ENVIRONMENTAL SOCIAL AND GOVERNANCE REPORT

2016

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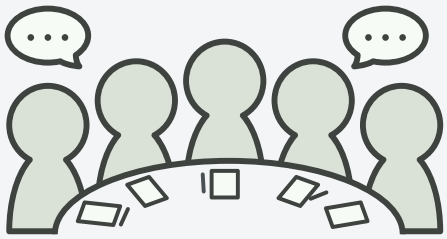
ABOUT THIS REPORT

Fountain Set (Holdings) Limited and its subsidiaries ("the Group") is one of the world's largest circular knitted fabric manufacturers with principle activities including fabric knitting, dyeing, printing, finishing, as well as garment manufacturing.

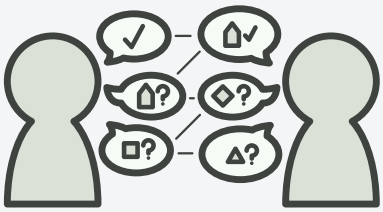
This is the first Environmental, Social and Governance (the "ESG") report (the "Report") by the Group, highlighting its ESG performance, with disclosure reference made to the ESG reporting guide as described in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("HKEx") and relevant guidance set out by HKEx.

This Report covers the Group's overall performance in two subject areas, environmental and social of the three major production sites, namely Jiangyin Fuhui Textiles Limited ("Jiangyin Fuhui"), Yancheng Fuhui Textiles Limited ("Yancheng Fuhui"), and Dongguan Shatin Lake Side Textiles Printing & Dyeing Co. Ltd. ("Shatin Lake Side") in the People's Republic of China ("PRC"), collectively herea□er referred as "the Production Sites", from 1 January 2016 to 31 December 2016 (the "Reporting Period"), unless otherwise stated.



STAKEHOLDER ENGAGEMENT AND MATERIALITY

In order to identify the most significant aspects for the Group to report on this ESG report, key stakeholders have been involved to discuss and to review material aspects which will help the business to meet its potential growth and be prepared for future challenges.



STAKEHOLDERS' FEEDBACK

The Group welcomes stakeholders' feedback on our ESG approach and performance. Please give your suggestions or share your views with us via email at pr@fshl.com.

THE GROUP'S SUSTAINABILITY MISSION AND VISION

Mission

The Group is committed to o□ering quality products and services of genuine value to our customers; to providing our employees with a challenging career and an opportunity for personal development; and to presenting our investors and stakeholders with equitable financial growth.

Based on our founding principles "diligence, frugality, sincerity, and integrity", we continue to improve e□iciency as well as to develop new markets and products to achieve long-term growth.

Vision on Environment, Social and Governance

The Group recognizes no individual or any corporate organization can overexploit the limited natural resources and pose irreparable damage to the environment in an irresponsible manner. In terms of social responsibility, we understand that every business operation has an indivisible connection with stakeholders. The Group embraces environmental protection and stakeholder engagement as fundamental responsibilities of corporate organizations and is committed to upholding corporate's wellbeing.

Awards and Recognition

The Group's devotion to the industry and environmental protection has been widely recognized and rewarded. Some of the awards and certifications rewarded to the Production Sites in the Reporting Period are shown below:

Award/Certification

Environmental Management System Certification - GB/T24001-2004 ISO 14001-2004 Standard

Issued by

China Great Wall Quality Assurance Centre

Issued to

Shatin Lake Side

Award/Certification

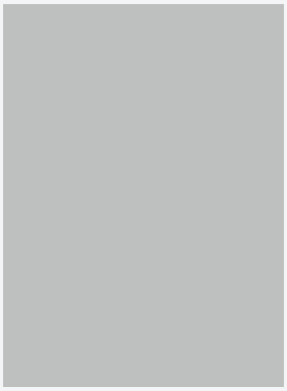
Environmental Management System Certificate[1]

Issued by

Beijing Zhongjing Quality Certification Co., Ltd

Issued to

Jiangyin Fuhui



Award/Certification

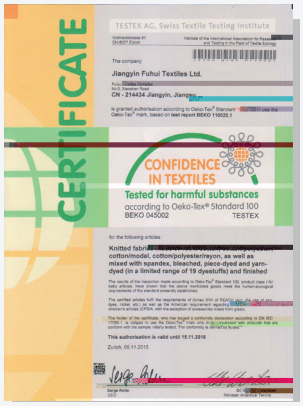
ISO 50001:2011 Energy Management System Certificate[1]

Issued by

Ever Win Quality Certification Center

Issued to

Jiangyin Fuhui



Award/Certification

Oeko-Tex Standard 100

Issued by

TESTEX AG, Swiss Textile Testing Institute

Issued to

Jiangyin Fuhui, Yancheng Fuhui, Shatin Lake Side

Award/Certification

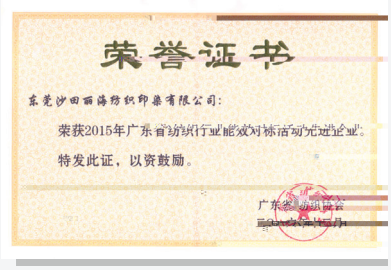
Sustainable Textile Production (STeP) Certification

Issued by

TESTEX AG, Swiss Textile Testing Institute

Issued to

Shatin Lake Side



Award/Certification

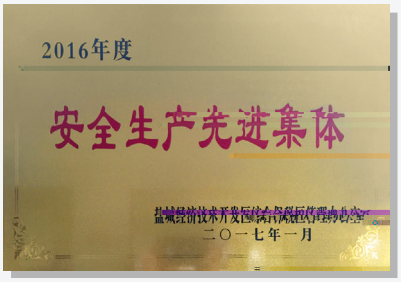
2015 Guangdong Province Outstanding Enterprise of Textile industry for e□iciency achievement activities[1]

Issued by

Guangdong Textile Association

Issued to

Shatin Lake Side



Award/Certification

2016 Outstanding Enterprise of Safety Production[1]

Issued by

Management O□ice of Yancheng Economic-Technological Development Zone and Integrated Duty-Free Area[1]

Issued to

Yancheng Fuhui

Award/Certification

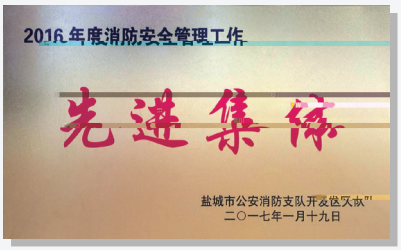
Work Safety Standardization Second Class Enterprise (textiles)[1]

