Fair Labor Association as a participating supplier since 2011. Starting from 2012, Fair Labor Association visits various factories of the Group and carries out audit every year, and starting from 2016, it launches accreditation procedures for the labor’s environment and safety risk monitoring mechanism and the extent of responsible production implementation. The Group obtained high recognition from Fair Labor Association with regard to the enormous resources it has continuously invested in the implementation of social corporate responsibility and its efforts demonstrated in improving factories, enhancing work environment and work quality. In June 2018, Pou Chen Group (comprising Pou Chen Corporation and the Group) successfully obtained the accreditation from the board of directors of Fair Labor Association, and was the first accredited sports shoes manufacturer of Fair Labor Association.

“Group Code of Conduct”

Group Code of Conduct

Stemming from the commitment to corporate social responsibility, Yue Yuen Industrial (Holdings) Limited (hereinafter referred to as “the Company”) and its subsidiaries (hereinafter referred to as the “Group”) always demonstrate rigorously, openness and transparency in the compliance with the applicable laws and regulations of the countries of operation. If there is discrepancy or conflict between different standards, the higher one is adhered to. The Group (1) is committed to respecting human rights and complying with the human right standards and principles expressed in the Universal Declaration of Human Rights and in the International Labour Organization’s Declaration on Fundamental Principles and Rights at Work; (2) develops its core standards for all employees performing duties by referring to the codes of conduct adopted by International Labour Organization, Fair Labor Association, and various brand customers from time to time; (3) dedicates itself to continuous improvements in work environment and risk control through the detection of potential problems by internal and external audits; and (4) strives to further foster labor harmony and to build a high quality enterprise. The Group shall implement its Code of Conduct as follows:

Employment Relationship

The Group shall adopt and adhere to rules and conditions of employment that respect employees and at a minimum, safeguard their rights under national and international labor and social security laws and regulations.

Nondiscrimination

No person shall be subject to any discrimination in employment, including hiring, compensation, benefits, advancement, discipline, termination, retirement, etc., on the basis of gender, race, religion, age, disability, sexual orientation, nationality, political opinion, social status or ethnic origin.

Harassment or Abuse

Every employee shall be treated with respect. No employee shall be subject to physical, sexual, psychological or verbal harassment or abuse.

Forced Labor

There shall be no use of forced labor, including prison labor, indentured labor, bonded labor or other forms of forced labor. The employment of any labor involved in any form of human trafficking, whether by way of force, fraud, coercion or any form of involuntary servitude or slavery, shall be prohibited.

Child Labor

No person shall be employed under the age of 15 or under the age for completion of compulsory education, whichever is higher.

Freedom of Association and Collective Bargaining

The Group shall recognize and respect the right of employees to freedom of association and collective bargaining.

Health, Safety, and Environment

The Group shall provide a safe and healthy workplace setting to prevent accidents and injury jeopardizing health when employees engage in work-related tasks or the operation of the Group’s facilities. The Group shall adopt responsible measures to mitigate negative impacts that the workplace has on the environment.

Hours of Work

The Group shall not require employees to work more than the regular and overtime hours allowed by the law of the country where the employees are employed. Under normal circumstances, the regular work week shall not exceed 48 hours. The Group shall allow employees at least 24 consecutive hours of rest in every seven-day period. All overtime work shall be consensual. The Group shall not request overtime on a regular basis and shall compensate all overtime work at a premium rate as required by local laws or as agreed in the employment contract (whichever is higher). Other than in exceptional circumstances, the sum of regular and overtime hours in a week shall not exceed 60 hours.

Compensation

Every employee has a right to compensation for regular work that is sufficient to meet the employees’ basic needs and provide some discretionary income. The Group shall pay at least the minimum wage or the appropriate prevailing wage or the wage as agreed in the employment contract, whichever is the highest, comply with all legal requirements on wages as provided by local laws, and provide any fringe benefits required by laws or the employment contract. Where compensation does not meet employees’ basic needs and provide some discretionary income, the Group shall take appropriate actions that seek to progressively realize a level of compensation that does.

Community Outreach and Partnership

The Group dedicates itself to active participation in community charity activities, enhancement of the community development, and creation of a harmonious society.

Review and Amendment

This Code of Conduct shall be subject to review and amendment by the Company from time to time.



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 lawful employment 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

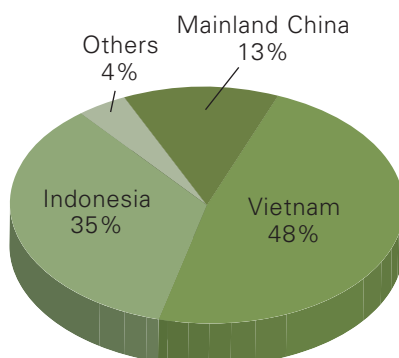
The Group has a number of operating bases across the globe, which include Mainland China, Indonesia, Vietnam, Hong Kong, Macau, the United States, Mexico, Bangladesh, Cambodia, Myanmar and Taiwan, etc. As at December 31, 2018, the Group's formal staff in footwear manufacturing totaled approximately 316,000. The distribution of manpower according to the major operating bases was as follows: approximately 48% in Vietnam, approximately 13% in Mainland China, approximately 35% in Indonesia, and approximately 4% in other regions.

Professionals in different fields are our greatest assets. Categorized by job function, employees in manufacturing accounted for approximately 83% of the total number of employees; engineering and technical accounted for approximately 7%; administration and management accounted for approximately 9%; and others accounted for approximately 1%. Categorized by employees' gender, female employees accounted for approximately 78% and male employees accounted for approximately 22%. Categorized by employees' age, aged 29 and below accounted for approximately 40%, aged 30 to 49 accounted for approximately 58% and aged 50 and above accounted for approximately 2%.

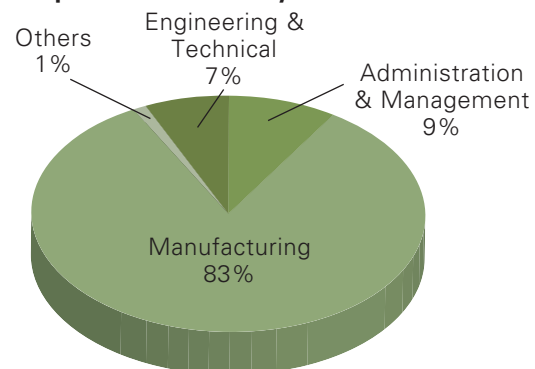
In addition to the formal staff mentioned above, a small number of dispatched workers are employed in Mainland China.

2018 Manpower Structure

Manpower Statistics by Region



Manpower Statistics by Job Function



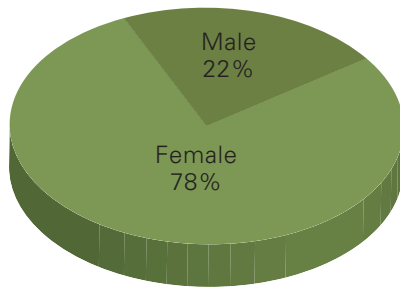


Chapter 4

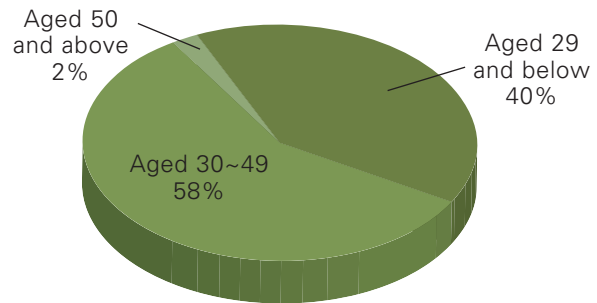
Employment and Labor Practices

2018 Manpower Structure (Continued)

Manpower Statistics by Gender



Manpower Statistics by Age



2018 Employees Turnover

The Group welcomes talents from the same industry to join our team to accumulate professional experiences, and also brings in new talents from different industries to stimulate innovative ideas.

