



# 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



# 2017

Environmental, Social and  
Governance Report  
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 code 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 2017 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, 2017 to December 31, 2017.



# 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: (i) the footwear manufacturing business for international brand customers, and (ii) 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 2017 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 (ii). As for the relevant policies and performance of the retail and related businesses as mentioned in the aforesaid item (ii), please refer to the Environmental, Social and Governance Report in the 2017 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, 2017 to December 31, 2017, which period is the same as the financial year as reported in the Group’s 2017 Annual Report.

On behalf of the Board

**Tsai Pei Chun, Patty**

*Managing Director*

Hong Kong, March 23, 2018

## Chapter 2

## Stakeholder Engagement

### Identification of Stakeholders

Based on the experience and frequencies of enquires and interactive communications between relevant business executives and customers, and those between external organizations and internal staff, the Group consolidated 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 issues concerned will be sorted according to their categories and nature before sending to relevant departments to handle and respond. Letters received through relevant communication channels in 2017 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

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"> <li>• Corporate governance</li> <li>• Compliance with laws and regulations</li> </ul>	<ul style="list-style-type: none"> <li>• Cooperate with the government and regulatory authorities on compliance inspections</li> <li>• Due submission</li> <li>• Participate in conferences/seminars</li> </ul>
Shareholders/ Investors	<ul style="list-style-type: none"> <li>• Economic performance</li> <li>• Corporate governance</li> <li>• Market image</li> </ul>	<ul style="list-style-type: none"> <li>• Publish news on the Company/HKEx websites (such as announcements, circulars, quarterly results announcements, interim reports, annual reports, etc.)</li> <li>• Convene shareholders' meetings</li> <li>• Press releases</li> <li>• Roadshows</li> </ul>

## Chapter 2

## Stakeholder Engagement

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

## Chapter 2

## Stakeholder Engagement

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



## Chapter 3

# Community Participation

The Group adheres to the belief of “taking from the society, and giving back to the society”. Apart from maintaining sound business development, the Group also actively demonstrates its corporate core value of Service. In 2017, the community participation activities continuously focused on three main aspects: education, health and medical care and local public relations.

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

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

- **Discussion Forums:** employee forums, manager forums, activities for developing friendship for new employees, consultation in life counseling room, etc. The forums in each factory are held at least once quarterly. By the end of 2017, a total of 636 employee forums and manager forums have been held.
- **Recognition Ceremony of Outstanding Employees:** model employees, employees with outstanding performance in terms of the Group’s core values.
- **Health Caring Measures:** health examinations and special health examinations, setting up clinics with ambulances in factory areas, 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.
- **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.

## Chapter 3

## Community Participation

- **Recreational Activities:** provision of employees 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, employees activities days, etc.
- **Festive Events and Gifts:** monthly birthday parties, Children’s Day, Women’s Day, Ramadan Iftar Events, making of rice dumplings and sachets for Dragon Boat Festival, Mid-autumn Festival Party and Lanterns Design Competition, National Day Celebration, Christmas Party, Year-end Thanksgiving Dinner and Raffles, Spring Festival couplets distribution and Spring Festival celebration, ticketing assistance for public transportation back to home town during holidays, Lantern Festival gathering for lantern riddles and garden party, etc.
- **Provision of Other Welfare and Convenience Facilities:** staff quarters, shuttle buses, bus stops within factory areas, swimming pools, playgrounds, fitness equipment, convenience stores, etc.

### Forums



## Chapter 3

## Community Participation

### Employee Families Caring Visits

- Regular home visits (usually visit more than two employees of each factory in every two months) and donation of daily necessities and financial assistance for dependents of deceased employees. There were a total of 471 home visits to 1,213 employees' households in 2017.
- Scholarship for employees' children and infants caring (kindergartens), recognition of employees' outstanding children.
- Donation of consolation money for poor employees and free houses as gifts for the communities and employees (25 houses donated each year), which helped poor employees establish comfortable homes so that they feel at ease.

#### Home Visits in Vietnam Communities (Employees' Households)



## Chapter 3

## Community Participation

### Participation in Local Community Charitable Activities

- **Environmental Protection Day:** donation of seedlings and tree planting activities, cleaning services for the community and local schools, promotion of environmental protection knowledge, recycle and reuse creativity competition, making environmental protection handcrafts, etc. A total of approximately 465 persons participated.
- **Free Medical Consultation and Blood Donation:** regular voluntary blood donation events, free medical consultations for and donation of supplies to residents in remote rural areas (with the coordination of local medical resources). A total of approximately 544 persons participated in blood donation and 337 persons participated in and benefited from the free medical consultations.
- **Free Houses as Gifts:** for the poor and sick people residing in the area.
- **Students Sponsorship:** “Seeds of Hope” scholarships were provided at various production bases of the Group, helping about 1,049 students from various schools.
- **Community Visits and Care for the Underprivileged:** visits to community nursing homes, caring visits to the handicapped and handicapped children, visits to orphanages, volunteer public service in the community.
- **Employees’ Family Day and Family Camps Activities:** parent-child activity camps for left-behind children, summer camps, parent-child sports day, carnival fun events, lovely baby contests, etc.

#### Household Visits for the Underprivileged in Vietnam Communities



#### Community Visits in Vietnam (Interacting with Children)





# Chapter 3

# Community Participation

## Free Medical Consultation



## Chapter 4

# Employment and Labor Practices

The Group upholds the idea of “Focus on People, for the People”. The Group believes that employees are important assets, and has planned a wholistic approach of recruitment, employment, training and retention of employees. Team events are organized to build the employees’ sense of belonging, as well as to increase the employees’ understanding of the Group and identification 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, as well as to comply with the local laws and regulations, and to enhance constructive labor relations in order to build a high quality enterprise. The Group is generally in compliance with applicable labour laws and regulations that have a significant impact on the Company regarding dismissal, recruitment and promotion, equal opportunity, diversity and anti-discrimination. In addition, it has not received any complaint or notification from governmental authorities for material contravention of any of the employment practices referred to above.



