



ENVIRONMENTAL
SOCIAL AND
GOVERNANCE
REPORT

2016



GET IT RIGHT

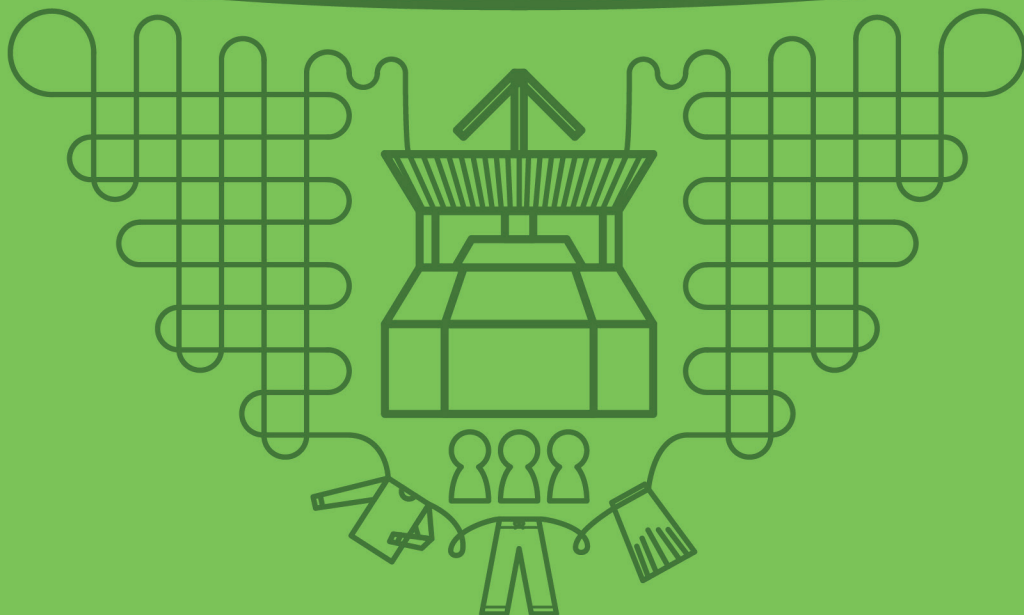


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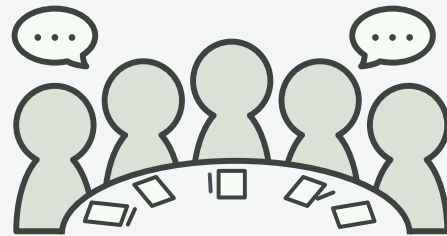


ABOUT THIS REPORT

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.

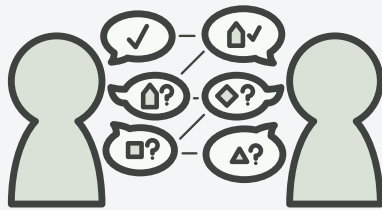
This is the first Environmental, Social and Governance (the "ESG") report (the "Report") by the Group, highlighting its ESG performance, with disclosure reference made to the ESG reporting guide as described in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong 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 hereafter 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 offering 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 efficiency 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:

6



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 Certificate¹

Issued by

Beijing Zhongjing Quality Certification Co., Ltd

Issued to

Jiangyin Fuhui





Award/Certification
ISO 50001:2011 Energy Management System Certificate¹



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

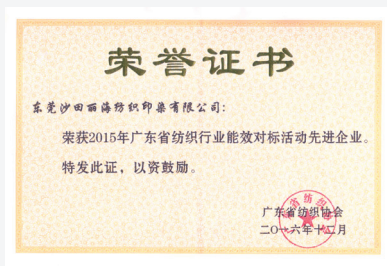


Award/Certification
Sustainable Textile Production (STeP) Certification



Issued by
TESTEX AG, Swiss Textile Testing Institute

Issued to
Shatin Lake Side



Award/Certification
2015 Guangdong Province Outstanding Enterprise of Textile industry for efficiency achievement activities¹



Issued by
Guangdong Textile Association

Issued to
Shatin Lake Side



Award/Certification

2016 Outstanding Enterprise of Safety Production¹

Issued by

Management Office of Yancheng Economic-Technological Development Zone and Integrated Duty-Free Area¹