Recruitment Rate (Approximate) – By Gender and Age

Region	Gender		Age		
	Female	Male	29 and below	30~49	50 and above
Mainland China	19%	8%	7%	17%	3%
Vietnam	7%	3%	7%	3%	0%
Indonesia	5%	2%	5%	2%	0%
Other	39%	16%	42%	13%	1%

Note: Recruitment Rate = No. of New Recruits in the Respective Category in the Respective Region/No. of Employees in the Respective Region as at December 31, 2018

Attrition Rate (Approximate) – By Gender and Age

Region	Gender		Age		
	Female	Male	29 and below	30~49	50 and above
Mainland China	8%	5%	4%	8%	1%
Vietnam	7%	2%	5%	4%	0%
Indonesia	3%	0%	2%	1%	0%
Other	8%	4%	9%	3%	0%

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, 2018



Chapter 4

Employment and Labor Practices

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 target covers employees in major operating bases including Mainland China, Hong Kong, Macau, Indonesia, Vietnam, Myanmar and Cambodia. The Group assists its entry level employees to improve their day-to-day work performance primarily through a monthly assessment mechanism. On the other hand, 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. Formal performance interviews

are conducted to help the supervisors and employees understand the organizational goals and personal expectations on developments, so that work directions of the organization and the individuals are clearer and aligned.



In addition, performance management training sessions are arranged for supervisors to enhance the effectiveness of performance interviews between supervisors and employees. The supervisors will join the internal instructor team and convey and share knowledge and practical experiences in relation to performance management in the internal instructor trainings. In the training sessions, a number of experiential learning activities are included. Through observation, analysis as well as sharing of experience, the participating supervisors acquire knowledge and get inspiration.

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.

Performance Management Training Session



Training for Internal Instructors





Chapter 4

Employment and Labor Practices

Group 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 becoming the employer of choice for talents. We actively nurture core talents and adhere to the business philosophy of “continuous innovation”. Through systematic, diversified and comprehensive talent development mechanism, we broaden the talents’ international perspectives, deepen their professional knowledge, instill corporate culture and create competitive advantages, in order to lay a foundation for the Group’s sustainable development. The Group’s training and development policies and objectives are as follows:

- Align corporate mission, vision, business strategies and objectives, formulate talent development strategies, actively nurture leaders and professionals for the Group, and enhance our talent pool.
- Strengthen corporate vision and shape culture and values to create irreplaceable soft skills for the Group.
- Actively establish a talent pool of the Group, identify talents through systematic and professional evaluations, 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, and help the Group and its employees meet their objectives.
- Care about the employee’s self-development, provide diverse learning channels, and encourage self-initiated learning to bring out the employees’ potentials and realize individual achievement.

Group Training and Development Planning

The Group achieves its goals of training and development through systematic frameworks and methods, constantly upgrades the quality of manpower and expertise, motivates employees’ job enthusiasm and encourages them to welcome challenges, thereby creating greater corporate value, achieving operational goals and planning for 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 courses including new employees courses, core courses, professional courses, self-development courses, etc. Through physical 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 platforms for realization of their competencies, allowing them to grow with the Group and become long-term and stable partners of the Group.



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Courses Offered by the Training System

To ensure the training courses meet the Group's strategy requirements, in addition to the report of annual training and development performance in 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 ranks and professional skill certification courses such as laws and regulations. We have also formulated "Training Course Management Policies" to govern the implementation of training courses.

In order to enhance the employees' job skills at different positions and realize their vision of lifelong learning, in accordance with the core values of the Group and the functions of the employees, a series of training programs at different stages have been planned. From an employee's employment to his/her expected retirement, the Group provides continuous training for the skills necessary for his/her duties in order to strengthen the employee's continued employability. It is expected that the arrangement of staff education and training courses can bring the employees to common understanding and recognition to organizational values, in order to optimize operating performance for the Group.

- (1) **General staff:** The Group organizes orientation training and motivation camp courses for new employees for them to understand the Group's profile and its core values, and communicates its core thinking through the design of interactive learning courses, so as to establish a common language for its employees and build consensus among the team. At the same time, the Group also encourages diversified development of its employees by organizing a series of soft skills courses for them to increase the added value of learning outside of work.

Orientation Training



Core Course – Systematic Thinking



Course on Labor Laws



Accountability Training Course





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- (2) **Management stream:** “Management skills training courses for senior, middle management personnel and management associates” is designed according to the core and management function development plan of the Group. In 2018, a “leadership echelon management training” was specially conducted for senior and middle management personnel. In addition to enriching the talent pool of senior and middle management personnel, exploring key potential talents, enhancing their risk management and decision-making capability and strengthening their leadership capability, this training combined with a talent management system and performance appraisal system to examine the progress of talent development and track various management indicators, so as to strengthen the effectiveness and efficiency of talent development and succession plans.

**Management Course –
General Management**



**Management Course –
Advanced Management**



Strategy Consensus



Lecture Tour of the Group



Management Camp





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- (3) **Professional stream:** “Professional skills training” is designed according to the roles and professional requirements. In order to ensure the inheritance and sustainability of the Group’s key professional technologies, a “pattern maker training program” has been organized since 2018, and a series of professional courses and diversified learning channels have been planned. At the same time, the Group aims to improve employees’ learning effectiveness of core technologies through the application and acceptance of professional technologies, so as to ensure the strength of high-quality talents. After the completion of the professional courses, the trainees’ work status would be continuously tracked to evaluate their adaptation status and development potential and further arrange appropriate career development.

Ten Lectures on Human Resources – Challenges of Strategic Partners of Human Resources Operation



Pattern Maker Training Program



An Overview of the Implementation of the Group’s Training and Development

In 2018, the Group held a total of approximately 4,874,000 training hours, with total participation of approximately 2,114,000 trainees, and average training hours of approximately 15 hours per staff.

Total Training Hours (Approximate)	Total Participants (Approximate)	Average Training Hours per Staff (Approximate)
4,874,000	2,114,000	15

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

Region	Job Level	Gender	Participants (Approximate)	Total Training Hours (Approximate)
Group	Entry	Male	383,000	823,000
		Female	1,705,000	3,981,000
	Middle	Male	11,000	34,000
		Female	10,000	27,000
	Senior	Male	2,000	6,000
		Female	2,000	3,000



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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 employee will be determined with reference to his/her 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, demonstration 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 an 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.

We 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 leaves on their needs according to the policy.



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Comprehensive Insurance and Retirement Plans

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

Region	Insurance and Retirement Plans Applicable to Employees in Different Regions	
Mainland China	<ul style="list-style-type: none"> • Unemployment insurance • Industrial injury insurance • Maternity insurance 	<ul style="list-style-type: none"> • Medical insurance • Housing fund • Pension insurance
Indonesia	<ul style="list-style-type: none"> • Insurance for elderly • Retirement insurance • Industrial injury insurance 	<ul style="list-style-type: none"> • Death insurance • Medical insurance
Vietnam	<ul style="list-style-type: none"> • Social insurance • 24-hour accident insurance 	<ul style="list-style-type: none"> • Unemployment insurance • Medical insurance
Cambodia	<ul style="list-style-type: none"> • Industrial injury insurance 	<ul style="list-style-type: none"> • Medical insurance
Bangladesh	<ul style="list-style-type: none"> • Industrial injury insurance 	
Myanmar	<ul style="list-style-type: none"> • Medical insurance • Industrial injury insurance 	<ul style="list-style-type: none"> • Maternity insurance
Taiwan	<ul style="list-style-type: none"> • Labor insurance • Health insurance 	<ul style="list-style-type: none"> • Group insurance • Travel safety insurance
Hong Kong	<ul style="list-style-type: none"> • Medical insurance • Employees' compensation insurance • Personal accident insurance 	<ul style="list-style-type: none"> • Mandatory provident fund • Life insurance • Critical illness insurance
Macau	<ul style="list-style-type: none"> • Medical insurance • Employees' compensation insurance • Personal accident insurance 	<ul style="list-style-type: none"> • Life insurance • Critical illness insurance



