

環境、社會及管治報告 2021

Environmental, Social and Governance Report

 中國服飾控股有限公司
CHINA OUTFITTERS HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1146)

Environmental, Social and Governance Report

For the year ended 31 December 2021

Introduction

The board (the “Board”) of directors (the “Directors”) of China Outfitters Holdings Limited (the “Company”, together with its subsidiaries, “the Group”) is pleased to present its Environmental, Social and Governance (“ESG”) report. The report discloses the sustainability initiatives by the Group and is prepared in accordance with the Environmental, Social and Governance Reporting Guide set out in Appendix 27 of the Rules of Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Unless otherwise specified, this report covers the Group’s progresses and performances on ESG issues from 1 January 2021 to 31 December 2021 (the “Reporting year”).

Being a responsible corporate citizen is the core fundamental of our corporate culture and therefore, the Group is committed to the operation concept of “maximizing interests of customers, returns of shareholders, values of employees and responsibility of society”.

The Board of Directors provides overall direction on the management of sustainability issues and ESG risks. Reporting and disclosure of ESG initiatives are implemented by a dedicated team, and is responsible for collaborating with other functional areas in the integration and implementation of sustainability initiatives throughout the Company.

Stakeholders Engagement and Materiality Analysis

The Group strives to create positive values to shareholders and believes that the interests of all stakeholders must be taken in account in order to strengthen relationship and contribute the greatest value to the community. In addition, the Group attaches great importance to its social responsibility and sustainability and tries its best to understand the concerns of different stakeholders and meet their expectations and requirements through operations and various communication channels.

Stakeholders	Concerns	Response of the Group
Government	<ul style="list-style-type: none">• Operation in compliance• Economic growth	<p>China Outfitters adheres to the business philosophy of honesty and integrity. It has actively fulfilled the obligations of corporate citizens, and promoted the harmonious development of society, so as to become a model for corporate citizenship.</p> <p>We maintain strict compliance with the laws and regulations, paying taxes honestly, fighting corruption, money laundering and bribery; we give full play to our strengths in resource integration while “enacting measures according to local conditions and applying them on well-chosen targets”. Most importantly, the Group also focused on being a responsible citizen for our world by having the right environmental protection.</p>

Stakeholders	Concerns	Response of the Group
Customers	<ul style="list-style-type: none"> Product quality & safety Experience & customer services Intellectual properties 	<p>China Outfitters insists on thinking from the perspective of customers, creating value for customers, and taking a customer-oriented approach. We strive to build high-quality of products. We have set up multiple customer communication and feedback channels to listen to their opinions and handle inquiries or complaints. We have in place multiple protection measures for the intellectual properties with the protection terms in the agreement.</p>
Investors	<ul style="list-style-type: none"> Investment returns Corporate information transparency Interests protection 	<p>China Outfitters is accountable to all investors and strives to provide them with reasonable, sustained and stable returns on their investments.</p> <p>We are making great efforts to capture the market trends while constantly enhancing our management capabilities, our brand influence and value. We maintain close and transparent communication with our investors and the market through investor meetings, shareholders' meetings and release of annual reports and interim reports. We have in place a rigorous risk management and internal control system in cooperation with the internal audit function, so that the management and audit committee can focus on the adequacy and effectiveness of our risk management and internal control system.</p>
Employees	<ul style="list-style-type: none"> Health & safety Career development Training opportunities 	<p>China Outfitters believes that its employees are the most valuable assets. We fully respect the rights and interests of our employees, and provide them with a platform to exert their talents and achieve their career development, such that our employees can grow together and share the operating results with the Company.</p> <p>We strive to create a competitive work environment, a sound performance appraisal system and a remuneration and welfare system while constantly improving our training and development system, so as to help our employees blend into the long-term development of the Group, spark off their potentials and enhance their satisfaction and sense of belonging.</p>

Stakeholders	Concerns	Response of the Group
Suppliers	<ul style="list-style-type: none"> • Transparency in procurement process • Development opportunities • Commercial integrity 	We have in place a well-maintained supplier management system, which enables a clear division of the supervisory functions and combines supplier assessment and approval, supplier selection and performance evaluation to oversee the supply chain management in all aspects.
Community	<ul style="list-style-type: none"> • Job opportunities • Environment-friendliness & energy saving • Public welfare 	We are committed to the long-term and ambitious development of our business and creating more job opportunities for the community. We will try our best to gradually reduce emission and consumption of energy, reduce greenhouse gas emission and improve energy efficiency while vigorously practicing our corporate social responsibility and promoting the development of philanthropy in the regions where we operate.