Issued to

Yancheng Fuhui



Award/Certification

Work Safety Standardization Second Class Enterprise (textiles)¹

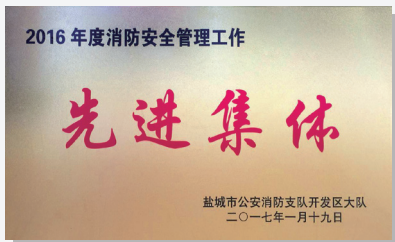
Issued by

Jiangsu Province Administration of Work Safety¹

Issued to

Yancheng Fuhui

8



Award/Certification

2016 Outstanding Enterprise of Fire Safety Management¹

Issued by

Fire Brigade of Public Security of Development Zone of Yancheng City¹

Issued to

Yancheng Fuhui



Award/Certification

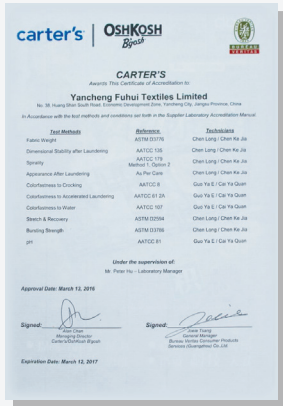
China National Textile and Apparel Council Testing Certificate¹

Issued by

China National Textile and Apparel Council Testing Center¹

Issued to

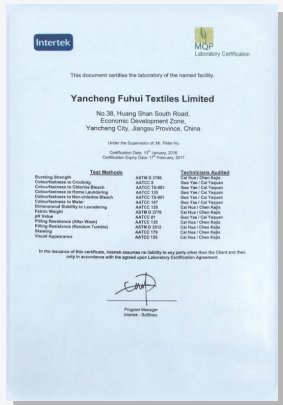
Jiangyin Fuhui



Award/Certification
Certificate of Accreditation



Issued by
Bureau Veritas Group
 Issued to
Yancheng Fuhui



Award/Certification
Laboratory Certificate Agreement



Issued by
Intertek Group
 Issued to
Yancheng Fuhui



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 official 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 efficiency ("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 efficiency 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, efficiency 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 Upgrading

Amid the expansion pace of the consumer knitting fabric market, consumers have raised higher expectations on clothing, particularly in terms of diversification, comfort and durability. As such, equipment upgrading can make it easier to produce novel products to meet the changing needs of consumers.

IN THIS CHAPTER

- 2.1 Fixed Assets Investment (2011 to 2016) (HK\$ '000)
- 2.2 Investment in Environmental Protection and Energy-saving Assets (HK\$ '000)
- 2.3 Environmental Investment, Energy Saving and Emission Reduction Statistics (By Project) (HK\$ '000)
- 2.4 Specialized Equipment Upgrading

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

2.2

Investment in Environmental Protection and Energy-saving Assets (HK\$ '000)

Subsidiary	2011	2012	2013	2014	2015	2016	Total HK\$
Futian Oasis	—	—	—	—	—	99,254	99,254
Jiangyin Fuhui	—	9,394	8,566	2,973	12,907	14,547	48,387
Yancheng Fuhui	1,077	1,458	36,278	28,371	7,646	9,468	84,298
Shatin Lake Side	5,721	2,151	8,433	9,721	15,408	8,923	50,357
Total (in HK\$ '000)	6,798	13,003	53,277	41,065	35,961	132,192	282,296

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 different 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 after 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 development 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 after 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 dyestuff is subject to spot check as summarized into a dyestuff 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 offer fashionable, diverse, fast-delivered and cost-effective products, and conveying their demands to the downstream supply chain. This presents greater opportunities for the enterprises capable of catering to such demands in the mainstreams of resource

sharing, collaborative development and strategic cooperation.

Fountain Set capitalizes on its own advantages to supply exclusive products to brands via thematic development while opening dedicated factories for branded garment to provide one-stop services for strategic cooperation.

IN THIS CHAPTER

- 5.1 Foundation for product diversification
- 5.2 Thematic development for strategic customers
- 5.3 Providing necessary production conditions for quick response

5.1 Foundation for product diversification



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- MENTAL

Principal activities of the Production Sites are fabric knitting, dyeing, printing, finishing and garment manufacturing. These activities primarily involve direct emission of carbon dioxide (“CO₂”), nitrogen oxides (“NO_x”), sulphur dioxide (“SO₂”), 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 m² 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



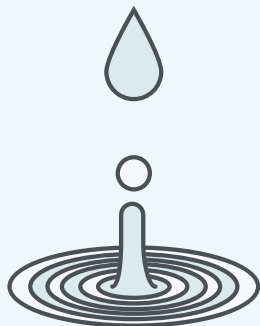
1.1 Emission Reduction

- ▶ Investment of over RMB 300 million in the sustainable business of Centralized Heat Supply Project
- ▶ Elimination of a total of 28 sets of high energy consumption and high pollution boilers in estimation by 2018