## Chapter 4

# Employment and Labor Practices

### 4.1 Proper Assignment of Roles and Responsibilities

#### Diversified Recruitment Channels

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

#### Bring Together Talents of Diverse Backgrounds

The Group has a number of operations across the globe, which include Mainland China, Indonesia, Vietnam, Hong Kong, Macau, the United States, Mexico, Bangladesh, Cambodia, Myanmar and Taiwan, etc. As at December 31, 2017, the Group's formal staff in footwear manufacturing totaled approximately 330,000. The distribution of manpower according to the major operating bases was as follows: approximately 49% in Vietnam, approximately 14% in Mainland China, approximately 33% 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 79% because of the nature of the industry and the major production bases located in Vietnam and Indonesia. Categorized by employees' age, aged 29 and below accounted for approximately 42%, aged 30 to 49 accounted for approximately 56% and aged 50 and above accounted for approximately 2%.

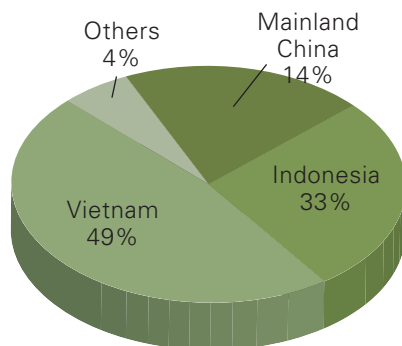
In addition to the formal staff mentioned above, a small number of dispatched workers are employed in Mainland China.

## Chapter 4

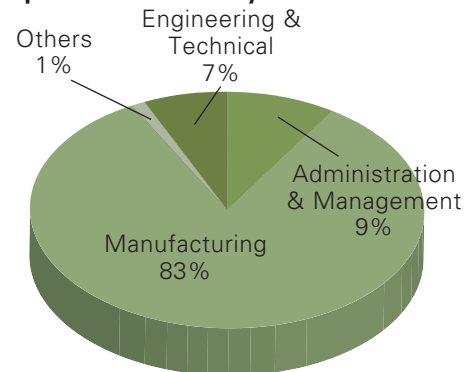
## Employment and Labor Practices

### 2017 Manpower Structure

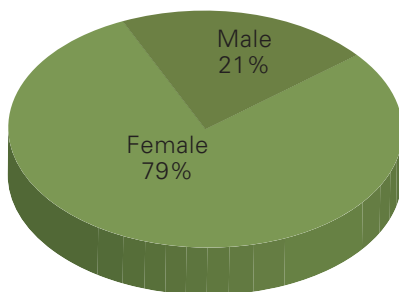
#### Manpower Statistics by Region



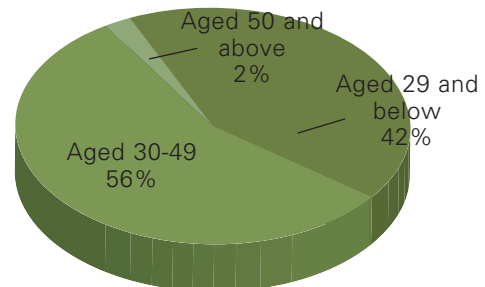
#### Manpower Statistics by Job Function



#### Manpower Statistics by Gender



#### Manpower Statistics by Age



### 2017 Employees Turnover

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

#### Attrition Rate (Approximate) – By Gender and Age

Region	Gender		Age		
	Female	Male	29 and below	30~49	50 and above
Mainland China	15%	8%	7%	12%	3%
Vietnam	10%	3%	7%	5%	0%
Indonesia	5%	0%	4%	1%	0%
Other	25%	5%	23%	7%	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, 2017 + No. of Employee Turnover)



## Chapter 4

# Employment and Labor Practices

### Recruitment Rate (Approximate) – By Gender and Age

Region	Gender		Age		
	Female	Male	29 and below	30~49	50 and above
Mainland China	74%	26%	30%	62%	8%
Vietnam	74%	26%	74%	26%	0%
Indonesia	77%	23%	90%	10%	0%
Other	70%	30%	75%	24%	1%

Note: Recruitment Rate = No. of New Recruits in the Respective Category in the Respective Region/Total No. of New Recruits in the Respective Region

## 4.2 Education, Training and Career Development

### Performance Management System

The Group has implemented performance management system to achieve operational goals and enhance employees' capabilities. The scope covers employees in major operating bases including Mainland China, Hong Kong, Macau, Indonesia, Vietnam, Myanmar and Cambodia. For entry level employees, the improvement of their day-to-day work performance is assisted primarily through a monthly assessment mechanism. Based on individual and organizational goal setting and implementation, the performance assessments of management personnel (mid-level and above) are carried out in mid-year and year-end every year, through formal performance interviews to help the supervisors and employees understand the organizational goals and expectations on personal developments, and to ensure that work directions of the organization and the individuals are clear and aligned.

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 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.

## Chapter 4

# Employment and Labor Practices

### Management Courses - Performance Management Training Sessions



### Training for Internal Instructors



### 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 personnel and adhere to the business philosophy of “continuous innovation”. Through systematic, diversified and comprehensive talents 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:



- Align corporate mission, vision, business strategies and objectives, formulate talents development strategies, actively nurture leaders and professionals for the Group, and enhance our talents pool.
- Strengthen corporate vision, shape cultural and value systems as the Group’s intangible assets.
- Actively establish a talent pool of the Group, 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; help the Group and its employees meet their objectives.
- Care about the employee’s self-development, provide diverse learning channels, encourage proactive learning to bring out the employees’ potentials and realize individual achievement.