Issued by

Jiangsu Province Administration of Work Safety[1]

Issued to

Yancheng Fuhui



Award/Certification

2016 Outstanding Enterprise of Fire Safety Management[1]

Issued by

Fire Brigade of Public Security of Development Zone of Yancheng City[1]

Issued to

Yancheng Fuhui

Award/Certification

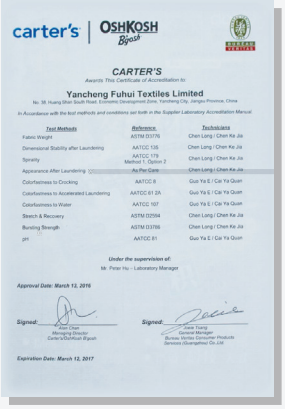
China National Textile and Apparel Council Testing Cetificate[1]

Issued by

China National Textile and Apparel Council Testing Center[1]

Issued to

Jiangyin Fuhui



carter's | OSHKOSH B'gosh

CARTER'S

Awards This Certificate of Accreditation to:

Yancheng Fuhui Textiles Limited

No. 38, Huang Shan South Road, Economic Development Zone, Yancheng City, Jiangsu Province, China

In Accordance with the test methods and conditions set forth in the Supplier Laboratory Accreditation Manual

Test Methods	Reference	Technicians
Fabric Weight	ASTM D3776	Chen Long / Chen Ke Jia
Dimensional Stability after Laundering	AATCC 135	Chen Long / Chen Ke Jia
Spirality	AATCC 179 Method 1, Option 2	Chen Long / Chen Ke Jia
Appearance After Laundering	As Per Code	Chen Long / Chen Ke Jia
Colorfastness to Crocking	AATCC 8	Guo Ya E / Cai Ya Quan
Colorfastness to Accelerated Laundering	AATCC 61 2A	Guo Ya E / Cai Ya Quan
Colorfastness to Water	AATCC 107	Guo Ya E / Cai Ya Quan
Stretch & Recovery	ASTM D2594	Chen Long / Chen Ke Jia
Bursting Strength	ASTM D3786	Chen Long / Chen Ke Jia
pH	AATCC 81	Guo Ya E / Cai Ya Quan

Under the supervision of:

Mr. Peter Hu – Laboratory Manager

Approval Date: March 13, 2016

Signed: Kevin Chan, Managing Director, Carter's/OshKosh B'gosh

Signed: Clare Tsang, General Manager, Bureau Veritas Consumer Products Services (Guangzhou) Co.,Ltd

Expiration Date: March 13, 2017

Award/Certification

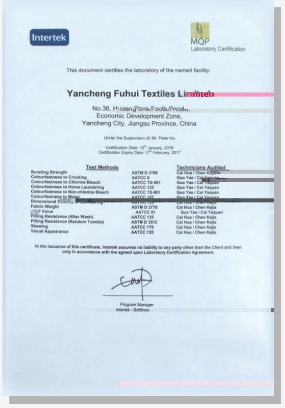
Certificate of Accreditation

Issued by

Bureau Veritas Group

Issued to

Yancheng Fuhui



Intertek

MQP Laboratory Certification

This document certifies the laboratory of the named facility.

Yancheng Fuhui Textiles Limited

No.38, Huang Shan South Road,
Economic Development Zone,
Yancheng City, Jiangsu Province, China

Under the Supervision of: Mr. Peter Hu

Certification Date: 10th January, 2016
Certification Expiry Date: 17th February, 2017

Test Methods		Technicians Audited
Bursting Strength	ASTM D 3786	Chen Long / Chen Ke Jia
Colorfastness to Crocking	AATCC 8	Guo Ya E / Cai Ya Quan
Colorfastness to Chlorine Bleach	AATCC TM-61	Guo Ya E / Cai Ya Quan
Colorfastness to Accelerated Laundering	AATCC 61	Guo Ya E / Cai Ya Quan
Colorfastness to Non-Chlorine Bleach	AATCC TM-61	Guo Ya E / Cai Ya Quan
Colorfastness to Water	AATCC 107	Guo Ya E / Cai Ya Quan
Dimensional Stability after Laundering	AATCC 135	Chen Long / Chen Ke Jia
Fabric Weight	ASTM D 3776	Cai Hua / Chen Kejia
COF Friction	ASTM D 1894	Cai Hua / Chen Kejia
Pilling Resistance (After Wash)	AATCC 135	Cai Hua / Chen Kejia
Pilling Resistance (Random Tumble)	ASTM D 3512	Cai Hua / Chen Kejia
Spirality	AATCC 179	Cai Hua / Chen Kejia
Visual Appearance	AATCC 130	Cai Hua / Chen Kejia

In the issuance of this certificate, Intertek assumes no liability to any party other than the Client and that only in accordance with the agreed upon Laboratory Certification Agreement.

Program Manager
Intertek - Guilford

Award/Certification

Laboratory Certificate Agreement

Issued by

Intertek Group

Issued to

Yancheng Fuhui

MILL QUALIFICATION PROGRAM

ACHIEVEMENT AWARD

Yancheng Fuhui Textiles Limited

No. 38, Huang Shan South Road, Economic Development Zone, Yancheng City, Jiangsu Province, China

盐城福汇纺织有限公司

中国江苏盐城市经济开发区黄山南路 38 号

Mill Qualification Program Registration Number

A11987-323076-R1

Intertek has assessed the practices of the above facility according to the scope of the Mill Qualification Program, which resulted in meeting the performance criteria required for the "Achievement Award".

The evaluation of the facility covered the following areas:

1. General Implementation
2. Knitting
3. Preparation / Dyeing / Finishing
4. Color Process
5. Final Inspection & Testing

Christopher Liebig, VP Supplier Management

Cary Chan, Certification Administration Centre

22-23 Mar. 2016

Last Full Audit Date

22 Mar. 2019

Expiration Date

Intertek

Award/Certification

Mill Qualification Program

Issued by

Intertek Group

Issued to

Yancheng Fuhui

The Group will strive to continuously improve its environmental, social and managerial performance to maintain its leading and outstanding position in the industry.

Note 1 English names are only translation of their o□icial Chinese names.