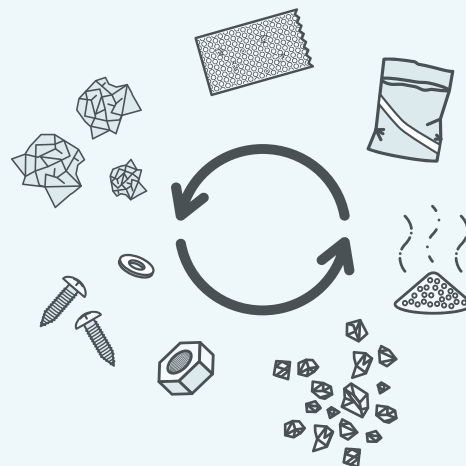
1.2 Energy Conservation

- ▶ Saving over 44,000 tonnes of steam
- ▶ Saving over 3,319,000 kWh of electricity



1.3 Water Conservation

- ▶ Saving over 32,000 tonnes of water



1.4 Waste Recycling

- ▶ 100% recycling rates for paper, plastic, scrap iron, boiler slag and coal ash
- ▶ Over 99.5% recycling rate for fabrics

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 CO₂e in tonnes of		Total Emission %	
		2015	2016	2015	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.

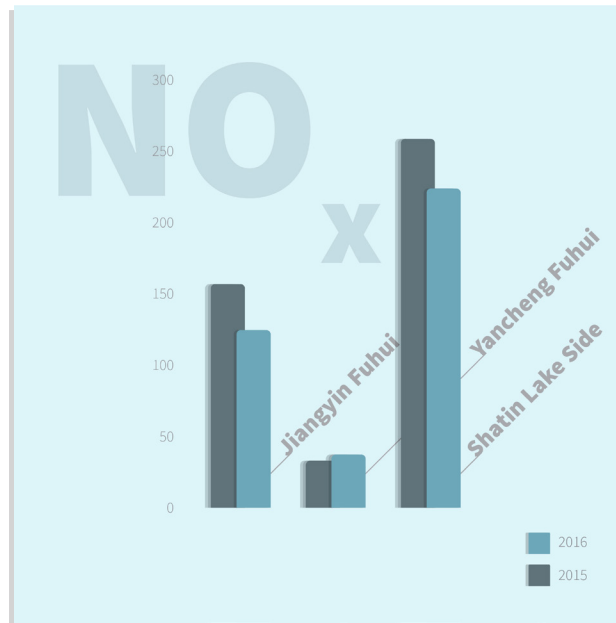
Note 3 Combined margin emission factor (average) of 0.88 t-CO₂/MWh was used for purchased electricity in the PRC.

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.

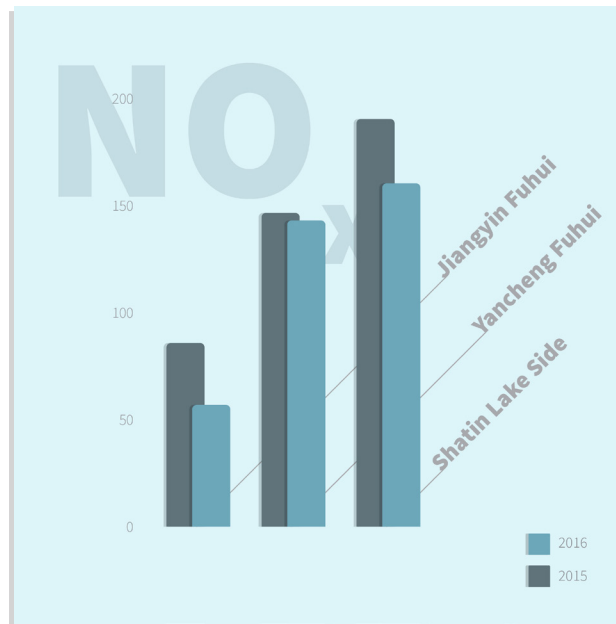
There was 806,789 tonnes (2015: 754,722 tonnes) of carbon dioxide equivalent greenhouse gases (“CO₂e”) (mainly carbon dioxide and nitrogen oxides) emitted from the Production Sites’ operations during the Reporting Period. The annual emission intensity was 0.93 tCO₂e/m² (2015: 0.87 tCO₂e/m²). While total emission and emission concentration of nitrogen oxides, sulphur dioxides, and dust and smoke are shown graphically. All emission quantity and emission concentration complied with the air-related local government and national regulations and standards including:

1. Environmental Protection Law of the PRC;
2. Environmental Impact Assessment Law of the PRC;
3. Prevention and Control of Atmospheric Pollution Law of the PRC; and
4. Emission Standard of Air Pollutants for Boiler of the PRC (GB13271-2014).