## Chapter 4

# Employment and Labor Practices

### Group Training and Development Planning

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

### Implementation of the Group's Training and Development

In 2017, the Group held a total of approximately 11,664,000 training hours, with total participation of approximately 1,467,000 trainees, and average training hours of approximately 35 hours per staff.

Total Training Hours (Approximate)	Total Participants (Approximate)	Average Training Hours per Staff (Approximate)
11,664,000	1,467,000	35

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	307,000	1,948,000
		Female	1,135,000	9,524,000
	Middle	Male	8,000	70,000
		Female	16,000	119,000
	Senior	Male	900	2,000
		Female	500	1,000



## Chapter 4

# Employment and Labor Practices

### Courses Offered by the Training System

To ensure the training courses meet the requirements of corporate strategies, in addition to the 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 levels, quality management system and law-related courses in relation to labor, safety and hygiene licenses. We have also formulated "Training Course Management Policies" to govern the implementation of training courses.

#### (1) Training System Courses

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

**General staff:** Job knowledge and skills training, the Group's core values training, and self-management training.

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

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

#### (2) Personal Development Plan

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



# Chapter 4

# Employment and Labor Practices

## Lecture Tour of the Group



**Senior Management Strategy Session**

**SAP Reform Management Seminar**

**Management Course – General Management**

**Management Course – Advanced Management**



**Core Course – Systematic Thinking**



**Courses on High Performance Organization and Culture**



**Local Language Course**



**Training for Internal Instructors**



## Education and Training on Listing Rules Compliance





## Chapter 4

# Employment and Labor Practices

### 4.3 Comprehensive Remuneration and Benefits System

#### Competitive Remuneration Scheme

The Group recognizes the employees as its greatest assets. In order to attract, motivate and retain talents, we offer attractive and competitive remuneration packages. We uphold the principle of equal pay for the same position regardless of gender, race, religion, political affiliation, sexual orientation or marital status of the employees. The remuneration of an individual will be determined with reference to his educational background, experience, job duties, professional skills and technical capacities, the salary levels in the industry as well as market conditions. The basis of reward and promotion depends on an employee's work attitude, 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 individual employee's performance, the results of which will be used as the basis for salary adjustment and job promotion, thus helping the recruitment and retention of talents.

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

#### Comprehensive Employee Benefits

##### *Balance Between Work and Family Life is Encouraged*

The vacation policy of the Group is established according to the relevant laws and regulations of different operating bases. Employees are allowed to arrange leaves on their needs according to the policy.

## Chapter 4

# Employment and Labor Practices

### *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 the local jurisdictions so as to safeguard employees' retirements.

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

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

### *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, shuttle bus services; free libraries; basketball courts, gyms, tennis courts, and other recreational centers; on-site kindergartens and clinics in the Group's production bases; a wide range of regular activities (singing, sports, movies), etc.



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### 4.4 Respect for Labor Rights

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

#### **Equal Opportunity and Protection of the Right to Work**

The Group protects the employees' right to work. Employees are not discriminated in employment (including recruitments, salaries, promotions, disciplinary actions, dismissals, and retirements) because of their backgrounds in gender, race, religion, age, disability, sexual orientation, nationality, political views, participation in social organization or ethnicity. At the time of appointment for every new recruit, the employee is required to sign an employment contract which clearly defines the employer's and the employee's rights, responsibilities and obligations. All employees have the right to terminate the employment relationship with a related company of the Group. The setting up, amendment, cancellation and termination (including employee dismissal) of the relevant employment contract is strictly 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, recruitment, termination, severance, vacation, benefits and training.

#### **Child Labor**

The Group does not hire child labor aged below the relevant legal threshold of the respective markets. At the time of interview, the Human Resources Department will request the job applicants to produce valid identity document for the verification of actual age of the applicants. Where 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, as well as the wages for the actual work period.

#### **No Practice of Forced Labors**

The working hours of the employees strictly comply with the local laws and regulations and agreements with brand customers. 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. To prevent forced overtime work, any necessary arrangements of overtime must be agreed by the employees voluntarily. Overtime and overtime pays are in line with the local laws and regulations. During the working hours, employees are allowed to move freely within the factory areas except for certain controlled areas. The local religious requirements are well respected with the provision of prayer time. The employees are not required to reside in the factory quarters, nor does the Group require the employees' identity or work documents to be kept by the employer.

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# Employment and Labor Practices

### 4.5 Employer – Employee Communication Mechanism

#### Strengthening the Employees' Suggestion and Complaint System

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

#### Multi-Channel Communication

All employees and managers of the Group are allowed to use various communication channels for horizontal or vertical communication, such as suggestion boxes, emails, discussion forums and bulletin boards. The Group is required to respond to the employees' comments and questions within 10 working days. To ensure the quality of the resolution, the Group utilizes the tracking mechanism provided by the life counseling rooms or staff consultation rooms. In 2017, the issues of concerns to the employees were primarily related to topics of job-problems and internal communication.

