

# **YANGTZEKIANG GARMENT LIMITED**

(Stock Code : 294)

## **Environmental, Social and Governance (ESG) Report 2016/17**

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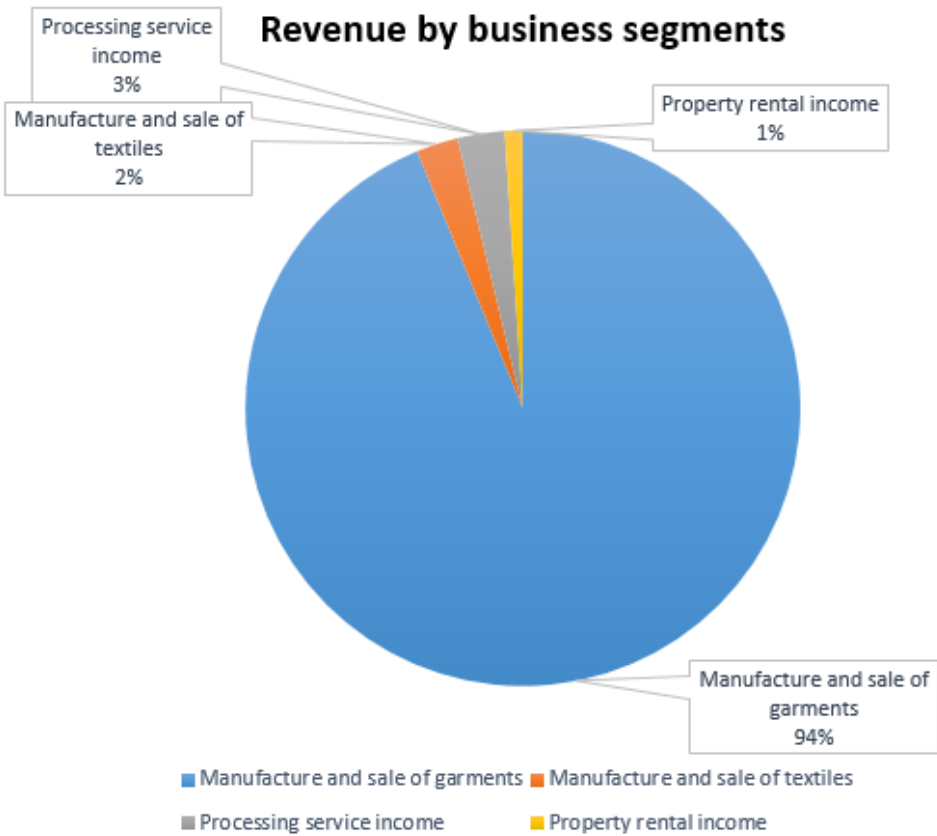
## **1 About this report**