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Region	Insurance and Retirement Plans Applicable to Employees in Different Regions	
The United States	<ul style="list-style-type: none">• Health insurance• Workers' compensation insurance• Social security insurance• Federal medicare insurance• Federal unemployment insurance• Disability insurance (including pregnancy) (for certain employees)• Retirement plan (for certain employees)• Accident insurance (for certain employees)• Life insurance (for certain employees)	
Mexico	<ul style="list-style-type: none">• Health services (employees and their direct family members)• Unemployment insurance• Temporary disability insurance• Permanent disability insurance• Retirement pension• Survivor pension• Housing fund	

Diverse Employee Benefits

The Group offers diverse and flexible 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, convenience stores, shuttle bus services; employee reading rooms, free libraries; basketball courts, gyms, swimming pools, tennis courts, and other recreational centers; on-site kindergartens in the Group's production bases and clinics in certain areas.



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4.4 Respect for Labor Rights

The Group is committed to promoting the principle of fairness and human rights policies.

Nondiscrimination and Protection of the Right to Work

The Group protects the employees' right to work. No employee shall be subject to discrimination in employment, including hiring, compensation, benefits, advancement, discipline, termination, retirement, etc., on the basis of gender, race, religion, age, disability, sexual orientation, nationality, political opinion, social status or ethnic origin. 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 a related company of the Group. The conclusion, amendment, cancellation and termination (including employee dismissal) of the relevant employment contract is subject to the relevant local laws and regulations. During the reporting period of this Report, there was no confirmed discrimination cases in relation to equal opportunity, rotation, promotion (advancement), recruitment (hiring), termination, severance, vacation, benefits and training.

Child Labor

No person shall be employed by the Group under the age of 15 or under the age for completion of compulsory education, whichever is higher. 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. Where a mistakenly-employed case is discovered, the child will be suspended from work immediately and sent to the original residing address for the supervision by the parents or guardians, and the Group will be responsible for paying the necessary transportation and accommodation expenses, as well as the wages for the actual work period.

No Practice of Forced Labors

The Group does not allow the use of forced labor, including prison labor, indentured labor, bonded labor or other forms of forced labor, and does not employ any labors who are involved in any form of human trafficking, whether by way of force, fraud, coercion or any form of involuntary labor or slavery. The Group shall not require employees to work more than the regular and overtime hours allowed by the law of the country where the employees are employed. The employees' resting time is well respected and the employees enjoy paid holidays in accordance with the local laws and regulations. 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. The Group shall not request overtime on a regular basis and shall compensate all overtime work at a premium rate as required by local laws or as agreed in the employment contract (whichever is higher). 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.



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Freedom of Association and Collective Bargaining

The Group recognizes and respects employees' right to freedom of association and collective bargaining. We recognize that employees can freely join labor unions according to their wishes, and respect their right to negotiate with the management. The Group's factories in mainland China, Indonesia, Vietnam, Cambodia and Mexico have all set up labor unions of the employees' free will. In addition, factories in Bangladesh and Myanmar have also set up employee representative committees according to local laws and regulations. A communication mechanism between the management and labor unions/employee representative committees is also set up in each factory and discussions with labor unions/employee representative committees are held regularly in each quarter to discuss issues of concern to the employees, jointly resolve problems raised by them, improve communication with them and promote stable labor relations. Collective agreements have also been signed with labor unions/employee representative committees to protect the employees' rights and interests.

4.5 Employer – Employee Communication Mechanism

Strengthening the Employees' Suggestion and Complaint System

The Group encourages communication between the management and the employees. We have established various channels to collect the feedbacks of the employees. By consolidating the inputs from complaint channels of various regions, we periodically analyze, handle and resolve employees' problems. Through annual internal and external employee relationship activities, it is expected that internal cohesiveness and organizational identification can be gradually enhanced to ensure a harmonious employer-employee relationship and to help the Group advance its objective of becoming the best employer.

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 also stipulates that the receiving unit shall timely report the processing results to the complainants and relevant reporting units in any event not exceeding 10 working days. If the case involves a special sensitive issue such as sexual harassment, harassment and abuse, it may be delayed depending on the processing situation, but in any event not exceeding two months. Meanwhile, to ensure the quality of the resolution, the Group utilizes the tracking mechanism provided by the life counseling rooms or staff consultation rooms. In 2018, the issues of concerns to the employees were primarily related to topics of living environment, social insurance and provident funds and internal communication.



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4.6 Workplace Safety

Policy and Commitment

The Group's policy on occupational safety and health management according to the "Group Code of Conduct" is to "provide a safe and healthy workplace setting to prevent accidents and injury jeopardizing health when employees engage in work-related tasks or the operation of the Group's facilities". To fulfill the commitment of providing a safe and healthy working environment to the employees, the Group has gradually established a standardized safety and health management system with the establishment of organizations, horizontal cross-division cooperation and top-down execution. In the event that an employee suffers a major illness, the medical rescue mechanism and emergency rescue measures in the factory will be activated. The Group is generally in compliance with the applicable laws and regulations that have a significant impact on the Company in relation to workplace safety and occupational hazard prevention for employees, including but not limited to:

- Mainland China: the Prevention and Control of Occupational Diseases Law of the People's Republic of China (《中華人民共和國職業病防治法》), the Production Safety Law of the People's Republic of China (《中華人民共和國安全生產法》) and relevant regulations;
- Vietnam: the Labor Safety and Health Law (《勞動安全衛生法》), the Labor Law (《勞動法》);
- Indonesia: the Occupational Safety and Health Law (《職業安全衛生法》), the Labor Law (《勞動法》).

Occupational Safety and Health Management System

With respect to occupational safety and health 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 has also followed international standards of the occupational safety and health management system, OHSAS 18001, and the "FLA Workplace Code of Conduct", and established a series of management directives for all departments to follow, so as to manage and prevent hazards. Each of the factories and the administrative centers of the Group has set up an "Environmental, Energy, and Safety and Health Committee" and holds regular meetings. The members of the committee are appointed or selected from managers and general employees of each department, and are reappointed or re-selected at least once every two years, allowing each department to review relevant management issues related to safety and health in a fixed organizational structure. The Group has formulated safety and health management performance systems and various standards for the factories to implement and track the relevant results. The Group also establishes 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.



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Environmental, Safety and Health Self-management

In respect of factory self-management, the Group has appointed designated personnel with tiered supervision accountability. Personnel designated in all production bases for the responsibilities of environmental, safety and health (“ESH Personnel”) will weekly 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 responsible personnel for immediate handling. The designated ESH Personnel of different business units visit their respective factories from time to time to provide supervision and assistance according to the requests of relevant brand customers. The ESH 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 audit projects so as to efficiently implement corresponding measures and continuously improve various safety and health management issues.

The Group has also been implementing the environmental, safety and health management performance system since 2018 to comprehensively evaluate and master internal environment, safety and health-related risk issues by four major indicators of safety and health, fire safety, environmental management and energy management, and set grading indicators for different departments to evaluate their current environmental, safety and health status. In 2018, the Group completed the evaluation and relevant analysis of 48 factories on schedule and of the required quality. In the future, the Group will continue to conduct annual assessments and set higher standards to continuously improve workplace safety and health management performance, while adjusting targets in response to changes in organization and brand customers. For environmental, safety and health management, a grading system for the ESH Personnel will also be implemented. The Group also aims at gradually improving their knowledge through grade-based trainings and a guidance system.