Importance of the topics

The Group has conducted an assessment of the importance of the topics in this environmental, social and governance report. The factors for consideration include the strategic objectives and policies of the businesses of the Group, industry standards, legal and regulatory responsibilities, environmental protection, resource utilization, quality control and employee protection, etc. with the aim of helping the Group identify important issues. Through such an assessment and analysis, the Group has identified various major issues and has described the Group's response to such important issues in a more complete and accurate way in this report.

A. ENVIRONMENTAL PROTECTION

The Group is principally engaged in the design, manufacturing, marketing and sale of apparel products and accessories. Its operating activities do not generate any emissions or wastes that would severely pollute the environment. However, the Group undertakes environmental protection as part of its corporate responsibilities, and it is fully aware of the importance of sustainable environmental development in achieving sustainability in its operations.

The Group encourages the conscientious use of resources through a daily process of awareness-raising among employees, along the supply chain, with partners and suppliers to spread the culture of environmental sustainability and to continue to seek out new opportunities to reduce waste.

The Group implements a number of green measures at our headquarters in Shanghai, manufacturing plant in Dezhou, Shandong Province, retail points and warehouses to minimise environmental footprints. To this end, the Group introduced several initiatives to improve energy efficiency, better waste management and enhance indoor environmental quality. The Group also sets emissions and use of resources reduction targets to 5% for the year ending 31 December 2022.

The Group also abides by the Environmental Protection Law of the People's Republic of China (the "PRC"), the Energy Conservation Law of the PRC and other related laws and regulations of Hong Kong and the PRC. During the year ended 31 December 2021 and up to the date of this report, the Board was unaware of any non-compliance with relevant laws and regulations in relation to environment protection that had a significant impact on the business and operations of the Group.

Emissions

KPI A1.1 The type of emissions and respective emissions data

The major source of air pollutant emissions was from vehicles owned by the Group for operating purposes. Running the vehicles generates air pollutants including nitrogen oxides (NOx), sulphur oxides (SOx) and particular matters (PM). The approximate amount of NOx, SOx and PM emissions from our operation in China are shown in the table below:

Types of Air Pollutants	2021 Grams	2020 Grams	Increase/ (decrease) in percentage
NOx emissions	799,472.25	917,652.84	(12.88%)
SOx emissions	1,175.50	1,242.35	(5.38%)
PM emissions	60,566.44	70,463.99	(14.05%)

Note: For the consistency and enhancement of the calculation of energy consumption, the 2020 emission figures were restated.

NOx and PM emissions decrement was attributed to decreased vehicles' traveling kilometres and SOx emission decreased in vehicles' fuel usage as the novel coronavirus ("COVID-19") negative influence on the operation and the rise of fuel price.

KPI A1.2 Greenhouse gas emission

The greenhouse gas (GHG) emissions produced by the Group was mainly due to direct emission (Scope 1) principally resulted from usage of vehicles and fuel, indirect emissions (Scope 2) resulted from purchased electricity used for operation and other indirect emission (Scope 3) resulted from paper usage and electricity used for processing fresh water by government departments. The figures of GHG emissions generated from the Group are shown in the table below:

Types of GHG emissions	2021 Kilograms	2020 Kilograms	Increase/ (decrease) in percentage
Direct emission (Scope 1)	210,996.75	225,841.25	(6.57%)
Indirect emission (Scope 2)	1,026,415.44	957,775.97	7.17%
Other indirect emission (Scope 3)	29,666.36	42,123.45	(29.57%)
Total GHG emissions	1,267,078.55	1,225,740.67	3.37%

GHG emissions Intensity	2021 Kilograms	2020 Kilograms	Increase/ (decrease) in percentage
GHG emissions per unit of production volume	3.45	3.38	2.07%