GOVER-
NANCE

1 Management Enhancement

Advanced management philosophy and measures are essentials for corporate development, Fountain Set introduced a series of management measures such as “Total Productive Maintenance” and “Process Optimization and Re-engineering” by way of external evaluation and self-diagnosis, in order to achieve the remarkable results in ensuring quick response to orders and reducing wastage.

IN THIS SECTION

1.1 Total Productive Maintenance ("TPM")

1.2 Process Optimization and Re-engineering

1.1 Total Productive Maintenance ("TPM")

Process:

- 2015.3: initiation in Jiangyin Fuhui, Yancheng Fuhui and Shatin Lake Side
- 2015.4 - 2015.11: implementation
- 2015.12 - 2016.3: review
- 2016.4: full implementation of TPM

Results:

- Adopted over 150 practicable and rational proposals
- Autonomous maintenance under a system and 2 or more demonstration areas established by each workshop
- Unplanned equipment maintenance rate reduced by 20%
- All the indicators reached Class II standards of clean production
- Overall equipment e□iciency ("OEE")≥65%

1.2 Process Optimization and Re-engineering

As a resource integration and optimization methodology to cater for rapid growth of an enterprise and its supply chain management system to the largest extent, it is designed to gain significant improvements in such areas as cost, quality, service and e□iciency and put the enterprise in the best position possible to fit into the customer-oriented, competitive and changing modern business environment.

Business process improvement ("BPI") emphasizes gradual improvement by analyzing and understanding the existing processes, optimizing them and then creating new ones.

Business process re-engineering ("BPR") highlights whole new design by radically re-thinking the way products or services are provided and re-designing business processes with an aim at great improvements in cost, quality, service, e□iciency and other key performance indicators.

In August 2016, the division in Eastern China took the lead in setting up a BPI and BPR team.

2 Equipment

2.1
Fixed Assets Investment (2011 to 2016) (HK$ '000)

Company Name	2010.9-2011.8	2011.9-2012.12	2013	2014	2015	2016	Total HK$
Fountain Oasis	-	-	-	-	-	91,235	**91,235**
Jiangyin Fuhui	23,635	38,107	17,100	24,223	29,642	69,487	**202,194**
Yancheng Fuhui	34,205	10,018	28,217	54,036	19,904	27,606	**173,986**
Shatin Lake Side	30,102	24,836	14,025	16,134	43,630	44,423	**173,150**
Total	**87,942**	**72,961**	**59,342**	**94,393**	**93,176**	**232,751**	**640,565**

Subsidiary	2011	2012	2013	2014	2015	2016	Total HK$
Futian Oasis	—	—	—	—	—	99,254	99,254

2.3
Environmental Investment, Energy Saving and Emission Reduction Statistics (By Project) (HK$ '000)

Project	2011	2012	2013	2014	2015	2016	Total HK$'000
Waste gas pollution control	4,175	6,119	14,994	8,715	13,287	31,594	**78,884**
Waste water pollution control	1,252	7,809	2,122	8,713	45,829	20,928	**86,653**
Subtotal of environmental projects	**5,427**	**13,928**	**17,116**	**17,428**	**59,116**	**52,522**	**165,537**
Heat-saving	644	23	—	2,976	—	79,926	**83,569**
Electricity-saving	531	1,360	1,690	2,283	2,897	105	**8,866**
Water-saving	—	—	—	—	57	—	**57**
Coal-saving	—	3,367	316	255	—	—	**3,938**
Subtotal of energy conservation	**1,175**	**4,750**	**2,006**	**5,514**	**2,954**	**80,031**	**96,430**
High temperature dyeing machines	366	157	34,157	19,319	48	—	**54,047**
Dyeing machines	711	1,301	—	—	6,979	204	**9,195**
Subtotal of energy-saving machines	**1,077**	**1,458**	**34,157**	**19,319**	**7,027**	**204**	**63,242**
Total	**7,679**	**20,136**	**53,279**	**42,261**	**69,097**	**132,757**	**325,209**

2.4
Specialized Equipment Upgrading

Name of special equipment	Function	Number of Units	Year of Purchase
Printing	Digital printing; eliminating the color restriction on color separation and floral repeat; using direct injection patterns with high color accuracy	1	2014
Preprocessing	Continuous drying; low shrinkage	3	2015
Loom	Improved edges; well-trimmed looped piles	37	2015
Dyeing vessel	Low water ratio; anti-wrinkle	3	2016

3 Technological Innovations

Fountain Set, through the integration of Group's expert teams, established its process technology and R&D centre in 2015 and aimed to research on new technological topics and solve tough issues facing by the industry as well as addressing an array of subjects raised from the challenges in manufacturing of a diversity of comfortable and durable products and leading market trends.

IN THIS CHAPTER

3.1 Advantages

3.2 Improvements

3.1 Advantages

- **Weave design:** Specialized in making di□erent knitting needle selections and arrangements to achieve diversification of fabric coil structure and manufacture multi-level composite-structure fabrics .
- **Accurate color:** High fabric dyeing accuracy (up to Grade 4-5) and dyeing consistency for multi-component fiber fabrics.
- **Comfortable and practical:** Adept at combining and flexibly using the processing equipment to improve the comfort and wearability of knitted fabric featuring high elasticity, high cashmere fineness, low shrinkage and low hairiness stickiness.

3.2 Improvements

- **Streaky mark retrofitting technology:** The yarn feeder of auto-stripe loom replaces passive yarn feeding with dented full-encircling active yarn feeding, needless of turning yarn with reduced streaky marks.
- **Tightly knitted fabric leveling technology:** The tightly knitted fabric, with close structure and tiny yarn gap and prone to creases, can have its structure solidified and become fully flattened with stable fabric covering for dyeing a□er being processed by cold rolling equipment and placed for a certain period of time.
- **Yarn-dyed fabric leveling technology:** The yarn-dyed fabric wash and crease problems are resolved by washing in the upfront hot water tank of a setting machine followed by a secondary setting.

4 Quality Assurance

Product quality is the fundamental of survival and source of develoopment for enterprises. Fountain Set always pays attention to quality and consumers' feedback on their wearing experience. In 2015, the management function of quality control department ("QCD") was enhanced. QCD is independent to the production system to follow up customer requirements so as to further enhance market competitiveness.

IN THIS CHAPTER

4.1 Quality control of yarn

4.2 Quality control of dyestuff

4.3 Quality control in production area

4.4 Targets

4.1 Quality control of yarn

- For each batch of yarn, 4 pounds of yarn are sampled for testing as summarized into a test report with a series of data such as uneven color, yarn levelness, foreign fiber and streaky mark. If identified as qualified a□er the testing, such batch will be accepted into the warehouse, otherwise it will be returned. This process is carried out by the raw material department and supervised by the QCD.