### **1.1 Reporting Reference**

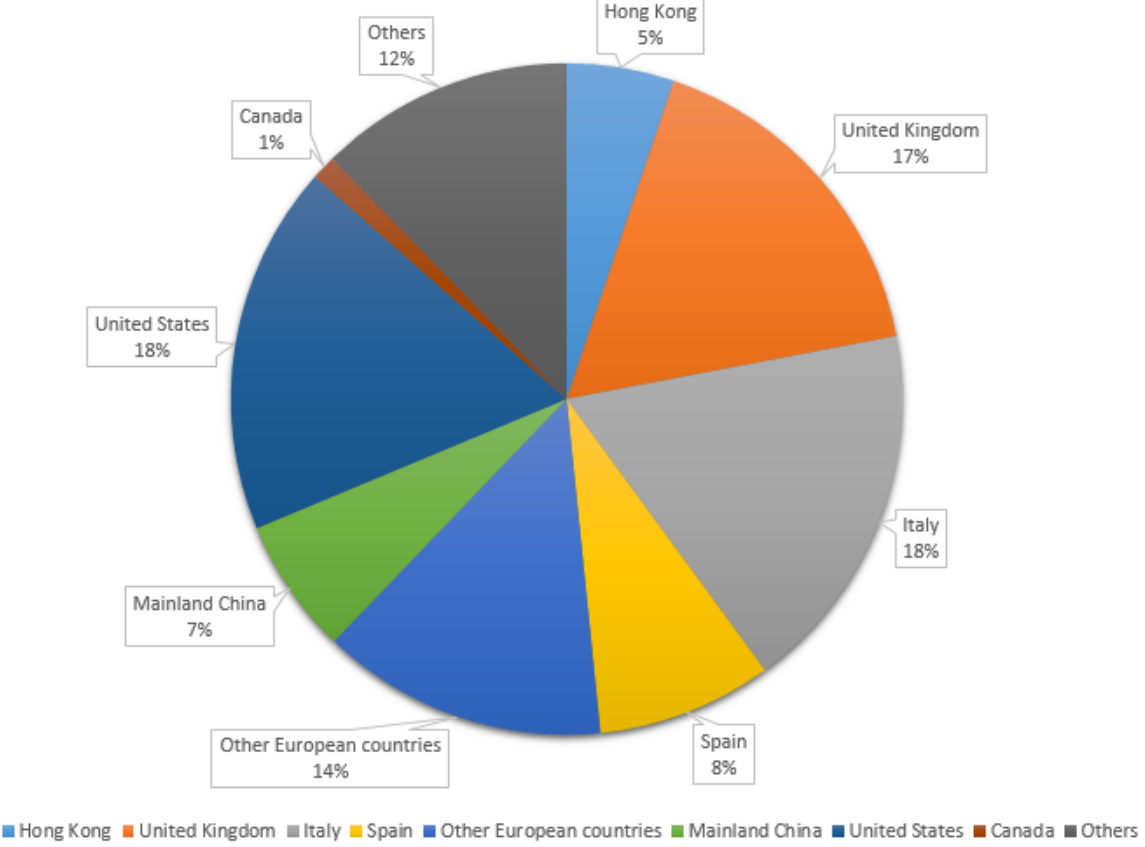
This is the first Environmental, Social and Governance (“ESG”) Report of Yangtzekiang Garment Limited (“the Company” or “the Group”) prepared in accordance with the general disclosure requirement of Environmental, Social and Governance Reporting Guide (“ESG Guide”) in Appendix 27 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (“HKEX”), meeting the “comply or explain” provision of the ESG Guide for the year ended 31 March 2017.

### **1.2 About our Business**

Yangtzekiang was established in 1949, officially listed in Hong Kong in 1970. For more than half a century, the Group has grown from a single garment factory model to a diversified garment industry with operations around the world. The Group produces a wide range of products, including men's and ladies' shirts, trousers, shorts, polo shirts, T-shirts, coats and knitted jackets. The Group is headquartered in Hong Kong and is responsible for handling its core apparel business, including manufacturing, trading and purchasing. The Group has a total of four (4) subsidiary factories in China (Guigang and Panyu), Bangladesh and Myanmar. We have also a joint venture with Wuxi No. 1 Cotton Investment Co., Ltd. (“Wuxi Group”), owning textiles related companies in Wuxi, China, in which we have a 49% shareholding.



### Revenue by geographical location



**1.3 Scope of this Report**

This report covers the 2016/17 fiscal year (April 1, 2016 to March 31, 2017), the same as the annual report of the Group. The main business scope of this report is the manufacture and sale of garments, accounting for most of the Group's total revenue (94%). The report covers the environmental and social performance of the Hong Kong Head Office and the production facilities as provided below:

<b>Location of factories</b>	<b>Name of the subsidiaries</b>
Panyu	Exquisite Knitters (Guangzhou) Limited
Guigang	Whampoa Garment Manufacturing (Guigang) Co., Ltd.
Myanmar	Dagon Talent Garment Limited
Bangladesh	Lavender Garment Limited