The decrease of 6.57% in direct emission of GHG was attributed to the slight decrease in fuel usage. The increase of 7.17% in indirect emission of GHG was attributed to the halt of operation for a month back in 2020 due to the COVID-19 pandemic. Still, the Group is committed to protect our living environment and reduce greenhouse gas emission from operations. Although air pollutants and GHG emissions generated by the Group's operating activities are limited, the following initiatives have been taken to minimise emissions from our electricity and fuel consumption:

- In the aspect of delivery manner, most of our products are manufactured in China. We also deliver our finished product to third party retailers directly by our manufacturing plant in Dezhou and maintain a centralised dispatching warehouse in Shanghai for self-operated retail points in order to cut down the delivery distance and optimise efficiency of delivery for reducing unnecessary GHG emissions;
- We seek to purchase and consume clean or renewable energy for electricity used, particularly for the manufacturing plant in Dezhou;

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- We make use of solar energy, which does not generate GHG emissions, as a way to provide major of the heat energy in the boiler for heating water to produce steam in the process of ironing in the manufacturing plant in Dezhou;
- Our part of the heating source come from natural gas instead of other fossil fuel which produces significant amount of GHG emissions; and
- We arrange a professional and qualified third-party organisation to detect the exhaust emissions from the boiler to ensure the result is complied with relevant laws and regulations in relation to environment protection.

The other indirect emission decreased by 29.57% because of decrease in paper consumption followed by the E-commerce delivery and reduction of shops. The Group will continuously adopt the followings in the coming years to ascertain a more efficient paper usage:

- using office automation system and emails for internal communication;
- electronic marketing materials and newsletters are used to minimise massive printing of promotion materials;
- encouraging our staff to view documents on electronic devices instead of printing out hard copies. When printing is unavoidable, staff members are required to reuse paper for internal documentation, print on both sides and few pages per sheet; and
- collecting waste paper to government recognised recyclers for recycling purpose regularly.

KPI A1.3 Hazardous waste

The Group recognised the importance of responsible natural resource use and waste management. We conducted an analysis of the processes carried out and waste produced in each phase of the operating activities. The analysis enabled to optimise the available resources, thereby reducing waste production and increasing waste recycling.

Our hazardous waste mainly included paint buckets, white latexes, filters with waste residue and UV lamps. All hazardous waste was handed over to the institutions which are qualified to handle hazardous waste in accordance with relevant laws and regulations. There was a decrease of 3.13% which was about the same as last year volume.

During the review period, we recorded the following hazardous waste figures:

Type of waste	2021 Kilograms	2020 Kilograms	Increase/ (decrease) in percentage
Hazardous waste	620.00	640.00	(3.13%)

Hazardous waste intensity	2021 Kilograms	2020 Kilograms	Increase/ (decrease) in percentage
Hazardous waste per unit of production volume	0.0017	0.0018	(5.56%)

KPI A1.4 Non-hazardous waste

Our non-hazardous waste from the Shandong factory operation was mainly attributed to boards, clothes, metals, paper boxes and other domestic wastes. Boards, clothes, metals and papers boxes are recyclable waste which we sold to waste recycling companies. Waste separation in the workplace has also been a valid method of transmitting to the employees the opportunity to be more attentive to good practices in daily life. There was a decrease of 2.45% in non-hazardous waste compared to the previous year due to the negative influence of COVID-19 on the business operation.

During the review period, we recorded the following non-hazardous waste figures:

Type of waste	2021 Kilograms	2020 Kilograms	Increase/ (decrease) in percentage
Non-hazardous waste	51,664.00	52,964.00	(2.45%)

Hazardous waste intensity	2021 Kilograms	2020 Kilograms	Increase/ (decrease) in percentage
Non-hazardous waste per unit of production volume	0.14	0.15	(6.67%)

Use of Resources

The Group adheres to the concept of energy conservation and emission reduction for green production. The major resources used by the Group were principally attributed to direct and indirect energy consumption, water and packaging materials consumed at the Shandong Factory. We aim to improve our energy efficiency to achieve low-carbon practices and emission reduction throughout our production and operation, and strive to save the resources. The Group's direct and indirect energy consumption are shown in the following tables:

KPI A2.1 Direct and indirect energy consumption

Types of energy consumption	2021 Kilowatt-hour	2020 Kilowatt-hour	Increase/ (decrease) in percentage
Non-renewable fuels consumed (direct)	2,380,977.63	2,247,568.46	5.94%
Purchases of energy consumed (indirect)	1,682,372.47	1,569,867.19	7.17%
Self-generated energy consumed (direct)	1,210,003.75	1,092,765.04	10.73%
Total Direct and indirect energy consumption	5,273,353.85	4,910,200.69	7.40%

Note: For the consistency and enhancement of the calculation of energy consumption, the 2020 emission figures were restated.