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Safety and Health Indicators

The Group has established an internal information management system for occupational hazards to track and manage safety and health management performance indicators including the number of occupational injuries, ratio of days lost due to work-related injury, disabling injury frequency rate and disabling injury severity rate and so on. The 2018 statistics for occupational hazards management are as follows (excluding traffic accidents). In addition, the number of work-related fatality (excluding traffic accidents) in 2018 was 1.

Item	Number of occupational injuries			Ratio of days lost due to work-related injury (approximate)		Disabling injury frequency rate			Disabling injury severity rate		
	Total	Male	Female	Male	Female	Total	Male	Female	Total	Male	Female
Region/ Category											
Group	562	209	353	36%	64%	0.86	1.55	0.68	18	32	15
Mainland China	126	63	63	38%	62%	1.18	2.62	0.76	50	85	40
Indonesia	103	31	72	42%	58%	0.58	0.78	0.53	2	4	2
Vietnam	291	95	196	30%	70%	0.85	1.53	0.70	16	26	13
Cambodia	16	2	14	4%	96%	2.40	1.89	2.49	7	2	8
Bangladesh	20	17	3	90%	10%	2.24	2.83	1.03	54	72	16
Myanmar	6	1	5	0%	100%	0.56	0.99	0.51	16	0	17
Note	<ol style="list-style-type: none"> The source of statistical data comes from the Group's internal information management system for occupational hazards. $\text{Disabling Injury Frequency Rate (Total)} = \frac{\text{Disabling frequency number (Region)}}{1,000,000 / \text{Total working hours in the region}}$ $\text{Disabling Injury Frequency Rate (Male)} = \frac{\text{Disabling frequency number (Male)}}{1,000,000 / \text{Total working hours in the region (Male)}}$ $\text{Disabling Injury Frequency Rate (Female)} = \frac{\text{Disabling frequency number (Female)}}{1,000,000 / \text{Total working hours in the region (Female)}}$ $\text{Disabling Injury Severity Rate (Total)} = \frac{\text{Total number of days lost (Region)}}{1,000,000 / \text{Total working hours in the region}}$ $\text{Disabling Injury Severity Rate (Male)} = \frac{\text{Total number of days lost (Male)}}{1,000,000 / \text{Total working hours in the region (Male)}}$ $\text{Disabling Injury Severity Rate (Female)} = \frac{\text{Total number of days lost (Female)}}{1,000,000 / \text{Total working hours in the region (Female)}}$ 										



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Damage Prevention and Control Management

To ensure the safety of the workplace and the protection of the Group's properties, the Group actively strengthens the promotion of the concept and management of damage prevention and control. In view of the serious fire accidents that took place in the factory areas in the past, priorities in promoting measures for damage prevention and control management are given to two major directions of management, including the optimization of fire safety management and fire safety construction of buildings in the factories.

- (1) Fire safety management: The Group adopts multiple paths to actively promote fire safety work. We have invested improvement funds and implemented relevant management mechanism towards various aspects like fire prevention at the sources, containment of disasters, and emergency response and rescue, so as to reduce the risks of fire hazards.
- (2) Improvement of fire-fighting equipment: It is specified that factories should be equipped with fire-fighting equipment and plant safety design. A unified management mechanism has been established for the design, construction, inspection and acceptance, maintenance and repair of fire-fighting equipment.
- (3) Enhancement of fire-fighting team's capability: A total of 15 fire-fighting teams have been formed in major production bases across Vietnam, Indonesia, Mainland China, Myanmar, Cambodia, etc. A unified standard and day-to-day duties and training for fire-fighters have been established. The abilities of the fire-fighting teams are verified on an annual basis.
- (4) Execution of fire safety inspections: Fire safety self-inspections are carried out monthly by the factories. The administrative centers in various regions carry out inspections and audits quarterly. Inspections are carried out specifically on power management, power switches/sockets, motors, high-temperature machineries, fire-using procedures, fire compartment, fire-fighting equipment, dust collectors, etc. Controls and inspections of night time power management are specifically strengthened to avoid potential fire hazards.
- (5) Strengthening of emergency response capability: Standard specifications have been established and the emergency response teams are trained and drilled regularly. Joint fire prevention drills are also organized jointly with external governmental fire-fighting units from time to time to cultivate joint emergency rescue competencies.
- (6) 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. Vendors of poor qualities are eliminated by audit and inspections which are carried out from time to time.



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- (7) Implementation of inspections by infra-red scanning: A system in which electrical equipment are scanned regularly through infra-red thermal imaging devices has been set up. Most of the factories are equipped with infra-red thermal imaging instruments. Appropriate personnel are selected from professional electricians to attend professional training, and regular inspections by infra-red scanning of electric equipment are performed as required. The factories inspect on all electric equipment using infra-red thermal imaging scanning. Detected problems such as equipment overload, abnormal electric components, elevated temperature, short-circuits, unbalanced three-phases, etc. will be directed to the responsible department for discontinue of operation and maintenance of the equipment.
- (8) Specifications for damage prevention and control: To effectively reduce various operational risks in the factories, in future the Group will carry out comprehensive risks assessments on risks other than fire hazards, such as earthquakes, windstorms and floods. Appropriate improvements will be implemented for projects with material potential risks. Standards for damage prevention and control of factories have been established to ensure that there is effective assessment and prevention of various potential operational interruptions.

The Group's Pou Sung factory in Vietnam has a good management mechanism for fire prevention. There has not been any fire accidents for three consecutive years in this factory since 2016. It complies with Vietnam's fire regulations and won the Vietnam Central Fire Best Performance Award in 2018.

Vietnam Central Fire Best Performance Award





Chapter 5

Environmental Protection

The Group's footwear manufacturing business is closely related to environmental protection and the usage of natural resources. The Group is generally in compliance with the applicable laws and regulations that have a significant impact on the Company relating to environmental protection (including air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste, etc.), including but not limited to:

- Mainland China: the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》), the Environmental Protection Tax Law of the People's Republic of China (《中華人民共和國環境保護稅法》), the Law on the Prevention and Control of Atmospheric Pollution of the People's Republic of China (《中華人民共和國大氣污染防治法》), the Law on the Prevention and Control of Water Pollution of the People's Republic of China (《中華人民共和國水污染防治法》), the Law on Appraising of Environment Impacts of the People's Republic of China (《中華人民共和國環境影響評價法》), the Law on the Prevention and Control of Environmental Pollution by Solid Wastes of the People's Republic of China (《中華人民共和國固體廢物污染環境防治法》), the Law on the Prevention and Control of Pollution from Environmental Noise of the People's Republic of China (《中華人民共和國環境噪聲污染防治法》) and other relevant emission standards, implementation plans, management regulations, technical guidelines, etc.;
- Vietnam: the Environmental Protection Law (《環保法》), the Water Resources Law (《水資源法》) and other relevant guidelines;
- Indonesia: the Environmental Protection and Management Law (《環境保護與管理法》) and other relevant action plans, etc.

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, to reduce the use of natural resources and to protect the environment. The actions taken are aligned with international standards, which include conducting greenhouse gas inventory, proper treatment of effluent and air emissions, reduction, classification and recycling of wastes, and consultations on energy conservation and carbon reduction in factories with high energy consumption levels, etc.



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Environmental Protection

Since 2016, the Group's Pou Sung factory in Vietnam has been recognized as one of Vietnam's Top 100 Sustainable Enterprises for three consecutive years. This award is granted after a nationwide selection in Vietnam and the organizer has carefully selected 100 enterprises to present the awards based on 152 selection indicators (including personnel, environment, finance, etc.).