Emission of Nitrogen Oxides (NO_x)

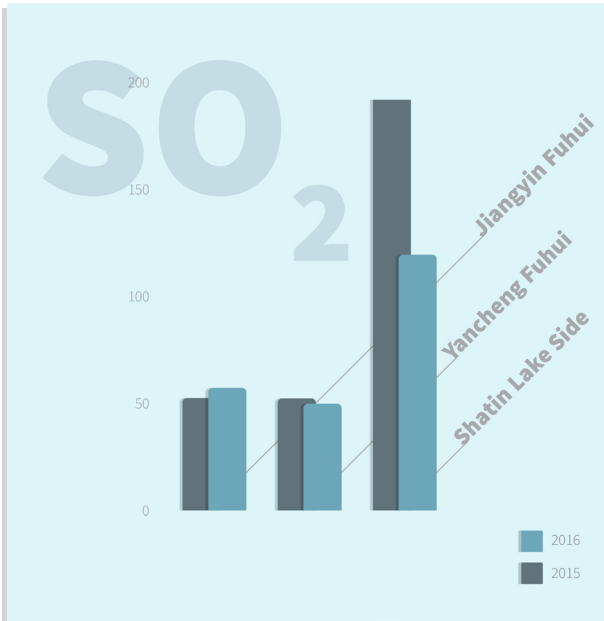


Total Emission (In tonnes)



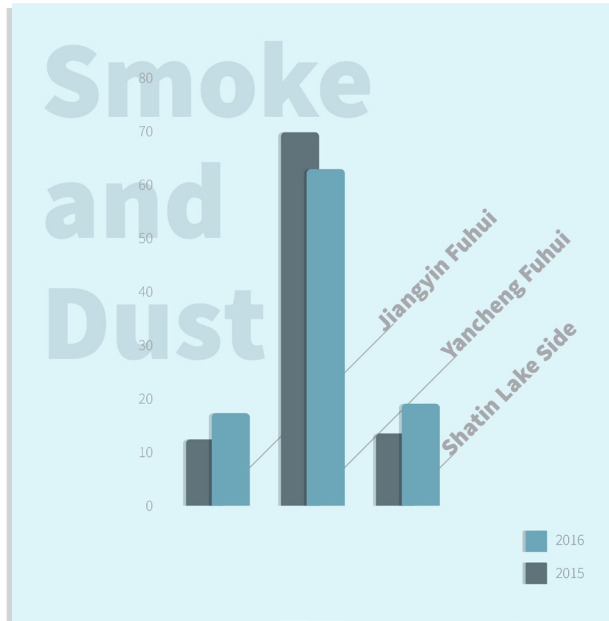
Concentration (In mg/m³)

Emission of Sulphur Dioxides (SO₂)

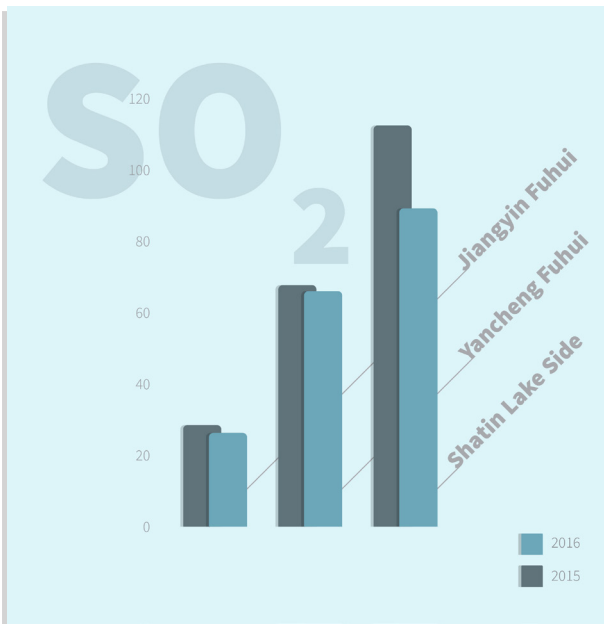


Total Emission (In tonnes)

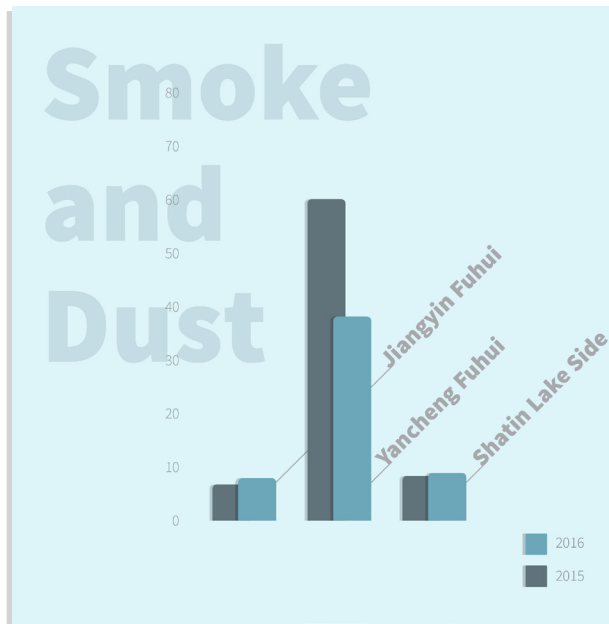
Emission of Smoke and Dust



Total Emission (In tonnes)



Concentration (In mg/m³)



Concentration (In mg/m³)

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 efficiency (84%) and burnout rate (98%) produce less NO_x, 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 efficiency and 98% of dust removal efficiency 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 efficiency best practices) assessed, Shatin Lake Side was accredited with the LCPM Gold Label for the period 2015 to 2017.