## **2 Stakeholder Engagement and Materiality Assessment**

### ***Stakeholder Engagement***

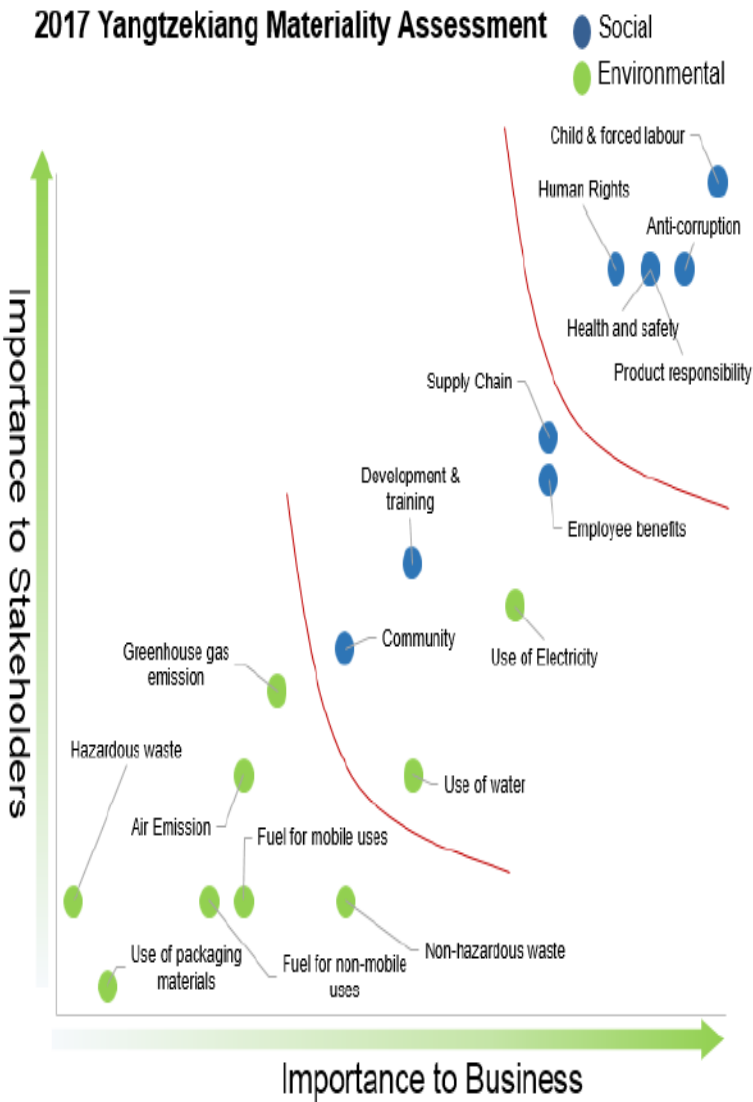
Materiality assessment is essential in identifying the focus of our ESG management strategies. Engaging our stakeholders provides important input for our decision making, which helps us to continuously improve and make progress toward our ESG commitments.

For the first year in preparing the ESG report, we have primarily conducted engagement with our senior management, who has hands-on knowledge of our operations as well as close relationships with key investors and business partners, in collecting views and identifying materiality for the Group. With the facilitation of a third party consultant, engagement surveys and interviews were conducted and assessed. Findings were subsequently transcribed into the materiality results as described in the section below.

We are committed to ongoing stakeholder engagement as a core component of our business and sustainability strategies and our annual reporting process. Our key stakeholders included our clients, employees, suppliers and contractors. We plan to expand our scope of stakeholder engagement exercise year by year, by means of the variety of our stakeholders, in order to get a more comprehensive feedback for continual improvement of our ESG performance.

**Materiality Assessment**

Views and opinions collected during the stakeholder engagement were assessed and summarized in a materiality matrix.



Each material ESG issue and its relevance to the business operations are listed in descending order categorized by environmental and social aspects in the table below:

Aspects	Material Issues	Relevance to the Business
Environmental	Use of Electricity	Electricity use is essential to enable the operation of our business, from factories to office to dormitories, from machine running to air-conditioning to lighting etc.
	Use of Water	Due to the nature of our manufacturing process, water is not used mainly in our production. Other used include domestic uses from our production facilities and the dormitories.
Social	Child and Forced Labour	The Group firmly opposed to all child labour and forced labour. We respect and work with our employees with dignity. It is also an essential aspect requested by our clients.
	Human Right	
	Health and Safety	We are committed to providing our employees with a healthy and safe working environment.
	Anti-Corruption	Integrity is one of the core values of the Group, we believe that this is the cornerstone of business development.
	Product Responsibility	High quality and safe products with minimal environmental impacts are essential to sustain our business and the only means to maintain customers' confidence of our company.



### **3 Social**

The Company hold ourselves to the highest standards of integrity and ethics in everything we do. In doing so, we protect the trust placed in us by our buyers and maintain and enhance the foundation of our long-term sustainability and success.

The Group provides guidance and standards on how to conduct business to all YGM management and employees. Our business partners, including factories, contractors, suppliers and others who act on behalf of YGM are required to adopt similar standards and practices as ours.