4.2 Quality control of dyestuff

- Each batch of dyestu□ is subject to spot check as summarized into a dyestu□ usage report to determine whether to use or return it and, if to use, the usable range. This process is carried out by the dye-works technology department and supervised by the QCD.

4.3 Quality control in production area

Established the QCD, a third-party function within the Company, to exercise full-range quality control in the production area;

Grey fabric inspection:	30% sampled to examine yarn source and check for fabric flaws;
Dyed fabric inspection:	30% sampled to check for dyeing flaws;
Preprocessed fabric inspection:	30% sampled to check for preprocessing flaws
Post-printing inspection:	100% tested to check for printing defects;
Finished fabric inspection:	100% tested to check for flaws of any kind on the fabric and sent to the laboratory for physical and chemical indicator testing;
	Standardized packaging and warehousing , and delivery as per customer instructions

4.4 Targets

- Raw materials are 100% subject to inspection on a batch-by-batch basis before accepted by factories.
- Finished products are 100% under control and satisfy customer requirements before delivered from factories.

5 Synergetic Development

The global economic integration promotes the convergence of cultures and consumer habits. Global brands are striving to o□er fashionable, diverse, fast-delivered and

5.1
Foundation for product diversification

BEFORE 2013		2013-2016
Primarily cotton-based	→	65% cotton-polyester, 20% multi-component and 15% nylon
85% basic fabric and 15% special fabric	→	65% basic fabric and 35% special fabric
95% general fabric and 5% functional fabric	→	85% general fabric and 15% functional fabric

5.2
Thematic development for strategic customers

Season	Themes (programmes)	Number of products developed (models)	Commercialization rate
2016SS	5	852	55%
2016AW	4	743	59%
2017SS	5	825	63%

5.3
Providing necessary production conditions for quick response

Year	Average production cycle	Average production cycle for strategic customers
Before 2012	50 - 65 days	45 days
2013 - 2014	55 days	35 days
2015 - 2016	35 days	25 days

ENVIRON-

Principal activities of the Production Sites are fabric knitting, dyeing, printing, finishing and garment manufacturing. These activities primarily involve direct emission of carbon dioxide ("CO_2"), nitrogen oxides ("NO_x"), sulphur dioxide ("SO_2"), and smoke and dust from combustion of boilers burning coal, coal water slurry ("CWS") and diesel oil, indirect emissions from consumption of purchased electricity and steam. Another major resource consumed is water, which is mainly used for operation and production processes. Wastes produced are mainly dye and oil waste, fabric waste, packaging waste, and by-products from boilers. The business complies with national and local air and water pollution regulations and does not involve in production-related land pollutions.

Total floor area coverage for the Production Sites was 863,134 m^2 and the Production Sites account for close to 100% of emissions from its operations in the PRC.

1 Performance Highlights

IN THIS CHAPTER

1.1 Emission Reduction

1.2 Energy Conservation

1.3 Water Conservation

1.4 Waste Recycling

2 Emissions

IN THIS CHAPTER

2.1 Direct and Indirect Emissions

2.2 Emission Reduction Results

2.3 Centralized Heat Supply Project of Futian Oasis

2.1
Direct and Indirect Emissions

The direct and indirect emissions from the Production Sites' operations are shown below:

Scope of Greenhouse Gas Emissions	Emission Sources	Emission CO_2e in tonnes of 2015	Emission CO_2e in tonnes of 2016	Total Emission % 2015	Total Emission % 2016
1 Direct Emission	Combustion of coal, CWS and diesel oil[1]	715,152	761,283	95%	94%
2 Indirect Emission[2]	Purchased Electricity[3]	39,571	45,507	5%	6%
3 Other indirect Emission	NA[4]	NA	NA	NA	NA
	Total	**754,722**	**806,789**		

Note 1 The emission is calculated from direct emission of CO2 from boilers burning coal, CWS and diesel oil.

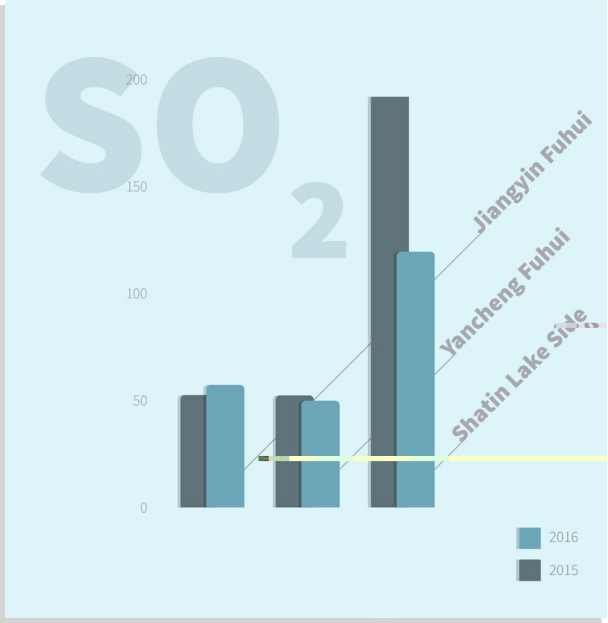
Note 2 It is assumed that purchased steam comes from residual heat generated from electricity generation plants, therefore no emission was involved.

Note 3 Combined margin emission factor (average) of 0.88 t-CO2/MWh was used for purchased electricity in the PRC.

Note 4 Paper waste from the Group is 100% recycled, therefore no emission is generated from paper waste disposed at landfills. Other indirect emissions including electricity used for processing fresh water and sewage by government departments and business air travel by employees are not involved in Group's business operation within ESG reporting scope.