About the CWS:

84%

combustion efficiency

98%

burnout rate

produce less NO_x, SO₂
and smoke and dust
than burning other
fuel oil.

2.3

Centralized Heat Supply Project of Futian Oasis

The Shatian Town Industrial Park (for electroplating, printing and dyeing industry) is one of the seven largest environmental industrial parks in Dongguan City. It integrates and assembles the industry's enterprises within the park and in other areas in Shatian Town which are required to be relocated. It also coordinates security, hygiene, road connections and discharge standards of enterprises in the park, promoting clean production and facilitating industrial advancement. In 2010, the Environmental Impact Assessment Report of Shatian Town Industrial Park (for electroplating, printing and dyeing industry) in Dongguan City was reviewed and approved by the Guangdong Provincial Environmental Department.

The centralized heat supply project is one of the ancillary projects of the industrial park development, which is also a key project of the Implementation Plan of Centralized Heat Supply in Guangdong Industrial Park and Industrial Cluster Areas. In May 2016, Shatian Town People's Government signed an agreement with Dongguan Futian Oasis Heating Co. Ltd. (a subsidiary of the Group) to invest in the centralized heat supply project, which will also supply heat to Shatin Lake Side.

Project Information

- ▶ The total investment in the centralized heat supply project is approximately RMB 316.5 million, which comprises an environmental investment of approximately RMB 50 million, which is 15.8% of the total project investment. The floor area is 10,470 m².
- ▶ The project mainly adopts 4 sets of 100 t/h clean circulating fluidized bed boilers (3 sets for operation and 1 set as backup). Flue gas is cleaned by denitrification using selective non-catalytic reduction (SNCR) and selective catalytic reduction (SCR), limestone-gypsum desulfurization, dust collectors and wet



15.8%

**of total project investment
is environmental investment**

**4 sets of
100 t/h**

clean circulating fluidized bed boilers adopted

electrostatic precipitator for dust removal to ensure clean emission (with NO_x < 50mg/m³, SO₂ < 35 mg/m³, smoke and dust < 10 mg/m³)

- ▶ When the project enters into full operation, a total of 28 sets of high energy consumption and high pollution boilers will be eliminated, contributing to cleaner air by the reduction of NO_x, SO₂ and smoke and dust emission.

3 Energy

IN THIS CHAPTER

- 3.1 Energy Consumption
- 3.2 Energy Saving Results

3.1 Energy Consumption

The Production Sites purchase electricity, coal, CWS, steam and diesel oil for its coal-fired and CWS-boilers operations. Below shows the amount of resources purchased in 2015 and 2016.

Purchased Resources

2015

2016



Electricity (in kWh)

44,967,259

51,712,539



Coal (in tonnes)

361,485

398,992



CWS (in tonnes)

28,507

29,320



Steam (in tonnes)

114,063

119,934



Diesel (in tonnes)

420

390

The Group had an electricity intensity of 59.91 kWh/m² (2015: 52.10 kWh/m²). The electricity and resources consumption are dependent on factors including change of production lines, production process and production volume. Although electricity, coal, CWS, and steam consumption was higher in 2016 than in 2015, the Production Sites' energy saving initiatives have significantly reduced consumption of additional electricity and resources as shown in 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.

This brings a saving of 44,125 tonnes of steam and 3,319,800 kWh of electricity in the Reporting Period.

Implementation

Residual Heat Recovery System

Description

Steam from coal-fired boilers is reused to its production process. Heat from high temperature wastewater is also recycled to heat water used for dyeing. The residual heat recovery system contributes to a saving of 38,157 tonnes of steam, which is an equivalent of 1,674 tonnes of coal consumption.

Implementation Company

Jiangyin Fuhui,
Yancheng Fuhui

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-efficient, 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/m² (2015: 19.00 tonnes/m²).