Means of Communication	Communication Channels	Means of Response
Face to Face	<ul style="list-style-type: none"><li>• Life counseling rooms/staff consultation rooms</li><li>• Employer-employee meetings</li><li>• Union meetings</li><li>• Employee welfare committees</li><li>• Employee and manager forums</li></ul>	<ul style="list-style-type: none"><li>• Face to Face</li><li>• Written Reply</li><li>• Notice</li></ul>
Traditional Written Form	<ul style="list-style-type: none"><li>• Employee suggestion boxes</li><li>• Employee opinion surveys</li><li>• Bulletin boards</li><li>• Internal staff publications</li></ul>	<ul style="list-style-type: none"><li>• Written Reply</li><li>• Notice</li></ul>
Electronic	<ul style="list-style-type: none"><li>• Emails</li><li>• Company's internal websites</li><li>• Mobile SMS (Indonesia)</li><li>• Communication applications platform</li></ul>	<ul style="list-style-type: none"><li>• Written Reply</li><li>• Notice</li></ul>

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### 4.6 Workplace Safety

#### Safety and Hygiene Management

##### *Occupational Safety and Hygiene Management Policy*

The Group's policy on occupational safety and hygiene management is to "provide a safe and healthy working environment for the employees and avoid occupational hazards". To fulfill the commitment of providing a safe working environment to the employees, the Group has gradually established a standardized safety and hygiene management system with the establishment of organizations, horizontal cross-division cooperation and top-down execution, which is generally in compliance with the applicable local laws and regulations that have a significant impact on the Company in relation to workplace safety.

##### *Safety and Hygiene Management System*

With respect to occupational safety and hygiene management, in addition to compliance with the corresponding local laws and regulations in the region where the relevant factory is located and brand customers' requirements, the Group has also followed international standards of 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 regularly meet with the Group's Environmental Protection, Safety and Hygiene Committee to review relevant management issues related to safety and hygiene. The Group also requires all factories to regularly implement the internal safety and hygiene management inspection policy, and the Group 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.

##### *Standardized Management Measures*

Reducing the occurrence of occupational hazards and occupational diseases, with an aim to maintain a sound and safe working environment together with our staff, is our major concern and direction with respect to occupational safety and hygiene. As such, the Group carries out hardware improvement and software management gradually in accordance with its internal plan. Top-down implementation and enhancement of standardized operation management from the management, as well as the bottom-up promotion of self-improvement from all employees at the basic level, are the major aspects of the Group's occupational safety and hygiene management to continuously improve workplace conditions and reduce the hazards and risks in the working environment.

The Group continues to strengthen various safety and hygiene management issues by phases. In addition to fire safety, chemical safety, special hazards operation control, occupational disaster investigation, machine safety management, contractors' work management, and abnormal incidents management, the following areas were specifically strengthened in 2017:



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- (1) **Advanced Training for Safety and Hygiene Management Personnel:** The Group's factories deploy dedicated safety and hygiene management personnel in accordance with local laws and regulations. Such personnel plays an important facilitating and advancing role in the implementation of factories' internal safety and hygiene management. Hence, following the elementary training organized last year, the Group further arranged advanced trainings in 2017. The expertise and practices of relevant personnel have been further strengthened through regular internal trainings and tests, and the promotion and education with respect to the consistency of management standard throughout the Group has been commenced during the year.
- (2) **Ongoing Strengthening of Abnormal Incidents Management:** Standardization and systematization of investigation management process for occupational incidents ensure that incident reporting, tracking and confirmation are put into effect. This year the review on investigation reports and the identification of incident causes are enhanced, and assistance is provided by safety and hygiene management personnel from various regions to confirm the effect and level of rectifications and to push forward the hardware improvement and software management measures in accordance with the hazard index analysis of respective regions.
- (3) **Proposals for a Better Workplace:** To enhance the awareness of workplace safety and personal safety, the Group's employees at the basic level are encouraged to actively provide creative and practicable advice on the issues identified at the workplace and to strive for improvements and solutions. Accordingly, the Group organizes improvement proposal campaigns in which excellent innovative proposals are appraised in terms of practical assessments and result demonstration assessments, and are given appropriate awards and recognitions. In 2017, the total number of submitted proposals was 717, representing an increase of 56% as compared to that of 2016, showing that the proposal campaigns have received support and participation from the employees. The Group will continue to enhance the employees' awareness of personal safety.

In 2018, the Group's occupational safety and hygiene management will focus on strengthening "machine safety" and "management measures". For "machine safety", the Group will continue to boost the management of procurement source, as well as the monitoring and control of inspection and acceptance mechanism for key machineries and equipment, and will enhance the safety of our existing machines. For "management measures", the Group will promote the trainings and certification system for operation and maintenance personnel for machineries and equipment, carry out health and hygiene inspection campaigns by on-site supervisors, and launch the "accumulation of nil occupational accidents days" campaigns, so as to enhance the safety awareness of all employees through their participation, thus effectively achieve the Group's objective of setting the tone from above for the subordinates to follow.

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### *Safety and Hygiene Indicators*

The management indicators for workplace safety and prevention of occupational injuries to the employees include: the number of occupational injuries, ratio of days lost due to work-related injury, disabling injury frequency rate and disabling injury severity rate. The 2017 statistics for various operating bases are as follows (excluding traffic incidents):

Item	Number of occupational injuries			Ratio of days lost due to work-related injury (approximate)		Disabling injury frequency rate			Disabling injury severity rate		
	Group	Male	Female	Male	Female	Group	Male	Female	Group	Male	Female
Group	607	207	400	46%	54%	0.86	0.29	0.56	24	11	13
Mainland China	144	71	73	56%	44%	1.16	0.57	0.59	59	33	26
Indonesia	107	33	74	20%	80%	0.54	0.17	0.38	4	1	3
Vietnam	324	91	233	40%	60%	0.90	0.25	0.65	23	9	14
Cambodia	10	0	10	0%	100%	1.12	0.00	1.12	38	0	38
Bangladesh	14	12	2	91%	9%	1.56	1.34	0.22	18	16	2
Myanmar	8	0	8	0%	100%	0.76	0.00	0.76	13	0	13
Note	<ol style="list-style-type: none"> <li>1. The source of statistical data is from the Group's internal informative management system for abnormal incidents.</li> <li>2. Disabling Injury Frequency Rate = Disabling frequency number x 1,000,000/ Total working hours in the region</li> <li>3. Disabling Injury Severity Rate = Total number of days lost x 1,000,000/ Total working hours in the region</li> </ol>										