5.1 Effective Use of Resources

Use and Procurement of Raw Materials and Packaging Materials for Footwear Manufacturing

The raw materials used in the footwear manufacturing industry can be largely categorized into upper materials and sole materials. The upper materials primarily include fabrics (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 materials, such as thermoplastic polyurethane (TPU resin), have also been gradually introduced to be used as upper and sole materials. The Group should conform to the relevant international product specifications and the prohibited and restricted substance standards required by brand customers in selection of raw materials, and at the same time actively adopts materials that conform to the requirements of brand customers for environmentally sustainable materials.

For the procurement management of raw materials, the Group not only requires material suppliers to provide relevant material inspection reports and commitment documents for zero use of prohibited and restricted substances, but also conducts sample tests for specific materials to ensure that the quality meets the requirements. 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 carbon emissions in transportation. There are around 1,500 material suppliers with which the Group has entered into procurement transactions for three consecutive years (2016 – 2018).



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Environmental Protection

The main packaging materials used by the Group for manufacturing of footwear products are shoe boxes, including inner and outer boxes. Approximately 320,000,000 shoe boxes were used in 2018. The raw material unit weighing system of the Group's production bases of all regions was officially launched in 2018. However, due to the inadequate data this year, the Group will gradually disclose the total weight of the shoe boxes used for footwear products and the weight of the shoe boxes used in each pair of shoes depending on the adequacy of the data in future years.

Usage of Energy

The Group's key strategies on energy consumption management are as follows:

- (1) Achieve no waste of energy, high operating efficiency, short recovery period, low energy cost and small environmental impact.
- (2) In accordance with the Group's energy policies, formulate the "Guidelines on Energy Management" and set up a dedicated unit for energy management to hold regular meetings for track and review of energy usage, and strengthen the promotion of the concept of energy conservation based on the principles of the reasonable use of energy resources and gradual improvement of energy usage efficiency.
- (3) Gradually phase out fossil fuels which are of high pollutants/high carbon emission, and replace with electrical power or clean fuel.
- (4) Carry out energy usage examination and monitoring, improve the efficiency of energy usage, formulate annual new energy conservation measures, actively implement energy conservation actions, and enhance the efficiency of energy usage.
- (5) Carry out leakage improvement for the pneumatic and steam system to avoid energy wastage.
- (6) Introduce ventilation and cooling building design into the bases in hot Southeast Asia region to reduce energy consumption design-wise and allow the operation staff to work under an environment of comfortable temperature.
- (7) Gradually promote the relevant verification of energy management based on the needs of customers.



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Environmental Protection

The types of energy consumed in the Group's footwear factories in 2018 included: electricity, fossil fuels, biofuels, natural gas and liquefied petroleum gas. The use of biofuels involves mostly the fuel for steam thermal energy supplied by external vendors. The Group has already phased out the purchased steam from coal fuel, and replaced them with electricity or solid biofuels. In order to achieve sustainable development and operation of the Group, the year 2016 is taken as the baseline and the Group's target is to reduce the average energy consumption of shoes in 2020 to 8% of the baseline year 2016. According to the target, a four-year overall energy conservation plan with annual goals and corresponding measures has been formulated. Energy-saving budgets are drawn up year by year and energy conservation organizations and systems have been established in each factory with regular meetings to review and constantly track the results. At the same time, energy platforms have been established to exchange energy conservation related technologies and promote energy conservation and carbon reduction.

The consumption of different types of energy and the average energy consumption per pair of shoes in 2018 are shown in the following table:

Energy Type	Electricity	Fossil Fuels	Biofuels	Natural Gas	Liquefied Petroleum Gas
Consumption	1,033,367.13 MWh	5,980,010 L	88,800 metric tons	3,646,100 M ³	94.13 metric tons
Average Energy Consumption per Pair of Shoes	3.1690 kWh	0.0183 L	0.2722 kg	0.0112 M ³	0.0003 kg

The Group continued to actively promote energy saving and carbon reduction projects. For certain key production bases, energy saving projects for high energy consumption facilities and improvement of energy saving of the production bases were continuously implemented in 2018. The main implementation measures include: energy management was included as one of the audit items in the annual environment, safety and health audit; the establishment of the energy saving and management organization and the implementation of its management system; improvements on injection machines; leakage inspection and operation optimization for air pressure and steam systems; installation of frequency converters for motors and water pumps; rerouting cooling water pipelines and so on. Meanwhile, the procurement specifications for equipment of high-energy consumption have been formulated continuously, and the design specifications for ventilation, cooling and energy saving of new plants have been updated so as to satisfy energy conservation requirements from the time when a new machine is acquired or when a new plant is built. The energy saving efficiency in 2018 was 124,235,588 megajoules. Fan equipment based on physical calculations and design



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was introduced to the ventilation and cooling building design so as to provide employees with favorable working environment with good ventilation and comfortable temperatures. There were 51 cases of ventilation improvements with satisfaction rate of 88%. Group-wide improvement proposal campaigns were carried out. The improvement proposal campaigns included innovative improvement proposals in safety, energy saving, material saving, and manufacturing process, of which 2,126 proposals are those on safety, health and environment-friendly energy.

Water Resources Utilization

Footwear manufacturing process does not involve high water consumption. As such, most of the water resources used in various production bases are for the daily use of employees, and only a small part is used for the soles manufacturing process. In response to the stakeholders' concerns for the safety and sanitation management of drinking water for the employees and the concerns of the international sustainable trend about water resources, the Group's water resource management policy aims at gradually increasing the reuse rate of water resources in the factories and avoiding excessive consumption of natural water resources in the medium and long term, in addition to ensuring that water provided meets 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 production base, large-scale water purification plants and reverse osmosis water purification system equipment have been set up in all production bases. Relevant operation criteria for the treatment of fresh water and effluent as well as requirements for access control management have also been formulated. The laboratory at the administrative center of the industrial park performs sample testing of water quality every month, and releases the results to all production bases. External parties are also engaged in water quality tests on a regular basis as required by laws to ensure the water in all production bases is safe and clean.

Currently the water resources supply at the production bases of the Group comes primarily from local municipal water supply, rivers and lakes. We did not encounter any problem in sourcing suitable water supply. In 2018, the total volume of water used in all production bases was approximately 14,570,000 cubic meters (M³) and the water consumption density was approximately 0.0447 M³ per pair of shoes. The Group's water supply source and water usage are within the local government's permitted range, thus have minimal impact on the water supply.

Sewage Discharge and Recycle of Effluent

The Group has formulated the "Guidelines on Sewage Pollution Control Measures", which focuses firstly on the reducing usage at the source and preventing generation of waste water, and secondly on sewage being recycled and reused, and properly handled in accordance with the regulatory requirements. In addition to compliance with local discharge regulations in practical management, the medium- and long-term management goals aim at improving the reuse rate of water resources and gradually reducing the discharge volumes.



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Most of the sewage of the production bases comes from water used by employees for domestic use, and small amount of sewage comes from the cleaning, painting and spraying operations of the soles manufacturing process. The Group has set up chemical coagulation pre-treatment equipment especially for the collection and treatment of industrial sewage. Industrial sewage with a high pollution concentration is first treated to reach the discharge standard as stipulated before it is channeled to a large scale sewage treatment work of the production bases for secondary biodegradation treatment.

There is a dedicated water quality laboratory in every sewage treatment work 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 of the effluent according to laws. The sewage is properly discharged through legally permitted means. Effluent from stand-alone factories are discharged to the receiving water bodies designated by the local authorities according to laws and regulations, while those from factories located in industrial development parks are discharged to municipal sewage treatment works or the sewage treatment works in the industrial areas according to laws and regulations. There is no direct discharge into nearby water bodies. Some factories are also equipped with detention ponds to receive the treated water from sewage treatment works as a water supply source for subsequent reuse in the factories as well as in the parks where employees can relax after work.