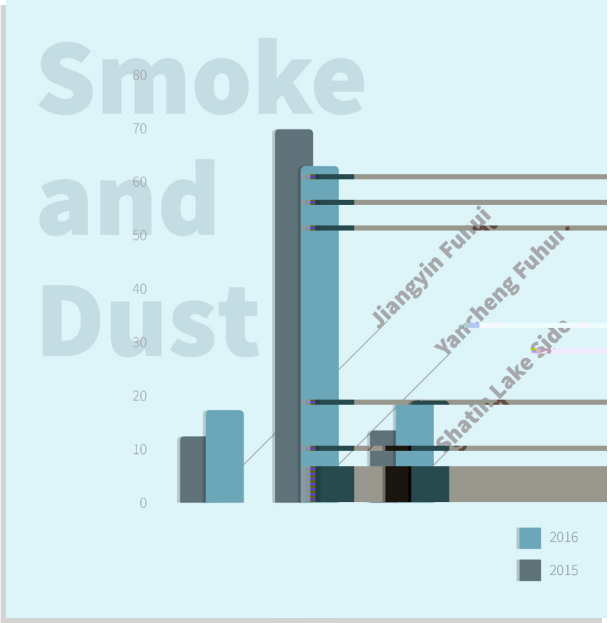
There was 806,789 tonnes (2015: 754,722 tonnes) of carbon dioxide equivalent greenhouse gases ("CO_2e")

Emission of Sulphur Dioxides (SO_2)

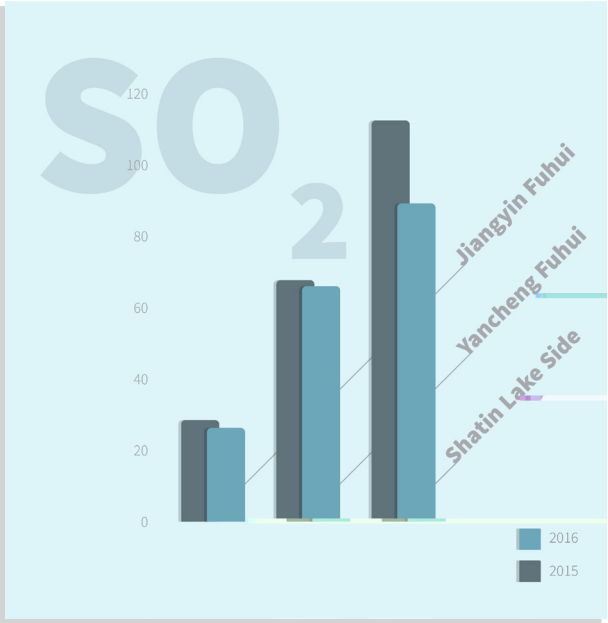


Total Emission (In tonnes)

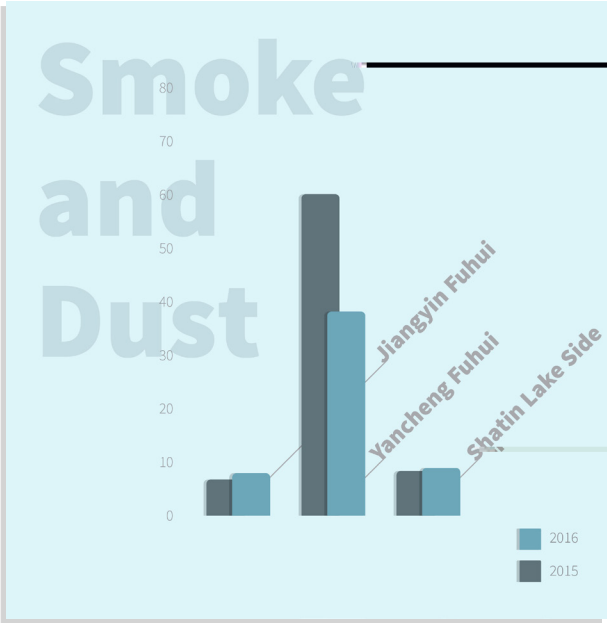
Emission of Smoke and Dust



Total Emission (In tonnes)



Concentration (In mg/m^3)



Concentration (In mg/m^3)

2.2 Emission Reduction Results

To reduce emission, Yancheng Fuhui recently introduced three CWS-fired boilers. CWS has a low ash and sulphur content. Its high combustion e□iciency (84%) and burnout rate (98%) produce less NOx, SO2 and smoke and dust than burning other fuel oil. The CWS-fired boilers are also featured with dry and wet dual desulphurization and dust removal system, with exceeding 86% of desulphurization e□iciency and 98% of dust removal e□iciency respectively. Starting from the end of 2017, conducting oil used in Yancheng Fuhui will be gradually replaced by medium pressure steam from Yancheng thermal power plant. The replacement is targeted to be completed by 2018.

Meanwhile, Shatin Lake Side participated in the low-carbon manufacturing programme ("LCMP") sponsored by the World Wide Fund for Nature (WWF). The LCMP aims to reduce carbon emissions generated by manufacturing facilities in the Pearl River Delta. With the evaluation criteria (including carbon intensity, greenhouse gas management practices and energy e□iciency best practices) assessed, Shatin Lake Side was accredited with the LCPM Gold Label for the period 2015 to 2017.

About the CWS:

84%

combustion e□iciency

98%

burnout rate

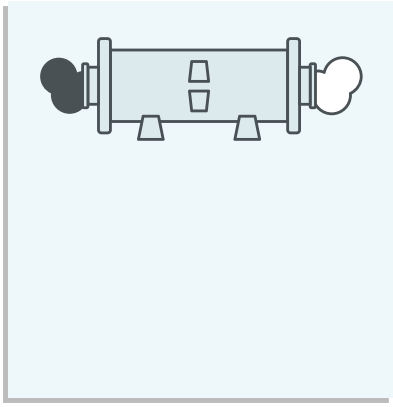
produce less NO_x, SO_2 and smoke and dust than burning other fuel oil.

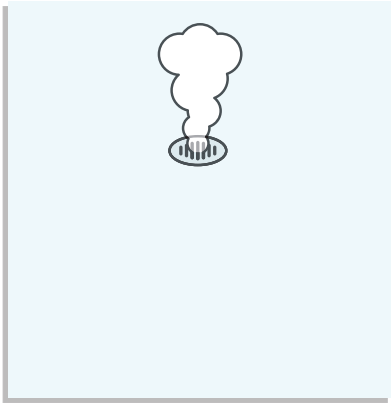
3 Energy

IN THIS CHAPTER

3.1 Energy Consumption

3.2 Energy Saving Results





3.2
Energy Saving Results

The Production Sites are dedicated to conserve energy by upgrading equipment and refining technologies since 2015. This brings a saving of 44,125 tonnes of steam and 3,319,800 kWh of electricity in the Reporting Period. The Production Sites are proud to introduce below its recovery system, improved production processes and implementation of advanced technologies which contributes to substantial energy savings.