### **Damage Prevention and Control Management**

#### *Fire Safety Management*

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

- (1) Improvement of fire-fighting equipment: The Group has clearly specified that factories should be equipped with fire-fighting equipment and plant safety design. All factories which are newly constructed, extended or the use of which is altered should comply with the design requirements specified by the Group, such as: fire prevention zoning, safety passages, fire extinguishers, fire sprinkler systems, chemical fire suppression systems, fire alarm devices, emergency exit lights, emergency lighting, etc. A unified management mechanism has also been established for the design, construction, inspection and acceptance, maintenance and repair of fire-fighting equipment.



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- (2) Enhancement of fire-fighting team's capability: Fire-fighting teams have been formed in 13 locations across Vietnam, Indonesia and Mainland China. The Group has developed a unified standard for the firefighters in day-to-day duties and training. The abilities of the fire-fighting teams are verified by the Group's Fire-Fighting, Safety and Hygiene Department on an annual basis. It is expected that standardization can bring out the best capabilities of the fire-fighting teams.
- (3) Execution of fire safety inspections: Fire safety self-inspections are carried out monthly by the factories. The administrative centers in various regions carry out fire prevention inspections and appraisals quarterly, targeting power source management, power switches/power sockets, motors, high-temperature machineries, operating processes involving fire, fire prevention zoning, fire-fighting equipment, dust collectors, kitchens and restaurants, etc. for inspection. Daily power control and inspections during night-time are also strengthened. At the same time, educational trainings on fire-fighting equipment for relevant personnel are conducted in various factories to strengthen the factories' self-inspection abilities which are important for the prevention of potential fire hazards.
- (4) Establishment of electric technician workshops: Periodic electric technician workshops were held in various regions. Factory electricians are required to participate in training and experience sharing and are submitted to verification, in order to strengthen their capabilities in electrical work and enhance their professional skills. It is expected that the electric technicians can put what they learn into practice and the factories' self-management capability on electrical equipment can be enhanced to mitigate the operational risks of the factories.
- (5) Management of repair and maintenance vendors for fire-fighting equipment: Develop a standard form of fire prevention equipment maintenance contract and inspection checklist, so as to verify the abilities of the repair and maintenance vendor, and to improve the quality of the maintenance work, with an aim to ensure the proper functioning of fire-fighting equipment in factories. Vendors of poor qualities are eliminated by audit and inspections which are carried out from time to time.
- (6) Implementation of infra-red scanning: Electrical safety is an essential part in fire prevention. The Group has set up a system in which electrical equipment are scanned regularly through infra-red thermal imaging devices. Most of the factories are equipped with infra-red thermal imaging instruments. Appropriate personnel are selected from professional electricians to attend professional training, and all factories are required to perform regular scanning of electrical equipment.
- (7) Safety management of explosion-proof electrical equipment: With an aim to enhance the safety of hazardous sites (such as chemical storage, gel preparation room etc.), the Group has formulated safety management standards so as to improve the safety level of electrical equipment at the hazardous sites. The Group also completed thorough inspections of explosion protection equipment and pipeline construction, etc., in various areas. Rectifications were done in accordance with various standards to reduce the risks of accident occurrence.

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- (8) Strategy for procurement of key safety equipment: To strengthen the inherent safety of key safety facilities, relevant management flows and relevant equipment specifications were formulated to operate with the supply chain, such that there are consistent standards for the procurement of key safety equipment by the Group, and at the same time in compliance with the international or local safety requirements, with an aim to enhance the safety for critical equipment.
- (9) Strengthening of emergency response capability: In order to build employees' immediate response and disaster relief capabilities, the Group has established standard specifications to enhance the employees' response capability so as to cope with disaster and ensure personal safety. The emergency response teams established in various factories are trained and drilled regularly. Disaster relief drills are also carried out jointly with external governmental fire-fighting units from time to time in order to improve the emergency response coordination capability.
- (10) Damage control: For the newly constructed factories to better comply with safety requirements, a set of damage control specifications for the Group's newly constructed factories has been established by the Group after internal discussions to ensure that the newly constructed factories are able to conduct in-depth risks assessments and mitigate the risks accordingly.

### **Factory Self-management**

In respect of factory self-management, the Group has appointed designated personnel with hierarchical supervision accountability. Personnel designated in all production bases for the responsibilities of environmental, safety and hygiene ("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 relevant parties for timely attention. The designated ESH personnel of different business units visit factories of their respective business units from time to time to provide supervision and assistance according to the requests of relevant customers. The 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 special audit so as to efficiently implement corresponding measures.



## Chapter 5

## Environmental Protection

The Group's footwear manufacturing business is closely related to environmental protection and the usage of natural resources. The Group has established a set of management policies, mechanisms and measures on environmental protection and natural resources conservation to help ensure the sustainable development and operation of the Group. The Group strives to enhance the efficiency in the usage of energy, water and materials and is also generally in compliance with relevant local environmental regulations, including applicable laws and regulations that have a significant impact on the Company relating to air and greenhouse gas emissions, discharges into water and land, and hazardous and non-hazardous waste generations, and international general practices, with an aim to reduce the use of natural resources and protect the environment. The actions taken are aligned with international standards, which include greenhouse gas emission inspections, 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.