Energy consumption intensity	2021 Kilowatt-hour	2020 Kilowatt-hour	Increase/ (decrease) in percentage
Direct and indirect energy consumption per unit of production volume	14.37	13.55	6.05%

Note: For the consistency and enhancement of the calculation of energy consumption, the 2020 emission figures were restated.

The Non-renewable fuels included petrol, diesel and natural gas. The purchases of energy included electricity and steam. The self-generated energy was steam flow produced by boiler. The slight increase in non-renewable fuel consumption and purchases of energy consumed was due to the halt of operation for a month back in 2020 due to the COVID-19 pandemic. The increase in self-generated energy consumed was mainly the increase in usage of boiler steam in Dezhou.

Energy consumption controls and testing have been used to design a long-term plan to improve energy efficiency both in the industrial and retail environment. The initiatives of the plan include:

- gradual replacement of all air conditioners with latest-generation systems with advanced energy-saving functions;
- gradual replacement of store and office lighting with energy-saving lighting systems such as LED technology etc;

- putting reminder message about the importance of energy and resources savings on or next to office equipment;
- security guards in office, logistic centres and manufacturing plant in Dezhou ensuring air conditioning systems, office equipment and lighting in vacant working areas are switched off after operation hours;
- residual heat energy in boiler chimney at manufacturing plant in Dezhou was recovered and used for the boiler as preheating;
- replacing old vehicles by new fuel vehicles and electric vehicles to escalate energy consumption of the vehicles; and
- adopting energy-saving mode for air source heat pump.

KPI A2.2 Water consumption

Type of resource consumption	2021 m³	2020 m³	Increase/ (decrease) in percentage
Water consumption	16,059.44	16,396.60	(2.06%)

Water consumption intensity	2021 m³	2020 m³	Increase/ (decrease) in percentage
Water consumption per unit of production volume	0.04	0.05	(20.00%)

The operating activities of the Group do not involve high water consumption. Most of the water resources used were for the daily use of employees and only a small part was used for the manufacturing activities in Dezhou. The water consumption stayed about the same as previous year.

The Group is taking the following measures for using water efficiently:

- adopts water saving measures, such as putting up reminder message in the office area and across the plants to remind our staff members to use water resources conscientiously and effectively; and
- establish return conduits to save and recycle the condensate formed when boiler is heated at manufacturing plant in Dezhou, as wash water in factory quarters and water for boiler heating.

Raw materials consumption

The Group keeps close communication with suppliers and complies with the Environmental Protection Law of the People's Republic of China in using all major raw materials. The Group also discusses with the suppliers on the use of environment-friendly materials in our products.

The Group strictly controls the use of raw materials and the amount of fabrics through the use of computerised software to compute and optimise cutting layouts. Automatic fabric-cutting machines have been used in the manufacturing plant in Dezhou to improve the accuracy in cutting fabrics.

KPI A2.5 Packaging material used for finished products

Type of packaging material	2021 Kilograms	2020 Kilograms	Increase/ (decrease) in percentage
Plastic	8,222.00	13,568.00	(39.40%)
Paper	57,369.00	59,121.00	(2.96%)
Total packaging material used	65,591.00	72,689.00	(9.76%)

Packaging material intensity	2021 Kilograms	2020 Kilograms	Increase/ (decrease) in percentage
Packaging material per unit of production volume	0.18	0.20	(10.00%)

With regard to the product package, our packaging materials were mainly plastics and papers. The total packaging material usage decreased this year, especially in plastic, because the number of retail outlets and production volume dropped simultaneously. The Group never excessively packs our products. Most of the shopping bags are made from environment-friendly paper bags. Periodic review has been made on level of inventories kept by the Group and the Group evaluates the usage of material regularly to avoid over-stocking.