Implementation

Residual Heat Recovery System

Description

Steam from coal-fired boilers is reused to its

Implementation Company

Advancement of TC/CVC dyed fabrics processing

Boiling process for pre-stained TC/CVC dyed fabrics is upgraded. Reduction Clearing ("RC") process for dark fabric is also replaced by dual washing. These results in a power saving of 328,800 kWh and 5,968 tonnes of steam.

Jiangyin Fuhui,

Shatin Lake Side

Replacement of LED lightings

Lightings on dyeing vessel dome have been changed to LED lightings which are more energy-e□icient, safer and has a longer life span. All fluorescent lamps will also be replaced by LED lightings by June 2017. The Group invested RMB 398,337 in changing 8,381 lightings to LED lightings, expecting an annual power saving of 2,991,000 kWh.

Jiangyin Fuhui,

Yancheng Fuhui,

Shatin Lake Side

4 Water

IN THIS CHAPTER

4.1 Water Consumption and Discharge

4.2 Water Saving and Discharge Quality Control Results

4.1 Water Consumption and Discharge

Surface water is taken from Yangtze River of Jiangyin City, Tongyu River of Yancheng City and Dongyin Canal of Dongguan City for the Production Sites' production and operation. Water intake are all legally permitted by local government and treated by self-built treatment facilities before use. The Production Sites have consumed 16,384,806 tonnes (2015: 16,695,448 tonnes) of water, with water intensity of 18.98 tonnes/m^2 (2015: 19.00 tonnes/m^2).

The Group supervises its discharge in strict compliance with:

1. Environmental Protection Law of the PRC;
2. Environmental Impact Assessment Law of the PRC; and
3. Discharge Standards of Water Pollutants for Dyeing and Finishing of Textile Industry (GB4287-2012).

Wastewater is first treated on site, meeting the standard on tertiary treated wastewater (typically at Chemical Oxygen Demand ("COD") < 200mg/L), and then conveyed to a third-party sewage treatment plant for re-treatment, meeting a more stringent standard (COD < 60mg/L) before discharging to the nature. 16,516,594 tonnes (2015: 16,195,451 tonnes) of wastewater was discharged in the Reporting Period, with the intensity of 19.14 tonnes/m^2 (2015: 19.00 tonnes/m^2), which is within the permitted discharge limit. The permitted discharge standard and actual discharge standard are shown in the tables.

Jiangyin Fuhui

	Permitted Emission (mg/L)	Actual Emission in 2015 (mg/L)	Actual Emission in 2016 (mg/L)
COD	≤ 60	35	32
BOD_{5days}	≤ 20	5.44	4.98
Total Ammonia	≤ 5	0.21	0.16
Total Nitrogen	≤ 15	10.29	10.96
Total Phosphorus	≤ 0.5	0.15	0.17

Yancheng Fuhui

	Permitted Emission (mg/L)	Actual Emission in 2015 (mg/L)	Actual Emission in 2016 (mg/L)
COD	≤ 60	52	50
BOD_{5days}	≤ 20	17	17
Total Ammonia	≤ 8	6.8	7
Total Nitrogen	≤ 20	16	17
Total Phosphorus	≤ 1.5	1.10	1.3

Shatin Lake Side

	Permitted Emission (mg/L)	Actual Emission in 2015 (mg/L)	Actual Emission in 2016 (mg/L)
COD	≤ 80	53.83	42.92
BOD_{5days}	≤ 20	12.73	13.15
Total Ammonia	≤ 10	4.98	5.55
Total Nitrogen	≤ 15	10.40	11.38
Total Phosphorus	≤ 0.5	0.07	0.11

5 Waste

IN THIS CHAPTER

5.1 Waste Disposal

5.2 Waste Reduction Results

5.1
Waste Disposal

The Production Sites generate both hazardous and non-hazardous waste in operation. Hazardous waste is collected by licensed collectors in compliance with national regulations, while non-hazardous waste is properly collected and recycled when possible.

Hazardous waste includes dye waste, waste materials with dye and oil waste (e.g. lubricant oil and engine oil). Non-hazardous waste includes fabric waste, waste paper and plastic for packaging, scrap iron, boiler slag and coal ash. The table below shows the amount of waste generated in the Reporting Period.

1. Hazardous Waste

Waste Type	Source of Waste	Amout of Waste Generated (in tonnes)	
		2015	2016
Dye Waste (including materials with dye)	Dyeing process, expired dye materials	36.38	44.87
Oil (including lubricant oil and engine oil)	Machines and equipment	1.39	1.32
Total Hazardous Waste		37.77	46.19

2. Non-Hazardous Waste

Waste Type	Source of Waste	Amout of Waste Generated (in tonnes)	
		2015	2016
Fabric	Fabric processing procedures	1,747.25	2,335.63
Paper	Packaging materials, waste paper	426.30	525.28
Plastic	Production process, packaging materials	80.58	67.64
Scrap Iron	Production process, replacement parts of machines and equipment	169.55	173.20
Boiler Slag	Coal-fired and CWS-fired Boilers	43,877.65	42,316.15
Coal Ash	Coal-fired and CWS-fired Boilers	62,288.15	49,772.82
Total Non-Hazardous Waste		108,589.48	95,196.72

5.2
Waste Reduction Results

To reduce hazardous waste generation, hazardous materials will be fully utilized before disposal. Yancheng Fuhui targets to reduce 3% of hazardous waste generation each year.

Scrap fabric from production is analyzed to support relevant trainings to employees, to reduce scrap fabric generation and lower cost of production. Apart from general refuse that cannot be recycled, waste paper, plastic and scrap iron are sold to recycling collectors. Boiler slag, coal ash and sludge (a□er being pressed) are collected by qualified waste processors for recycling into bricks or construction materials without polluting the environment. Paper, plastic, scrap iron, boiler slag and coal ash were 100% recycled, while fabric had over 99.5% of recycling rates in both 2015 and 2016.

> 99.5%

fabric recycling rate

100%

paper, plastic, scrap iron, boiler slag and coal ash recycling rates

SOCIAL

1 Employment and Labour Practices

IN THIS CHAPTER

1.1 Employment

1.2 Health and Safety Awareness Campaigns

1.3 Talent Development Programs

1.4 Employee Engagement Programs

1.5 Labour Compliance

1.6 Equal Opportunity

1.1
Employment

Employment Data

The Group o□ers competitive remuneration, promotional opportunity, compensation and benefit packages to attract and retains talents. The Production Sites had a total number of 6,802 employees (2015: 7,138 employees) as of 31 December 2016, in which all employees are full time sta□. The total workforce by gender, age group and geographical region are shown below.