At all times we do our best to meet the legal requirements of the country we are working in.

#### **3.1 Employment and Labour Practices**

##### **3.1.1 Employment**

The Group supports the diversification of labor and equal opportunities for all employees. We recruit local people according to the knowledge, skill and working experience they possess without making reference to their gender, age, marital status, race, religion, physical or mental disability, union membership or political affiliation (they have freedom of association and right of collective bargaining). The hiring terms of their employment, including minimum wages, maximum working hours, overtime payment, rest periods, compensation and dismissal, are all made in compliance with relevant local labor laws and regulations.

Employees are entitled to all the paid holidays under local laws, such as statutory holidays, leave, maternity leave, paternity leave and sick leave. Employees who have passed the probation period are eligible to apply for education allowance, if the courses they applied are work-related.

During the reporting period, we were not aware of any material non-compliance with laws and regulations relating to employment and labour practices.

### **3.1.2 Health and Safety**

The Group is committed to providing safe, hygienic and healthy working environment for our employees. We formulated safety guidelines and communicate to all employees. Necessary steps are taken to educate them to be aware of potential dangers and avoid accident or injury arising from work.

We ensure our employees are accessible to portable water and sanitary facilities. Our working areas are provided with adequate lighting and ventilation and are properly installed with smoke detectors, fire extinguisher, and first-aid box etc.

The Group regularly identifies and evaluates potential hazards in the production and living areas, clearing major risk sources and developing appropriate control methods. In the Bangladesh facilities, we have even upgraded the facilities to meet the ACCORD standard. The purpose of this building safety standard is to enable a working environment in which no workers need to worry about fires, building collapses, or other accident that could be prevented with reasonable health and safety measures.

During the reporting period, we were not aware of any material non-compliance with laws and regulations relating to occupational health and safety.

### **3.1.3 Labour Standards**

The Group respects each individual's basic human rights and strictly prohibits the employment of forced labour and child labour. We do not employ workers who are prohibited under local labour laws and regulations, such as child labour. Workers employed by us are all working at their own will and they have freedom to express their own opinions at work. A formal complaining procedure is in place to facilitate any exchange of opinion between employees and management.

During the reporting period, we were not aware of any material non-compliance with laws and regulations relating to labour standards.

### **3.1.4 Development and Training**

The Group regards staff as an important asset and focuses on improving the staff's standards and skills through training. We encourage employees to continue studies and enroll in courses related to their work and to acquire professional qualifications. We consistently provide different training, such as on-the-job training, in-house discussion meetings or various seminars held by third parties, to enhance vocational skills of our employees.

## **3.2 Operating Practices**

### **3.2.1 Supply Chain Management**

We tend to maintain long term relationships with our service providers who are mainly located in PRC, Bangladesh and Myanmar. They are all being assessed and evaluated based on their capability, quality, compliance status, price and certification from accreditation bodies. They are also required to meet the expectation from the Supplier Code of Conduct.

The Group hopes to work with suppliers in a positive atmosphere to achieve common goal in sustainability development.

Recently, the green supply chain has gradually becoming a global trend of the garment industry, therefore, it is becoming more and more important to include green considerations in managing the supply chain and produce in a more environmentally friendly way.

### **3.2.2 Anti-Corruption**

All of our employees are made aware of no toleration of any bribery, extortion, fraud or money laundering whether in dealing with public officials or individuals in the private sector. If any employee finds any of the above matters, he/she must report the cases immediately to the management or the relevant government department.

During the reporting period, we were not aware of any material non-compliance with laws and regulations relating to anti-corruption.

### 3.2.3 Product Responsibility

We give top priority to the product quality offered to our customers as well as to safety and to the environment in our corporate activities. We make our best effort to meet our customers' expectations with products and services of high satisfaction. We commit to the "Quality First" principle, and to continuously improve the quality and reliability of our products.

We sourced majority of our raw material from suppliers designated by our client. The Group, together with our clients and suppliers, has processes in place to ensure product quality is up to standard. Quality control systems have been set up and implemented in our factories to ensure clients' expectations are met. Responding to the increasing stringent environmental requirements on garment manufacturing, our clients, mostly international fashion brands, carry out factory visits and audits regularly to safeguard our compliance with ethical and technical issues.