### 5.1 Effective Use of Resources

#### **Use and Procurement of Raw Materials and Packaging Materials**

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

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

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

There are around 1,500 material suppliers with which the Group has entered into procurement transactions for three consecutive years (2015 – 2017).



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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. Given the limitations on the settings of the Group's current system, only the number of shoe boxes used can be collected and analyzed for the time being. Approximately 300,000,000 shoe boxes were used in 2017. The installation of the raw material unit weighing system at the production bases of the Group in various regions has commenced in July 2017, and is currently in progress. After the completion of information verification and operation adaptation of such system, it is hoped that starting from 2018, the production bases of the Group in various regions will successively be able to accurately obtain the weight of the materials from the procurement database. Hence, the Group hopes to 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 in 2019.

### Usage of Energy

The Group's energy usage management strategy focuses are to:

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

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

The type of energy used by the Group's footwear manufacturing factories in 2017 include: electricity, fossil fuels, biofuels, natural gas and liquified petroleum gas. The use of biofuels involves mostly the fuel for steam thermal energy supplied by external vendors. The Group has phased out purchased steam mainly from coal-fired fuel and replaced them with electricity or solid biofuels.

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## Environmental Protection

2017 Energy Consumption and Average Energy Consumption per pair of shoes is shown in the following table:

<b>Energy Type</b>	<b>Electricity</b>	<b>Fossil Fuels</b>	<b>Biofuels</b>	<b>Natural Gas</b>	<b>Liquified Petroleum Gas</b>
Consumption	1,031,532.11 MWh	5,271.20 KL	98,000 tonnes	895,000 M <sup>3</sup>	229.32 tonnes
Average Energy Consumption per pair of shoes	3.1780 KWh	0.0162 L	0.2797 kg	0.0028 M <sup>3</sup>	0.0007kg

In the implementation of energy management, the Group continues to implement the introduction of energy monitoring system. In 2017, the Group completed the installation of the online energy monitoring system at the factories in Eastern China (Shanggao, Anfu) and the online water usage monitoring system at the production bases in Southern China (Dongguan). The installation project for the Grade I electricity meter at the production bases is expected to commence in 2018 in order to assist the factories in promptly identifying any abnormal energy consumption, and seeking for energy conservation opportunities.

Energy saving and carbon reduction programs were actively promoted within the Group. For certain key production bases, energy saving projects for high energy consumption facilities and survey on the improvement potential of the energy-saving constructions of the production bases were continuously implemented in 2017. Major implementation measures include: establishment of an energy-saving management body and implementation of a management system thereof, modification of injection machines, leakage inspection and operation optimization for the pneumatic and steam system, installation of frequency transformers for motors and water pumps, as well as modification of pipelines for cooling water pipes. Such measures have achieved their expected energy saving efficiencies. In the meantime, the procurement standards for high energy consumption machineries were further formulated with the design specifications for ventilation, cooling and energy-saving of newly constructed factories being updated, so as to satisfy energy-saving requirements starting from the purchase of machineries and construction of plants.

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# Environmental Protection

### **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. With respect to water resources management policies, the Group ensures 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 have also been formulated. The laboratory at the administrative centers within each of the factory campus performs sample testing of water quality every month, and releases the results to all production bases. External parties are also engaged in water quality tests on a regular basis as required by law 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 2017, the total amount of water used in all production bases was approximately 16,630,000 cubic meters (M<sup>3</sup>) and the water consumption density was 0.0513 M<sup>3</sup> 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*

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.

Most of the sewage of the production sites comes from water used by employees for domestic use, and small amount of sewage comes from the cleaning and painting operations of the soles manufacturing process. The Group has set up chemical pre-processing equipment especially for the collection and treatment of industrial sewage. Highly polluted industrial sewage is first treated to reach the discharge standard as stipulated before it is put into a large scale sewage treatment plant of the production sites for secondary biodegradation process.



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## Environmental Protection

The industrial parks where the production bases are located have large-scale biological sewage treatment systems. To ensure the effectiveness of treatment, different modes of processing are used depending on the water quality processing requirements. There is a dedicated water quality laboratory in every water plant to perform the testing and monitoring of water quality. We also regularly entrust inspection agency approved by competent local authority to conduct water sampling and testing of the effluent according to laws. The sewage is properly discharged through legally permitted means. In 2017, the Group's management division has also conducted management checking to implement a thorough monitoring and a proper and due treatment of sewage. Since the Group's current management focus on sewage is the proper and due treatment of sewage in accordance with legal requirements, a system for analyzing the total amount of sewage and relevant data has yet to be set up for the time being. At the same time, in 2017, the Group has set up an environmental protection energy reporting system, focusing on the collection of information with respect to energy and water consumption. Information collection in relation to sewage will be incorporated into the environmental protection energy reporting system in 2018 as planned. It is hoped that the production bases will be able to gradually start collecting sewage information in 2018. The total amount of sewage and relevant data are hoped to be gradually disclosed in 2019.

### *Recycling of Effluent Water for Reuse*

According to the management principles of the Group, all production bases will continue to explore opportunities to recycle water for reuse. In 2017, the average effluent water reuse ratio of the Group in the production bases was approximately 10%. The effluent water reuse ratio of the leather factories, where water usage in the manufacturing process was higher, was over 20%.

### **5.2 Greenhouse Gas and Carbon Emission**

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

The inspection of the Group's greenhouse gas emission in factory areas in the production bases is based on ISO 14064-1 standard. The scope of inspection is primarily based on category 1 and category 2. 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<sub>2</sub>e), with ton/year as the unit.

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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).

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.