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/m² (2015: 19.00 tonnes/m²), 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

4.2

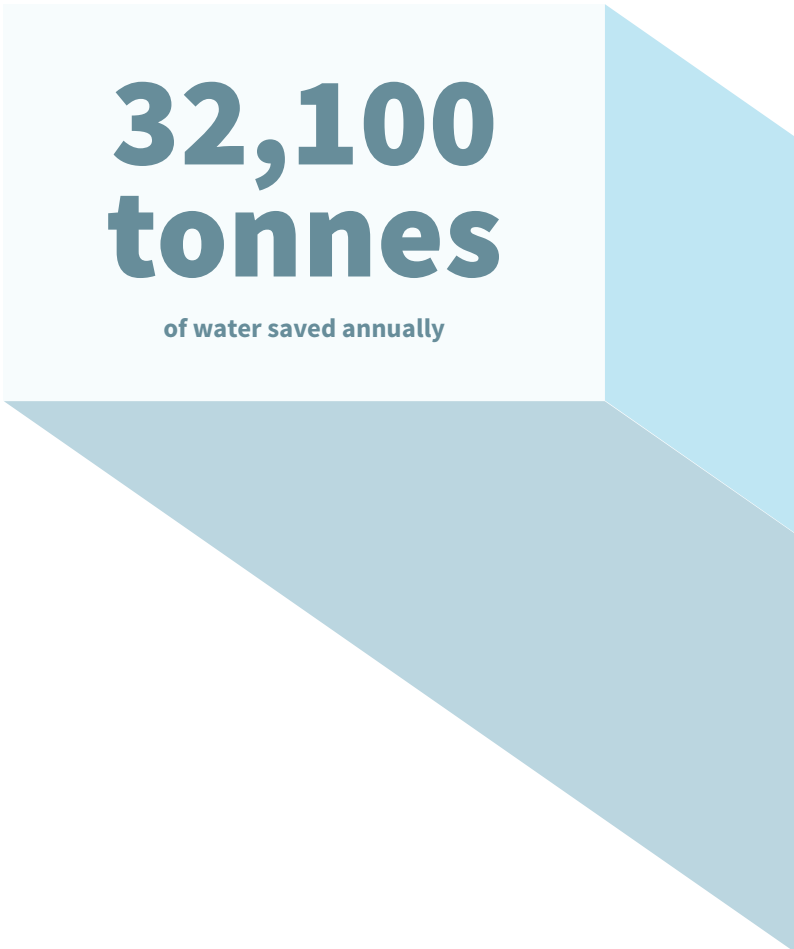
Water Saving and Discharge Quality Control Results

The upgrade of the boiling process for pre-stained TC/CVC dyed fabrics and replacement of RC process by dual washing in Jiangyin Fuhui not only saved energy, but also brought significant annual water savings. In terms of discharge wastewater quality, Yancheng Fuhui built a new biochemical pool in 2016. The pool enhances pollutants removal efficiency in wastewater and reduces COD concentration of discharge water. In July 2016, water softening resin in water softeners was also changed to enhance softened and high quality water production, which saved 32,100 tonnes of water annually.

Other initiatives on water consumption and treatment include:

- ▶ Reinforcement of overall water management by reducing leakage and wastage during production processes
- ▶ Better control of water level and flow in dyeing machines to minimize water consumption and wastewater discharge
- ▶ Reuse of less polluted water for floor and toilet cleaning
- ▶ Separate collection of cooling water for reuse
- ▶ Enhancement of wastewater treatment efficiency to reduce pollutants in discharge water (e.g. upgrading aeration biological filter and water treatment blowers)

In the Reporting Period, 4,069,827 tonnes (2015: 4,020,805 tonnes) of water was reused.



**32,100
tonnes**

of water saved annually

5 Waste

IN THIS CHAPTER

5.1 Waste Disposal

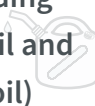
5.2 Waste Reduction Results

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	Amount 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	Amount 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 (after 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**

The image features a solid yellow background. On the left side, there are three vertical lines of varying colors: a teal line, a light blue line, and a white line. The word "SOCIAL" is written in large, bold, white, uppercase letters in the lower right quadrant. A thin white vertical line extends downwards from the bottom of the letter "A" in "SOCIAL".