The Group recognizes the importance of environmental protection and is committed to environmental-friendly development as a part of social responsibility. The Group achieves this through utilization resources efficiently and effectively in its operations to reduce impacts on environment and compliance with the relevant environmental laws, standards, policies and practices of environmental protection, seeking to contribute to the improvement of ecological environment and sustainable development. The Group continues to improve the environmental performance as an integral and fundamental part of the business strategy and operating methods.

Climate Change

The Group is aware of the impact of climate change on the operation, for example, extreme weather events, global warming by increasing GHG emissions globally, etc. The impact is prioritized by a risk-based approach that the Group aims to implement the mitigation control to the larger impact imposed on the business. The Group promotes the culture of climate change awareness to all the staff so as to enhance the identification chance of impact on the frontline operation. The timely report of such impact is crucial, so that the management can act promptly on the issue.

The Group implements a number of green measures at our headquarters, manufacturing plant, retail points and warehouses to minimise environmental footprints. To this end, the Group introduced several initiatives to improve energy efficiency, better waste management and enhance indoor environmental quality.

Considering the challenging climate change issue to society and the business, the Group will maintain a high alertness, closely monitor the potential impact of climate change and modify the control measures to cope with the latest climate change issue.

B. SOCIAL

Employment and Labour Practices

The Group believes that outstanding talents are the cornerstone for facilitation of the healthy and steady development of an enterprise. Therefore, the Group values its staff members as an important asset and puts strong emphasis on recruitment, reserve, training and development of talents and commits to achieving a win-win situation for both the Company and employees through effective communication, trainings and safety education.

KPI B1.1 Total workforce by gender, employment type, age group and geographical region

Categories		2021 Number of employees
Gender	Male	112
	Female	262
Employment type	Full time	374
	Part time	–
Age group	Below 30	45
	Between 31 and 40	154
	Between 41 and 50	147
	Above 51	28
Geographical region	Hong Kong	4
	Mainland China	370

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The Group recruits qualified talents through campus and social recruitment as well as internal referral, regardless of nationality, gender, age or religion, and strictly prohibits discrimination of any kind. As at 31 December 2021, the Group had approximately 374 full-time employees (2020: 530 full-time employees) in Mainland China and Hong Kong, and they were stationed at our retail points, offices, warehouses and manufacturing plant in Dezhou. The number of full-time employees decreased because of the decrease of retail points and business operation during the reporting year.

KPI B1.2 Employee turnover rate

Categories		2021 Employee turnover rate
Gender	Male	13%
	Female	87%
Age group	Below 30	18%
	Between 31 and 40	51%
	Between 41 and 50	28%
	Above 51	3%
Geographical region	Hong Kong	–
	Mainland China	100%

The Group's staff handbook sets out the Group's working hours, rest breaks, holidays, leave entitlements as well as termination of employment and compensation matters.

The Group provides competitive remuneration packages to employees to ensure that the Group can attract and retain the best talents. The remuneration package is determined based on salary level of labour market in related fields and professions, responsibility and complexity of the job, and appraisal result of the employee. The Group also commits to contribute social securities, such as medical insurance, pension etc., for its employees based on the requirements of local regulations. In addition, the employees are entitled to annual leaves, maternity leaves and marriage leaves as well as other occasion leaves according to the Labour Law of the PRC.

The Group strictly adheres to all applicable labour laws and regulations in the PRC and Hong Kong. No violation was recorded for the year end 31 December 2021.

Health and Safety

The Group is committed to maintaining a good occupational safe and healthy environment. The Group provides training on safety education for our employees.

In order to minimise workplace incidents and arouse employees' awareness of safety precaution, the Group provides regular educational courses and training programs on occupational safety with its employees, particularly those involved in store decoration and warehousing.

During the year ended 31 December 2021, no serious injury of employee was recorded.

KPI B2.1 Number and rate of work-related fatalities

Categories		Number of employees
Work-related fatalities	Year 2021	–
	Year 2020	–
	Year 2019	–

KPI B2.2 Lost day due to work injury

	2021 Number of employees
Lost days due to work injury	–

Development and Training

As the Group values its employees as an important asset, the Group believes that learning and self-enrichment are the principal methods for employees' career advancement and professionalism development.