<b>Total Carbon Emission of Greenhouse Gas</b>			
<b>Year</b>	<b>Total Carbon Emission of Greenhouse Gas (Approximate)</b>	<b>Primary Source (Approximate Percentage)</b>	<b>Range of Average Carbon Emission per Pair of Shoes in Production Bases of Respective Regions <sup>(Note)</sup></b>
2017	850,400 tonnes	Electricity (71%) Fuel (29%)	Between 1.86~4.85 kg CO <sub>2e</sub> /pr

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 2017, the inspection and management for greenhouse gas emission has been, for the first time, included as an item of the Group's internal audit for assessing environment, safety and hygiene. As such, the credibility and completeness of the inspection data of the Group's production bases has been continuously enhanced.



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## Environmental Protection

### 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 to ensure sustainability of environmental resources.
- (2) Comply with relevant environmental laws and regulations and other requirements, and develop and implement relevant standard operating procedures.
- (3) Optimize production processes, promote clean production, reduce pollutants emission, implement pollution control and management, and perform regular tests and inspections.
- (4) Reduce the use of hazardous substances, promote industrial waste reduction, recycle resources, save energy and reduce carbon emission in order to enhance the Group's environmental protection results.
- (5) Strengthen education and training and enhance staff awareness of environmental protection so as to thoroughly carry out environmental protection.

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

#### Environmental Management Compliance

To respect and protect environmental resources, the utmost management objective is to comply with local regulatory requirements. The production bases of various regions have installed facilities for the collection and treatment of pollutants generated during the production process. Regular inspections, audits and supervisions are in place to ensure that pollutants are properly treated according to local regulatory requirements before emission. For medium and long term environmental protection management objectives, efforts will be made to achieve manufacturing excellence, promote energy-saving and carbon-reducing campaigns, as well as to strengthen the efficiency or recycling ratio of energy and resource usage.

#### *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 factory emission in line with the local emission standards. The next guiding principle is the introduction of pollution assessment on production processes with the aim of proper handling of the pollution in accordance with the regulatory requirements.

## Chapter 5

# Environmental Protection

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 the production base in Huang Jiang Industrial Park, Dongguan City, Guangdong Province, China, the Group has further enhanced the treatment efficiency for organic solvents and volatile gases. As planned, low temperature plasma cleaning equipments and activated carbon adsorption box facilities will be progressively added to increase the removal rate to above 90%, so as to assume the corporate responsibility of improving air quality in the local areas.

In 2017, the Group has also acted 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 is progressively conducting the planning and evaluation of the projects for collection and treatment of fugitive emissions at the production bases of various regions, and since the planning and evaluation of the projects for collection and treatment is still in progress, the Group is not yet able to conduct a clear statistical computation for the volume of pollutants in air emissions in 2017. Upon our continuous effort for improvements, it is expected that we will be able to collect the information for such pollutant volume in air emissions in 2018, and the data in connection with pollutant volume in air emissions are expected to be disclosed gradually in 2019.

### *Waste Management*

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

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



## Chapter 5

## Environmental Protection

As at December 31, 2017, all transportation and disposal of wastes have complied with local requirements in general. 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.

Given the Group's current setting of the information collection system, the amount of non-hazardous wastes and hazardous wastes produced during the reporting period of this Report and relevant data cannot be disclosed, and the actual amount of wastes reduced due to the Manufacturing Excellence program during the reporting period of this Report cannot be calculated. The information collection in relation to wastes is expected to be incorporated into the environmental energy reporting system in 2018 like the information collection in relation to sewage. The Group hopes that the production bases will be able to gradually start collecting information about non-hazardous wastes and hazardous wastes in 2018, and relevant data such as the discharge and reduction of wastes can be gradually disclosed in 2019.

### 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.



## 6.1 Customer Service and Product Management

### Customer Service

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

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

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 strictly follows international legal requirements and complies with the brand customers' lists of prohibited and restricted substances and the Sustainable Chemistry Guidance in the selection of raw materials. We also monitor the production from-start-to-finish to ensure products are consistent with the principles of eco-friendliness and human health.



## Chapter 6

## Operating Practices

### *Product Quality and Safety Management*

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

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

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

### *Product Service*

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

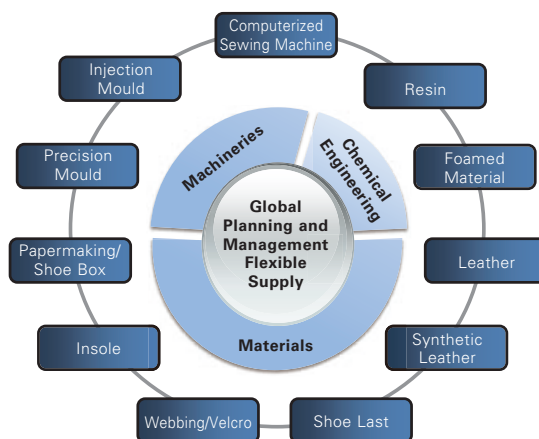
### Product Responsibility

The Group is generally in compliance with relevant laws and regulations that have a significant impact on the Company relating to health and safety, advertising, labelling and privacy matters.

## 6.2 Supply Chain Management

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

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





## Chapter 6

## Operating Practices

### Suppliers Management

To assist 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 suppliers management. Through the setting up of various quality and sustainable development standards, and establishing a risk assessment mechanism specific to the industry, industry risk levels and judgment criteria for corresponding risk indices are identified. Except for materials designated or specified by brand customers, all new suppliers have to go through the supplier selection process. With factory operation audits conducted by professional teams, the systematic quality management abilities of raw material suppliers are ensured and the suppliers sustainable development management system is established. In addition, the Group conducts regular annual or quarterly reviews with suppliers according to the properties 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, which are critical to quality assurance for the brand customers and forthwith consistent with the trend of sustainable development.

In 2017, 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 social responsibilities and to put the concept of sustainable development into practice.