The collection of data on the discharge volumes of treated sewage was gradually incorporated into the environmental protection energy declaration system in 2018 and production bases in all regions gradually began to collect information relating to such volumes of discharged sewage. Measures for enhancement of the reuse of water resources have been continuously developed. It is expected that the discharge volumes of treated sewage and relevant data can be disclosed within two years.

Sewage Treatment Works





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5.2 Greenhouse Gas and Carbon Emission

The Group pays constant attention to the international community's trend of sustainable development, responses to the United Nations 2030 Sustainable Development Agenda – Sustainable Development Goals, which states that measures must be taken to cope with global climate change and its impacts, as well as the expected demand for international green manufacturing. Greenhouse gas inventory and carbon reduction management have become the essential management issues for the Group's production and manufacturing operations. In addition to compliance with relevant laws and regulations at the production bases in various regions, measures have also been established and implemented by the Group to reduce greenhouse gas emission accordingly. In 2018, the Group primarily adopted energy-saving projects initiated by individual factories and gradual replacement of high pollutant/high carbon emission fossil fuel to help achieve energy-saving and carbon emission reduction at the production bases.

The Group conducts greenhouse gas inventory in factory areas in the production bases according to the ISO 14064-1 standard. The scope of inventory is primarily based on category 1 and category 2. For category 3, as the Group has not been able to, and it is technically not feasible to, conduct effective identification and calculation in relation to data collection, identification and ways of quantification, etc., the data collection of category 3 was not provided. The volume of greenhouse gas emission was calculated according to emission factors, and calculated as: activity data x emission factor x global warming potential (GWP) = carbon emission (CO_{2e}), with ton/year as the unit.

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 GWP for different greenhouse gases are all based on IPCC's Fourth Assessment Report (2007).



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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 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.

Carbon Emission of Greenhouse Gas		
Year	Total Carbon Emission of Greenhouse Gas (Approximate)	Range of Average Carbon Emission per Pair of Shoes in Production Bases of Respective Regions ^(Note)
2018	786,000 metric tons	Between 1.09~4.69 kg of CO _{2e} /pair

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

In 2018, the management of greenhouse gas inventory was included into the Group's internal environment, safety and health audit as a scoring item, and the Group will continuously enhance the credibility and completeness of the inventory data of its production bases in 2019.

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 to improve so as to promote 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 performance.
- (5) Strengthen education and training and enhance staff awareness of environmental protection so as to thoroughly carry out environmental protection responsibility.



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In the practical operation management, the Group has established guidelines relating to environmental protection as implementation standards for all production bases. According to ISO 14001 environmental management system and local environmental protection regulations, we have established the self-management system for the factories. The management goal for the medium and long term is to endeavor to accomplish clean production and to reduce the emission amount of environmental pollutants.

Air Pollution Source Management

Currently, the main sources of air pollution produced by production bases 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 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. Prevention and control facilitates have been set up and air pollution emission testing has been carried out to ensure that the emission meets the emission standards stipulated by local laws and regulations to reduce the impact on the environment.

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 protection management by conducting compliance checks and continuous improvement for the environmental impact on the Group’s factories, and conducting improvement for the pollution control constructions for volatile organic gases in accordance with the requirements of environmental impact assessments. For some of the production bases in mainland China, the Group has further enhanced the efficiency for treating organic solvents and volatile gases. As planned, facilities for the prevention and control of pollution will be gradually installed to reach the government’s standards for comprehensive treatment, so as to assume the corporate responsibility of improving air quality in the local areas.

In 2018, the Group continued to act upon the requirements from local competent authorities on environmental protection to enhance the efficiency of pollution treatment and reduce the volume of emission. The Group progressively performed equipment evaluation and introduction for the collection and treatment of fugitive emissions projects at the production bases of various regions, and since the evaluation of the projects for collection and treatment were still in progress, the Group was not yet able to conduct a clear statistical computation for the volume of pollutants in air emissions in 2018. With continuous effort for improvements, it is expected that we will be able to collect the information for such pollutant volume in air emissions in future years, so that the pollutant volume in air emissions and relevant data can be gradually disclosed.



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Waste Management

Waste management strategy of the Group's production bases focuses on the legal clearance, removal and disposal, and reduction and reuse of wastes. The clearance, removal and disposal of all the wastes must be carried out by government-certified service providers according to local laws and regulations. Recyclable wastes are collected according to classifications specified by brand customers. The developments of production bases 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 in the manufacturing process.

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 (reusable wastes). A local qualified disposal service provider is engaged for household wastes and industrial wastes disposal. Hazardous wastes and reusable wastes are centralized in the recycling material control center within the factory area, where classification, measurement and reporting are performed. As for the hazardous wastes, the Group follows local laws and regulations of the operation 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. Vendors are identified to help with the handling of reusable wastes for recycling or reuse as appropriate.

Waste Storage Areas





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In view of the fact that input errors or omissions are likely to occur during the process of data entry for weight compilation at the time of waste storage, in order to effectively improve the accuracy of the data, certain factories of the Group have introduced and promoted an electronic waste management system in which electronic scales are connected to the system's database directly. Weighing of wastes can be directly carried out and barcode labels with relevant information can be generated directly when the wastes are transported out of the operation workshops, which are then affixed to the waste packaging bags. From the production bases to the storage center and the final clearance, removal and disposal of the wastes, barcode scanning is used to control the management of wastes at all stages to avoid manual input errors and to enhance the connection between the waste data and the production bases, and to effectively manage and track the types and information of the generated wastes. The electronic management system will also be gradually extended to the online production information board in the future to display the real-time status of waste generation in the factories. As a data management tool for waste reduction, such electronic management system will also facilitate waste reduction and recycling assessments and studies for different types of shoes through the use of the data for different types of wastes. At the same time, the following effective waste reduction measures have also been implemented in the factories to reduce the impact of wastes on the environment:

- (1) Improving foaming moulds, strengthening the maintenance and repairing of existing moulds so as to reduce EVA scrap;
- (2) Adjusting the layouts of insoles, improving the width and quality of adhesive materials so as to reduce insole scraps;
- (3) Improving the efficiency of key cutting so as to reduce cloth scrap;
- (4) Recycling and reusing grinded rubber waste, resulting in approximately 26,000 kg being recycled in a year.

Despite the above, given the Group's current setting of the information collection system, we are not able to disclose the amount of non-hazardous wastes and hazardous wastes produced by the entire Group during the reporting period of this Report and the relevant data, nor calculate the actual amount of wastes reduced due to the various waste reduction measures taken by the Group during the reporting period. The information collection in relation to wastes has been gradually incorporated into the environmental protection energy reporting system in 2018 like the information collection in relation to sewage. The production bases will be able to gradually start collecting information about non-hazardous wastes and hazardous wastes, and the classification and measurement statistics of wastes of the entire Group will be carried out from 2019 so that relevant data such as the discharge and reduction of wastes of the Group can be gradually disclosed.



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5.4 Green Office

The Group continuously 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 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.



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6.1 Customer Service and Product Management

Customer Service

The Group has established long-term cooperation relations with multiple international eminent brands. Providing fast and innovative services to brand customers with professionalism and dedication has always been the core vision of the Group. In recent years, each production base has also been committed to process improvement, flexible manufacturing and local supply in order to shorten delivery time, stay close to the market and provide quick-response services for brand customers with an objective to enhance the competitiveness and long-term value of the Group.

The Group is 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 brand customers' intellectual property rights (such as trade marks) will only be applied to products according to the scopes authorized by the brand customers, and will 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 "Ethical Corporate Management Best Practice Principles", the signing of the "Confidentiality Undertaking" by the employees and regular educational trainings on trade secrets, information security, competition prohibitions and so on. In addition, the Group also requires the suppliers to sign confidentiality agreements or confidentiality terms and the appended product safety undertakings, and strictly abide by the confidentiality provisions and provisions of the undertakings. The Group also conducts educational trainings for suppliers on issues such as trade secret protection and information security. The Group has the right to conduct assessments on the suppliers from time to time and include the assessment results as one of the bases of the Group in evaluating suppliers. In the event of any breach discovered in the protection of trade secrets, privacy or intellectual property rights, the Group will immediately stop the breach, review the mechanism and take improvement measures.