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

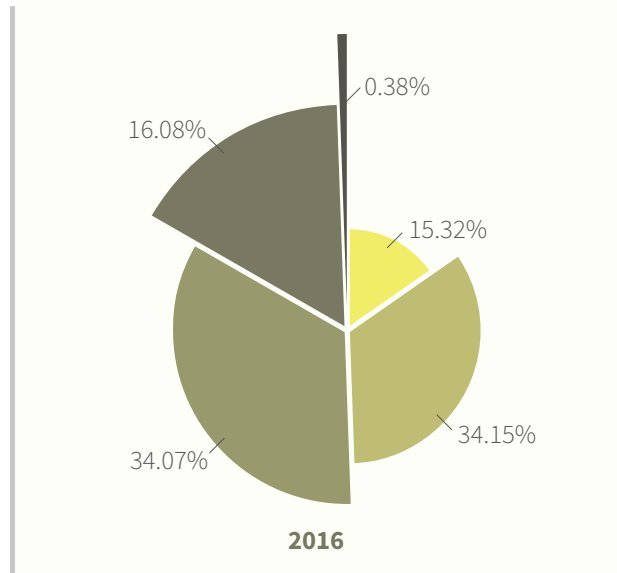
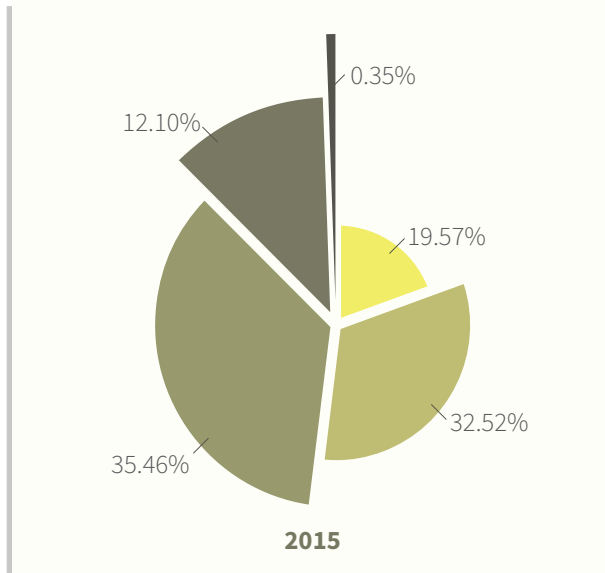
Employment Data

The Group offers competitive remuneration, promotional opportunity, compensation and benefit packages to attract and retain 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 staff. The total workforce by gender, age group and geographical region are shown below.

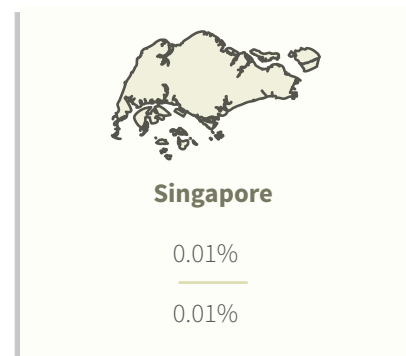
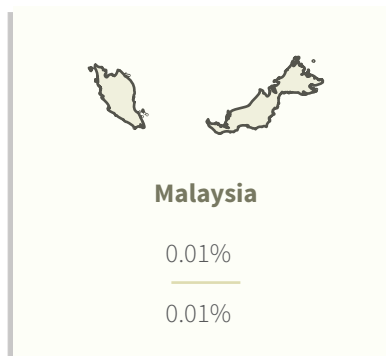
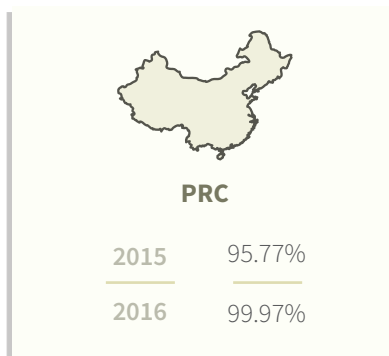


Workforce by Age Group

18-25 26-35 36-45 46-55 56 and above



Workforce by Geographical Region



Employment Welfare and Insurance

The Group is in compliance with the Labour Law, Labour Contract Law, and the Social Insurance Law of the PRC. During the Reporting Period, the Production Sites provided basic social insurance (including pension, unemployment, work-related injury, medical and maternity insurance) and group personal accident insurance for all qualified employees on top of those required by the local laws and regulations. In addition, some employees are also entitled to employer liability insurance to protect employees in a broader extent.

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.

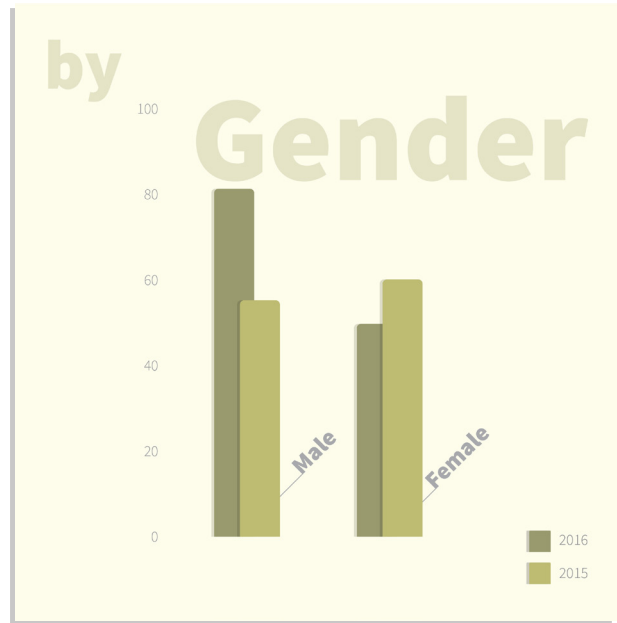
In the Reporting Period, there was zero (2015: zero) work-related fatalities. The Group emphasizes management practices to improve occupational disease prevention and control, effectively protecting health and safety of employees at work.