### Suppliers Quality Management Highlights in 2017

- (1) Within the Group's supplier quality audit system, there are 11 scoring categories for quality management.
- (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, production capabilities, service qualities and delivery capabilities, etc. were comprehended by using an inquiry form.

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 audit 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.



### Suppliers Sustainable Development Management Highlights in 2017

With the growing concerns of the global community, government environmental authorities and brand customers over sustainable development management, the Group is progressively implementing sustainable development management policies in respect of the performance of sustainable development management in the supply chain. The concept, requirements and control indicators of sustainable development management have been fully introduced to the suppliers through the execution of the supplier sustainable development management program in 2017, with environmental management, fire safety, safety and hygiene as basic control items.

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 improved tracking mechanism. The Group also continued to implement sustainable development management of supply chain, and encourage suppliers with excellent performance in green management (such as green designs, green manufacturing, green innovations, green marketing, green procurement, green recycling, and green products).

As the scales, management capabilities and degrees of cooperation vary between suppliers, the Group will request suppliers who were unable to meet the Group’s requirements in quality and sustainable development management indicators to improve within specified time, after the expiry of which they would be replaced if the requirements were not met, in order to reduce the risks in the supply chain. This is to ensure the Group’s supply chain management is in compliance with the basic requirements of environmental protection management in ISO 14001:2015, and consistent with the global sustainability trend.

## Chapter 6

## Operating Practices

According to the significance and transaction volumes of raw materials items, the Group has progressively implemented control mechanism on critical areas. The procurement ratios 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.

### Sustainable Development Management for Suppliers



#### Results of Supplier Audits and Tracking of Improvement Progress

The Group adopts corrective and preventive measures to manage quality issues. The basic control items under sustainable development management are environmental management, safety and hygiene and fire safety management. With supplier audits conducted by professional teams, non-compliant items are pointed out and relevant improvements are proposed. The suppliers have to make improvements within specified periods or produce substantial improvement plans. The Group will carry out the tracking of deficiency improvement within 14 days after the issuance of the audit reports to the suppliers.

The results of supplier audits are categorized into qualified suppliers, suppliers that need rectification within a time limit, and unqualified suppliers. Suppliers who fail to meet the Group's quality requirements and sustainable development management indicators are requested to rectify within given deadlines.

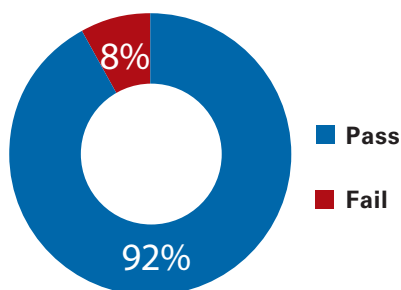


## Chapter 6

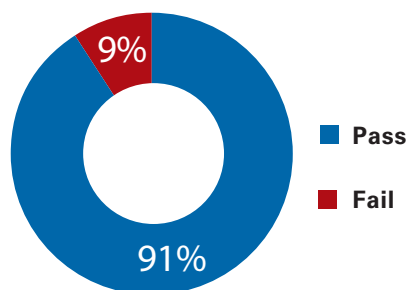
## Operating Practices

The Group focuses on progressive management of critical areas according to the significance and transaction ratios of raw material items. Quality management audits on 61 suppliers were conducted in the year 2017, of which 5 supplier factories were unable to pass. Sustainable development management audits on 104 suppliers were conducted, with 9 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.

### Result of Quality Management Audit



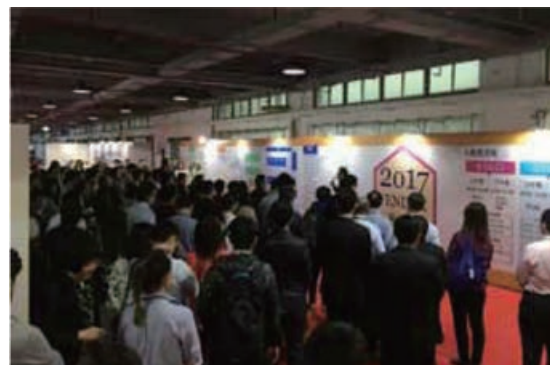
### Result of Sustainable Development Management Audit



### Suppliers Development

The Group regards the suppliers as cooperative partners. In 2017, exhibitions of suppliers' products (each with the participation of about 70 suppliers) were held in China and Vietnam, providing a platform for the exchange and sharing of information on the demand and development trends of products and materials among the suppliers and the Group's research and development personnel. Feature seminars were also organized for the interchange and sharing of 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 Gaobu, China in March 2017



## Chapter 6

## Operating Practices

### Suppliers' Product Exhibition at Bình Chánh, Vietnam in September 2017



### 6.3 Moral Integrity and Anti-corruption

#### Setting Standards and Compliance with Laws and Regulations

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

The Group's "Code of Conduct" requires the employees to sign the "Employee Business Integrity Undertaking" and the "Confidentiality Undertaking" and to strictly adhere to the applicable laws and regulations relating to the above acts.

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

### **Communication and Training**

The Group discloses its business integrity policies on internal website or other media channels. The objective is to ensure that the employees of the Group, suppliers, brand 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 three types of complaints and reporting channels according to "Code of Conduct":

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

Following the development of the Group's global footprint and information technology, two types of electronic complaints and reporting channels (including email box and intranet) are available since 2014 to enhance the convenience and efficiency of usage. If any person of the Group is suspected to have involved in illegal or dishonest acts, anyone can provide relevant information through the above channels.

In addition, if the Group discovers any event of corruption, bribery, extortion, fraud and money laundering, necessary legal actions will be taken to protect the interests of the Group. In 2017, 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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