Nowadays, the global market for sports shoes, casual shoes, and outdoor shoes has gradually switched to the model that is characterized by low volume and high product diversity as well as customization. As the product life cycle is shortened, the Group reinvents the production process and establishes a collaborative research and development electronic system to enhance and improve production and management efficiency, strengthen research and development capabilities, proactively innovate design, and run the management team, to participate in front-end development and design, serve its brand customers, and build close relationship with brand customers. In addition, the vertical integration of shoe materials that the Group has implemented previously not only enables the accurate control of material quality and delivery schedules, but also enhances the Group's competitiveness by providing innovative materials (through a material selection mechanism) for the selection by the brand customers.



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The Group continually improves its service quality and responds immediately to brand 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 providing 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 follows international legal requirements and complies with the brand customers' lists of prohibited and restricted substances and the ZDHC Foundation's standards in the selection of raw materials, which can only be put into production after the formulation of standardized production process and the passing of strict physical and chemical testing standards, so as to monitor the production from-start-to-finish to ensure products are consistent with the principles of eco-friendliness and human health.

Product Quality and Safety Management

All footwear products on the production lines at the stage of design development, including material selection, manufacturing process execution, use of adhesive and packaging materials, etc, will only be scheduled for formal production on the production lines after they have undergone health and safety hazard assessment and confirmation.

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 employment of seals to record shipments so as to prevent any placing of dangerous items into the packages during delivery.

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



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Product Service

As the products manufactured and supplied by the Group are not directly sold to consumers, the Group has no direct access to consumer information. As such, in respect of product recycling, 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 includes product size, material, ingredients, instructions, etc. As such, not only can the consumers 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 is conducted by brand customers according to their operating strategies and applicable laws.

Lean Production and Manufacturing Excellence

The Group continues to carry out streamlining of operation process and apply various kinds of electronic systems and management tools, in order to enhance the production optimization capabilities of the production bases in various regions. The Group has also improved its product development capability, and strengthened its factory automation and production efficiency, through research and development of customized digital tools, process improvements, integration of hardware and software systems and the establishment of a shoe manufacturing knowledge database. At the same time, we have continued to introduce new production models and new manufacturing technologies, improve the automated production process and extend further in the application of industry 4.0. Through the integration of the Internet of Things, all production facilities of production bases in various regions are incorporated into the Internet of Things early warning system for maintenance, to ensure the facilities can deliver the highest production capacity with consistent product qualities. The objective is to achieve continuous operation of the production line and full digitalization, with the ultimate goal being the establishment of intelligent production plants with smart, flexible production, distributed manufacturing and quick response, and the production of products which are in line with not only the manufacturer's philosophy but also the consumers' needs.

Product Responsibility

The Group is generally in compliance with relevant laws and regulations that have a significant impact on the Company relating to health and safety, labelling and privacy matters of the products and services, including but not limited to:



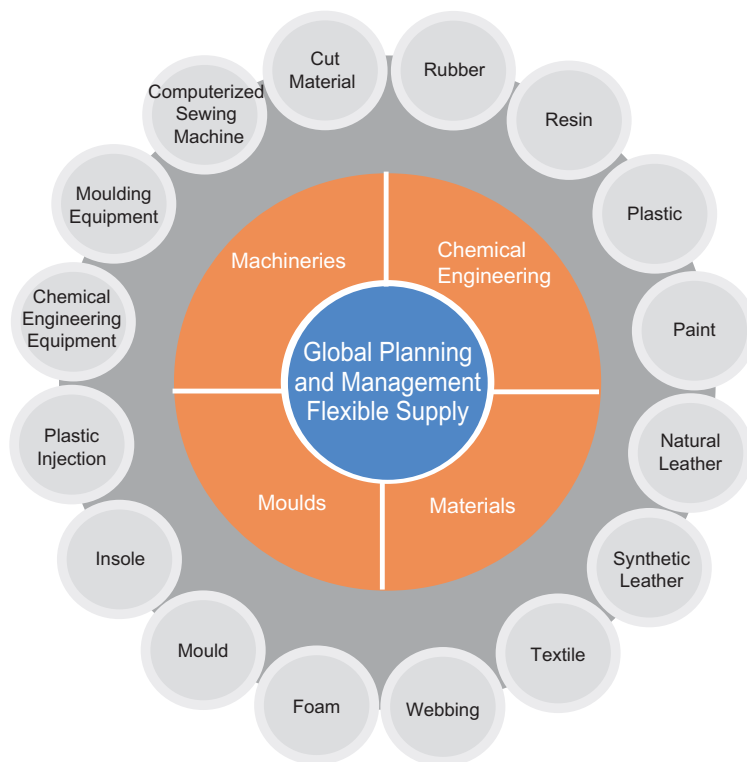
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- Mainland China: the Constitution of the People's Republic of China (《中華人民共和國憲法》), the Tort Law of the People's Republic of China (《中華人民共和國侵權責任法》), the Public Security Administration Punishments Law of the People's Republic of China (《中華人民共和國治安管理處罰法》), the Criminal Law of the People's Republic of China (《中華人民共和國刑法》), the Product Quality Law of the People's Republic of China (《中華人民共和國產品質量法》), the Law on the Safety of Special Equipment of the People's Republic of China (《中華人民共和國特種設備安全法》) and other laws and regulations and standards relating to product safety and quality;
- Vietnam: the Intellectual Property Law (《智慧財產權法》), the Cyber Information Security Law (《網絡信息安全法》).

6.2 Supply Chain Management

The suppliers of the Group largely comprise four categories: raw material suppliers, mechanical equipment suppliers, engineering contractors and service contractors. Through integration of industry resources and cooperation in know-how and technology, the Group connects the upper, middle and lower streams of the footwear manufacturing industry, covering relevant areas in machineries, chemical engineering, materials as well as in moulds to form a complete supply chain system of the Group.





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Suppliers Management

To assist brand customers in developing unique and innovative products of high quality, and to perform the Group's responsibilities as citizens of the planet earth, the Group focuses primarily on aspects of quality and sustainable development management with respect to raw material and mechanical equipment suppliers. The Group sets various quality and sustainable development indicators, regularly evaluates suppliers and implements management mechanisms. Except for suppliers appointed by brand customers or those supplying specific items (such suppliers must follow the international social and environmental practices and standards stipulated by brand customers, including those on labor issues), the proportion of new suppliers of raw materials and mechanical equipment selected by the Group by applying the environmental standards is 100%. New suppliers must fill in a self-assessment form which covers assessment items including environmental management, fire safety, safety and health, code of conduct of the company, etc. In addition, the Group also regularly conducts random site visits to new suppliers every year. After collecting the self-assessment forms and conducting sample site visits, the Group will decide whether to include them as the Group's suppliers. Professional teams will subsequently carry out quality assessments and evaluation of sustainable development indicators to ensure that the relevant suppliers have systematic quality control capabilities, and that a supplier sustainable development management system will be established. In addition, the Group conducts regular reviews half-yearly or quarterly with the relevant suppliers according to the characteristics of different supplied items, so as to ensure the continued maintenance of quality standards and compliance with legal requirements of the production and supply of daily raw materials and mechanical equipment, which are critical to quality assurance for the brand customers and prompt adaptation to the trend of sustainable development.

In 2018, the Group regularly promoted the "Group Code of Conduct" to the suppliers, including but not limited to lawful employment of workers, prohibition of child labor and forced labor and prohibition of violence, harassments and abuses, etc., with an aim to comply with the labor issues of concern to the international community together.