The Group provides training courses to employees including knowledge about the Group's corporate culture, business ethics, production and logistics planning, customer service etc. In addition to internal orientation, the Group also encourages employees to take part in training courses and workshops that are relevant to their roles at external organisations in order to strengthen their job skills and knowledge.

Directors attended their requested continuous professional training courses organised by various professional institutes.

During the review period, we recorded the following training figures:

KPI B3.1 Employee trained by gender and employee category

Categories		2021 Percentage
Gender category	Male	16%
	Female	84%
Employment category	Senior management	3%
	Middle management	16%
	General employees	81%

KPI B3.2 Average training hours completed per employee

Categories		2021 Hours
Gender category	Male	15.36
	Female	38.20
Employment category	Senior management	21.71
	Middle management	24.00
	General employees	33.98

Labour Standards

The management sets a strict tone on anti-child and forced labour and allows zero tolerance for such matter.

No child nor forced labour has been employed by the Group for the year ended 31 December 2021.

Supply Chain Management

As at 31 December 2021, the Group had 89 outsourcing suppliers and raw material suppliers.

The Group's suppliers have been carefully selected. The Group prefers those suppliers with ISO14000 standards and will carry out on-site visits before the commencement of the business with suppliers. Evaluation on the performance of suppliers and contractors will be made, at least on an annual basis, through day-to-day communication, business meetings, on-site visits, sampling, product quality inspection etc., in order to ensure that the suppliers and contractors' operations are fully complied with the applicable laws and regulations in relation to social and environmental aspects.

Most of the procurements made by the Group shall undergo a tender and quotation process. The Group implements a just and fair process to ensure adequate competition.

KPI B5.1 Suppliers by geographical region

Geographical regions	2021 Number of suppliers
PRC	89

Product responsibility

The Group takes product safety obligations seriously so as to meet the regulatory standards in relation to health and safety, fair advertising and labelling that are applicable to our products and services.

All fabrics used by the Group are subject to quality inspection conducted by state-approved independent third-party institutions. All finished goods must pass the quality control inspection of the Group before packaging for delivery. These inspection activities help identify in-process improvements and enable us to receive quality products.

During the year ended 31 December 2021, the Board was unaware of any material non-compliance or breach of legislation related to product safety or any recalls of products due to product safety or health issues.

KPI B6.1 Products sold or shipped subject to recalls for safety and health reasons

	2021
Products sold or shipped subject to recalls for safety and health reasons	Percentage
Products subject to recalls	–

KPI B6.2 Products and service related complaints received

	2021
	Number of complaints
Products and service related complaints	–

Intellectual Property Rights

The Group primarily relies on intellectual property laws and contractual arrangements with our employees, business partners and other parties to protect our intellectual property rights. Our employees are required to enter into employment agreements where they are required to keep confidential relating to our intellectual property and trade secrets.

The Group also operates 2 licensed brands. All staff members are well aware of the respect of third parties' intellectual property rights and pay extreme attention to ensure the proper usage of these intellectual properties.

Customer Data Protection

The Group is committed to protecting customers' privacy. All VIP customers' information was kept in a database and only relevant authorised personnel of the Group can access to the database.

During the year ended 31 December 2021, the Board was unaware of any non-compliance with the relevant requirements.

Anti-Corruption policy

KPI B7.1 Concluded legal cases regarding corrupt practices

	2021 Number of cases
Concluded legal cases	–

The Group strictly prohibits any acts of corruption or bribery during its business operation and reminds its employees to avoid any acts which may cause conflicts of interest from time to time. Code of conduct in relation to anti-corruption has been set out in the employees’ handbook and has been signed by employees for acknowledgement when they entered into the labour contract with the Group.

The Group also signs commitment letters with suppliers and service providers that strictly prohibits employees from receiving private benefits including gifts, commissions or any form of remuneration to eradicate corruption or bribery.

During the year ended 31 December 2021, the Board was unaware of any non-compliance with the relevant laws and regulations in relation to bribery, extortion, fraud and money laundering.

Community Investment

As a corporate citizen, the Group has been supporting and engaging in community and charitable activities in order to achieve a harmonious development between enterprise and the community.

During the Reporting Year, the Group did not have an opportunity to participate in any community investment activity due to the impact of the pandemic. But, the Group is aware of the importance of the communities’ interests and will explore opportunity to participate in community investment activities in the next reporting period.