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.

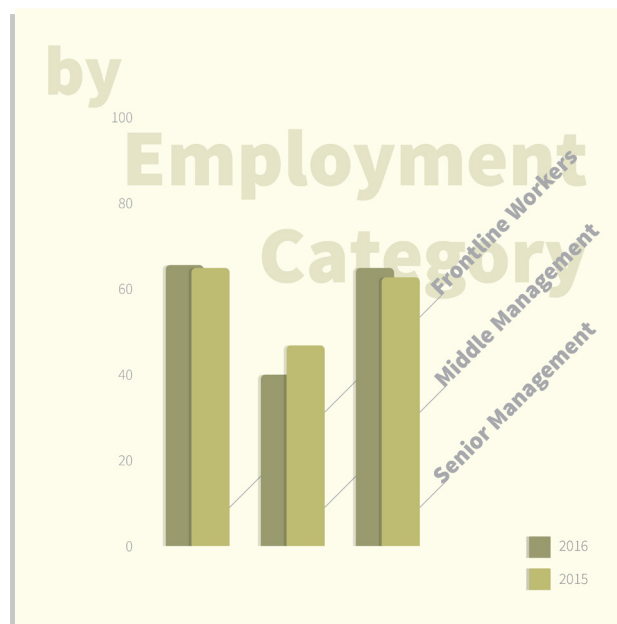
1.3 Talent Development Programs

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, forklift truck driving, crane machines operating, pressure pipelines operating, and trainings for operation officers and safety officers.

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 efficiency. 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 draft 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.

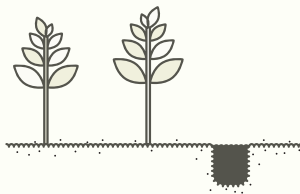
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3 Community

IN THIS CHAPTER

3.1 Community Investment

3.1 Community Investment



Tree Planting in Xiexishan Park, Dongguan

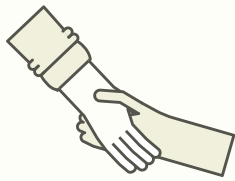
In April 2016, Shatin Lake side participated in a tree planting activity in Xiexishan Park, Shatian Town, Dongguan.



Voluntary Non-Remunerated Blood Donation

Voluntary non-remunerated blood donation marks the progression in social civilization and is a beneficial charitable event.

The Group held two voluntary non-remunerated blood donation activities in June 2016 and September 2016. The two activities were held in Dongguan and Jiangsu, one of them was in association with the Population and Health Bureau in Humen Port. The two donation activities ended successfully with a total of 126 participants and a total blood donation volume of 41,300 ml.



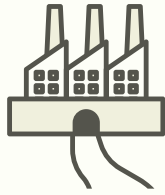
Guangdong Poverty Alleviation and Dongguan Charitable Day 2016

In June 2016, the People’s Government of Dongguan City organized a Guangdong Poverty Alleviation and Dongguan Charitable Day 2016 in Humen Port, Shatian Town. Shatin Lake Side donated a sum of RMB 10,000 to the event. The event involved discussion forum, donation activities and beneficiaries visit. Our Group participated in the event and put words into action to help poverty alleviation by various means.



Family Engagement Programs

During the summer holiday in 2016, Jiangyin Fuhui offered free summer courses to employees’ children to enhance all-rounded development of their children. These courses included Chinese dance, sketching, summer homework tutorial, poetry and literature reading, vocal and English oral learning.



Invitation of Site Visit in Jiangyin Fuhui

The Group gives emphasis to discharging its social responsibilities to nurture the next generation and cooperate with local educational institutions. In July 2016, Jiangyin Fuhui invited young reporters from "Xiaozhuren News" to visit its factory. This provided a valuable opportunity for the young generation to understand the customized textile operation, and the Group to communicate with the young reporters.

Reference to "HKEx ESG Reporting Guide"

Environmental

Aspect A1: Emissions		Pages	
"Comply or explain" Provisions	<p>General Disclosure</p> <p>Information on:</p> <p>a) the policies; and</p> <p>b) compliance with relevant laws and regulations that have a significant impact on the issuer</p> <p>relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste:</p>	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 efficient 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 efficiency 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 efficiency 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” Provisions	General Disclosure Policies on managing environmental and social risks of the supply chain.		61
Recommended Disclosures	KPI B5.1	Number of suppliers by geographical region.	NA
	KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	61
Aspect B6: Product Responsibility			
“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 health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.		62
Recommended Disclosures	KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	62
	KPI B6.2	Number of products and service related complaints received and how they are dealt with.	NA
	KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	62
	KPI B6.4	Description of quality assurance process and recall procedures.	62
	KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	62

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



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