1.2
Health and Safety Awareness Campaigns

The Group attaches great importance to health and safety of employees. Pursuant to the Occupation Disease Prevention and Control Act of the PRC, the provisions on Supervision and Administration of Occupational Health at Work Sites and other laws and regulations, the Group established an Industrial Safety Committee (the "Committee") to oversee its overall safety management. The Committee convenes regular meetings to discuss safety issues raised by departments and holds safety promotion activities (such as safety promotional board competition, fire drills, the "National Safety Month" promotion, emergency rescue training, and fire safety knowledge training, etc.) to raise safety awareness of employees.

Every year, the Group conducts an occupational risk factors assessment, evaluates on assessment results, analyzes existing risk factors in each production lines, and provides occupational health check for employees exposed to the potential hazards. To ensure employees' safety during production and operation, the Production Sites provide appropriate Personal Protective Equipment to employees and ensures qualified first aiders are on duty in every work sessions. Each department is also equipped with a first aid kit. During high temperature season, employees are provided with cooling materials and medicine to avoid heat stroke, if necessary.

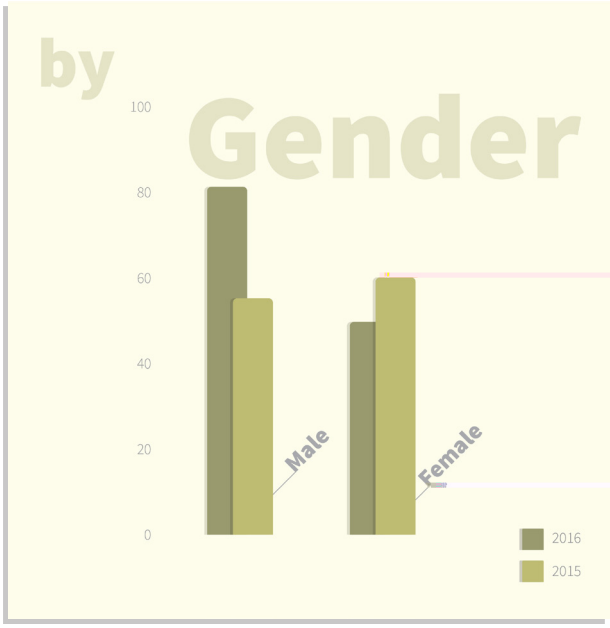
In the Reporting Period, there was zero (2015: zero) work-related fatalities. The Group emphasizes management practices to improve occupational disease prevention and control, effectively protecting health and safety of employees at work.

To ensure employees' safety during production and operation, the Production Sites provide appropriate Personal Protective Equipment to employees and ensures qualified first aiders are on duty in every work sessions.

1.3
Talent Development Programs

The Production Sites provides various trainings, such as managerial skill improvement training for managers, induction trainings for new employees, management courses for newly recruited university graduates and professional knowledge training. Internal training courses include topics of total production maintenance, emergency rescue, fire and safety prevention knowledge, energy consumption and gas emission, wastewater source and treatment, complaints handling and legal knowledge training. External training courses include topics of hazardous chemical handling, ISO internal auditors, forkli□ truck driving, crane machines operating, pressure pipelines operating, and trainings for operation o□icers and safety o□icers.

A total of 92,370 hours (2015: 96,843) training courses were conducted in the Reporting Period, the average training hours per employee is 12.79 hours (2015: 12.72 hours). The percentage of employees trained by gender and employment category are shown below.



Trained Employees by Gender

Trained Employees by Employment Category

Note 1 The percentage of trained employees by gender and employment category shown in the two charts above are calculated by averaging the percentage of trained employees by gender and employment category of the Production Sites.

1.4
Employee Engagement Programs

The Group believes that work life balance is essential to employees' personal development and work e□iciency. Therefore, various facilities including library, chess room, dance room, KTV room, table tennis room and basketball court are provided for employees for team spirit activities and relaxation. The Group also arranges activities during festivals (including Chinese New Year, Women's Day, Labour's Day, Mid-Autumn Festival and Christmas) to enhance employees' sense of belongings to the Group. Some other activities include:

- Tug-of-war game
- Table tennis competition
- Billiards competition
- Basketball competition
- Football competition
- Drama-watching activity
- Dancing activity

1.5
Labour Compliance

The Group's recruitment policy clearly requires that employee shall be aged 18 years or older. During interviews, candidate must carry formal identification card for the personnel team to check and verify his/her age and identity. No forced labour was involved within the Group. Apart from complying with Labour Law of the PRC, Article 26 of the Group's employment contract between the Group and employee stipulates that in case of any forced labour by violence, threat, or illegal restriction of personal freedom, or any degrading treatment or infringement of the legitimate rights and interests of employees initiated by the Group, the employment contract may be terminated by employees, with a compensation fee to be paid by the Group. Employee candidates' identity cards and certificates are verified against their identity and age before being interviewed. Upon request, the Group may arrange a third-party adjuster to carry out audit on the Code of Conduct or social compliance.

Employees shall be aged

18 years

or older

1.6
Equal Opportunity

The Group is in compliance with provisions on Equal Employment of the Labour Law and the Employment Promotion Law of the PRC. Equal opportunities are given to employees in respect of recruitment, training and development, job advancement, and compensation and benefits. The employees are not discriminated against or deprived of such opportunities on the basis of gender, ethnic background, religion, colour, sexual orientation, age, marital status, family status, retirement, disability, pregnancy or any other discrimination prohibited by applicable law. The Group also appreciates the importance of cultural diversity in its development, and employs employees in a wide range of ages, genders and ethnicities.

Equal opportunities are given to employees in respect of recruitment, training and development, job advancement, and compensation and benefits.

2 Operating Practices

IN THIS CHAPTER

2.1 Supply Chain Management

2.2 Product Responsibility

2.3 Anti-corruption

2.1
Supply Chain Management

To ensure that all yarns used meet industry and customer standards, the Group maintains a stringent management system on yarn procurement:

- Suppliers must provide detailed information, including its corporate structure, product, production capacity and equipment details during supplier application process.
- Suppliers shall provide sample yarn as required for quality test.
- Procurement is only made from sources which pass the quality test, on a gradual and prudent basis to balance the risks.
  - Any supplier without purchase record within six months shall re-provide yarn sample to determine its quality.
  - Suppliers are required to provide shipment sample of bulk goods for test, to prevent delivery of any sub-standard products.
  - Responsible unit is assigned to follow up new yarn brands to track their quality performance.