In 2018, for the suppliers with relatively high deficiencies, consultations and improvement measures were provided by the Group as appropriate for individual cases. In some cases, situations were reported to the brand customers with joint effort to track the improvement progress. The objective is to promote among the suppliers to continue the improvement of the production cycle, to fulfill corporate social responsibilities and to put the concept of sustainable development into practice.



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Suppliers Quality Management Highlights in 2018

- (1) Within the Group's supplier quality assessment system, there are 11 scoring categories for quality management, including incoming quality control supplier management, manufacturing process control, quality system, finished product and shipment inspection, laboratory management, non-conformity product control, education and training, storage and delivery, customer service, document and record control as well as environment and labeling.
- (2) 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, supply capabilities, service qualities and delivery capabilities, etc. were comprehended by using an inquiry form.
- (3) To effectively manage suppliers and ensure that procurement quality can meet the requirements of the Group and the brand customers, the Group requires suppliers to adopt improvement measures after supplier assessments based on the principles of "Plan, Do, Check, Action" (PDCA). 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 production bases in various regions are in line with requirements of the brand customers.

Major Focus Areas for Supplier Quality Management Assessment





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Suppliers Sustainable Development Management Highlights in 2018

- (1) The Group established 12 categories of assessment items for sustainable development management according to the bases of ISO 14001:2015 environmental management system, which can be summarized into three aspects of environmental management, fire safety and safety and health.
- (2) A stable supply chain is the key to the maintenance of the Group's sustainable production. The Group continuously enhanced the suppliers' self-management capabilities through evaluation and improvement tracking mechanism. The Group also continued to implement sustainable development management of supply chain, and encourage suppliers with excellent performance in sustainable development to abide by the "Group Code of Conduct" together.
- (3) As the scales, management capabilities and degrees of cooperation vary between suppliers, the Group will request suppliers who were unable to meet the Group's sustainable development management indicators to improve within prescribed time and supervise them on projects on improvement activities on issues such as environmental protection to ensure that the suppliers have effective measures against environmental pollution prevention and treatment. If the suppliers were still unable to meet the Group's requirements after the expiry of the prescribed time, they would be replaced 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 such as environmental protection management, and consistent with the global sustainability trend.
- (4) According to the significance and transaction volumes of raw materials items and mechanical equipment, the Group has progressively implemented control mechanism on critical areas.

Major Focus Areas for Supplier Sustainable Development Management Assessment

12 Categories of Assessment Items



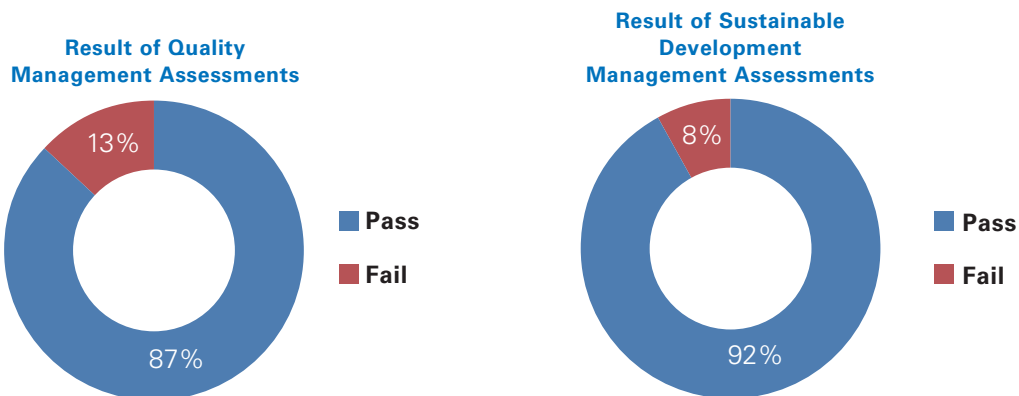


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Results of Supplier Assessments of 2018

Quality management assessments on 39 supplier factories of raw materials and mechanical equipment were conducted in the year 2018, of which 5 supplier factories were unable to pass. Sustainable development management assessments on 91 supplier factories of raw materials and mechanical equipment were conducted, with 7 supplier factories unable to pass. The procurement ratio of the suppliers who failed to meet requirements were adjusted through a supplier management mechanism, in order to establish a high quality supply chain management system.



Suppliers Development

The Group regards the suppliers as cooperative partners. In 2018, exhibitions of suppliers' products (with the participation of about 61 suppliers in total) were held in Vietnam, providing a platform for the exchange and sharing of information on the demand and development trends of products and materials among the suppliers and the Group's research and development personnel. In addition, the Group also made plans of the web platforms during the exhibition periods to help suppliers promote new materials, new technologies and future trends. It is hoped that a sustainable supply chain can be established through innovation collaboration with the suppliers and the vision of "resources integration and value enhancement" can be put into practice, such that the fulfilment of corporate social responsibility can be ensured.

Suppliers' Product Exhibition at Binh Chánh, Vietnam in September 2018





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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. The Group is generally in compliance with the applicable laws and regulations that have a significant impact on the Company relating to the prevention of bribery, extortion, fraud and money laundering, including but not limited to:

- Mainland China: the Anti-unfair Competition Law of the People's Republic of China (《中華人民共和國反不正當競爭法》), the Criminal Law of the People's Republic of China (《中華人民共和國刑法》), the General Provisions of the Civil Law of the People's Republic of China (《中華人民共和國民法總則》), the Anti-money Laundering Law of the People's Republic of China (《中華人民共和國反洗錢法》);
- Vietnam: the Prevention of Corruption Law (《防止貪污法》), the Criminal Law (《刑事法》);
- Indonesia: the Money Laundering Control Law (《洗錢防制法》), the Criminal Law (《刑事法》).

In addition, the Group maintains an "Ethical Corporate Management Best Practice Principles", 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 "Work Rules" requires the employees to sign the "Code of Ethics and Integrity Pledge" and the "Confidentiality Undertaking" and to strictly adhere to the applicable laws and regulations relating to the above acts.

In addition to requiring the suppliers to sign confidentiality agreements or relevant documents in respect of the trade secrets of brand customers, the Group also requires them to follow the Group's principles on honest transactions. The suppliers are required to sign the "Undertaking of Ethics and Integrity", 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 Ethics and Integrity" before any procurement can be carried out by the Group.



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Communication and Training

The Group discloses its business integrity policies on internal website or other company documentation. 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.

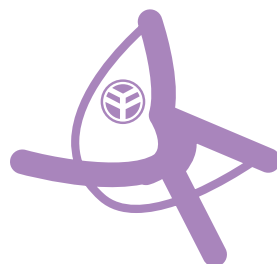
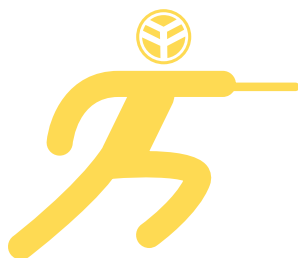
Since January 2017, the legal department of the Group has been holding a series of educational campaigns and training sessions on moral integrity, with the target audience including new recruits for induction courses and the Group's existing employees for retraining courses. It is hoped that the Group's philosophy and standards on ethical operation will be further promoted.

Complaints Reporting Principles and Communication Channels

In response to the employees' opinions and grievances, the Group has established the following complaints and reporting channels according to "Work Rules". If any employee of the Group is suspected of violating the laws or committing dishonest acts, anyone may provide the relevant information through the following channels:

- (1) the direct supervisor of the employee;
- (2) Human Resources Department;
- (3) complaints mailbox; and
- (4) electronic complaint and reporting channels (including e-mails and internal website).

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. In 2018, the Group was not aware of any case of corruption, bribery, extortion, fraud or money laundering brought against the Group or its employees.



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