The Group pays special attention to child labour, child abuse, and preventing dissemination of cotton to extremist groups. It prevents sourcing raw materials from countries using child labour and involving terrorism. It also responds to the international call of preventing using cotton from Uzbekistan, Turkmenistan and Syria. The Group requires suppliers to sign an undertaking to ensure that no cotton from the above countries will be used in their supplied goods. Provision 6, Chapter 2 of the Employment Handbook of the Group also strictly prohibited corruption and bribery act in procurement activities. Employees who violated the provision can be dismissed.

2.2
Product Responsibility

Management Guideline for Standardized Safe Production

The Group engages in knitting, dyeing, finishing and garment manufacturing in the PRC are subject to the management guideline for standardized safe production (the "Guideline"). The Guideline defines a series of measures to regulate production activities including establishment of a health and safe production management system, regular inspection of accident hazards, monitoring of major hazard sources, and establishment of a mechanism to avoid accidents and ensuring safe production. The Guideline ensures the Group meets laws, regulations and standards on production safety and continues to strengthen standardization of safe production in each process of daily production. This ensures that workforce, machines, materials and the environment remain in good and healthy conditions for safe production.

Intellectual Property and Confidentiality

The Group has established a proprietary management system for patents and intellectual property. When developing a new product, the Group will first make sure whether the product involves intellectual property. If it involves intellectual property, the Group will sign a confidentiality agreement with the associated suppliers and customers on intellectual property, privacy and trade secrets. When receiving customers' design dra□ and internal documents (such as testing standards manual), the Group adopts measures to ensure that their intellectual property, privacy and other trade secrets are protected and kept confidential.

Complaints Handling

Our product verification process is completed in accordance with the standards agreed with customers. Upon receiving a customer complaint on product quality, the Group will request customer to provide the sample of which he/she complained, or assign its quality control team to verify with the customer whether the Group is responsible for the complaining problem. If the Group is responsible for the problem, the Group will take immediate remedy actions and review internally to avoid recurrence of the same incident. There were no products recalled due to safety and health reasons in the Reporting Period.

2.3
Anti-corruption

The Group commits to managing all business without undue influence and has regarded honesty, integrity, and fairness as its core values. The Group has strict anti-corruption internal guidelines in place, and cooperate with customers in implementing its whistle-blowing policy. Its internal anti-corruption policies are set out in the employee handbook, employee confidentiality agreement and the guidelines on conflict of interest, together with a dedicated e-mail account for integrity to receive complaints about corruption. Anti-corruption monitoring and investigation committee is also established to monitor anti-corruption performances. The Group is in compliance with the Provisions on prohibiting corruption and bribery of the Criminal Law of the PRC, and received no corruption case to be investigated, under trial or convicted in the Reporting Period.

Anti-corruption monitoring and investigation committee is also established to monitor anti-corruption performances. The Group is in compliance with the Provisions on prohibiting corruption and bribery of the Criminal Law of the PRC, and received no corruption case to be investigated, under trial or convicted in the Reporting Period.

3 Community

IN THIS CHAPTER

3.1 Community Investment

Reference to "HKEx ESG Reporting Guide"

Environmental

Aspect A1: Emissions			Pages
"Comply or explain" Provisions	General Disclosure Information on: a) the policies; and b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste:		28-49
	KPI A1.1	The Types of emissions and respective emissions data.	32-35
	KPI A1.2	Greenhouse gas emissions in total and, where appropriate, intensity.	33-34
	KPI A1.3	Total hazardous waste produced and, where appropriate, intensity.	47
	KPI A1.4	Total non-hazardous waste produced and, where appropriate, intensity.	48
	KPI A1.5	Description of measures to mitigate emissions and results achieved.	36-37
	KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	49

Aspect A2: Use of Resources			Pages
"Comply or explain" Provisions	General Disclosure Policies on the e□icient use of resources, including energy, water and other raw materials.		38-45
	KPI A2.1	Direct and/or indirect energy consumption by type in total and intensity.	39
	KPI A2.2	Water consumption in total and intensity.	43-44
	KPI A2.3	Description of energy use e□iciency initiatives and results achieved.	40-41
	KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water e□iciency initiatives and results achieved.	45
	KPI A2.5	Total packaging material used for finished products and, if applicable, with reference to per unit produced.	NA
Aspect A3: The Environment and Natural Resources			
"Comply or explain" Provisions	General Disclosure Policies on minimising the issuer's significant impact on the environment and natural resources		28-49
	KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	28-49

Social

Employment and Labour Practices			
Aspect B1: Employment			Pages
"Comply or explain" Provisions	General Disclosure Information on: a) the policies; and b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.		53-54, 57, 59
Recommended Disclosures	KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	53-54
	KPI B1.2	Employee turnover rate by gender, age group and geographical region.	NA
Aspect B2: Health and Safety			
"Comply or explain" Provisions	General Disclosure Information on: a) the policies; and b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.		55
Recommended Disclosures	KPI B2.1	Number and rate of work-related fatalities.	55
	KPI B2.2	Lost days due to work injury.	NA
	KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	55

Aspect B3: Development and Training			Pages
"Comply or explain" Provisions	General Disclosure Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.		56
Recommended Disclosures	KPI B3.1	The percentage of employees trained by gender and employee category.	56
	KPI B3.2	The average training hours completed per employee by gender and employee category	56
Aspect B4: Labour Standards			
"Comply or explain" Provisions	General Disclosure Information on: a) the policies; and b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.		58
Recommended Disclosures	KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	58
	KPI B4.2	Description of steps taken to eliminate such practices when discovered.	58

Operating Practices			
Aspect B5: Supply Chain Management			Pages
"Comply or explain"			

Aspect B7: Anticorruption			Pages
"Comply or explain" Provisions	General Disclosure Information on: a) the policies; and b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.		63
Recommended Disclosures	KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	63
	KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	63
Community			
Aspect B8: Community Investment			
"Comply or explain" Provisions	General Disclosure Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.		64-67
Recommended Disclosures	KPI B8.1	Focus areas of contribution.	64-67
	KPI B8.2	Resources contributed to the focus area.	64-67

福田實業(集團)有限公司

Founta