In order to protect the intellectual property rights of our customers' clothing design, we have implemented policies in factories:

- Employees or visitors are not allowed to take pictures and photographs in the production area, except for the relevant staff;
- Employees are not allowed to provide information on Group's trademarks, production of raw materials, product development, craftsmanship, orders, prices and profits to any irrelevant personnel;
- The relevant department shall enter into intellectual property rights and confidentiality agreements with the supplier, requiring the supplier to follow the customer's request; and
- The company will make serious disciplinary action against the perpetrators. For any external parties attempting to intentionally steal or collect Group's confidential information, he/she will be prosecuted for criminal liability.

During the reporting period, we were not aware of any material non-compliance with laws and regulations relating to product responsibility.

### **3.3 Community**

#### **3.3.1 Community Investment**

Community involvement is one of the important matters for us. We are committed to supporting the development of the community, integrating with our core business, and practicing in several areas to support our community: the use of our garment manufacturing technology to provide employment opportunities. More importantly, mobilizing our vast workforce and supporting meaningful community activities can ultimately bring lasting benefits to the community in which we live.

Since 2014, we have organized an YGM Corporate Volunteering Team, creating a platform for employees to participate in volunteering work and activities. In order to encourage employees to participate more actively, the Group provides the following incentives and safeguards for participating members:

1. Fare subsidies for participating members;
2. Rewarding participants with certificates;
3. The Group will purchase insurance for participating members; and
4. Colleagues who participate in charity and volunteer services may be compensated for a half day leave for each 2 activities participated.

The Group's charitable donations for the year were HK \$ 30,000. In the future, we plan to further expand our range of volunteer services, such as to youth education or to underprivileged community.

## 4. Environment

### *Environmental Policy*

The Group is principally engaged in garment manufacturing in the Mainland China, Bangladesh and Myanmar. The key manufacturing activities of our subsidiaries include cut and sew to finished product, ironing and packing, dispatch and delivery. While the environmental impacts of our subsidiaries are relatively insignificant comparing with others with fabric processing, such as dyeing and washing, we are still committed to environmental protection and conservation to the extent where it is economically sensible with our scope of operations.

We are committed to implement our operations and productions by minimizing our environmental impacts through the following:

- Efficient use of resources, such as the use of energy, water resources and raw materials;
- Reduction of wastes by minimizing waste at source, through 4Rs principal of reduce reuse, recycle, and replacement;
- Compliance with applicable environmental legislation, rules & regulations;
- Regularly review our operational controls to continually improve the environmental performance;
- Communicate with internal and external stakeholders on environmental performance in a proactive and open manner; and
- Enhance awareness of employees on environmental protection through education and corporate activities.

### 4.1 Use of Resources

According to the results of the stakeholder's engagement, the use of electricity and water are the most material environmental aspects to the Group.

### ***Use of Energy***

Electricity is the Group's main energy consumption and it is used in factories' operations, dormitories and offices. Other energy uses in our factories include natural gas for boilers, diesel for generators and fuel use for vehicles etc.

Among our factories, we try to minimize the use of energy through a few main considerations: proper maintenance of equipment, improvement of equipment designs and installations and awareness enhancement of employees. We have applied the following initiatives at our factories, where practically applicable, to promote energy efficiency and conservation:

- Use of individual compressors instead of the central compressors, because the demand varies;
- Replacement of central diesel boilers by individual electricity boilers;
- Designated controls for individual zones to enable switching-off lights and air-conditioning when the area is vacant;
- Provision of task lighting e.g., at the needle point area of the sewing machines;
- Replacement of more energy efficient lighting fixtures, for example, the use of LED light tube;
- Encourage of use of natural lighting;
- Turning off lighting during breaks such as lunch break.

Since this first year of ESG reporting, we have begun consolidating the electricity consumption data at our factories, dormitories and offices, which will be disclosed accordingly next year.

### ***Use of Water***

Due to the nature of our key manufacturing activities which exclude fabric processing, such as dyeing and washing, the amount of water use in the production process is relatively less. Yet it is an essential resource that is material to the Group's operation.

The main water use in the factories is for domestic use, which include also the consumption in the dormitories in the PRC facilities. Besides encouraging our employees towards water conservation, we uphold proper maintenance of the water system to eliminate leakages. Our engineering staff also checks the water valves regularly to prevent any potential water wastage.

Water meters are available for municipal water supply in the Hong Kong and PRC facilities and thus water consumption data is being monitored and maintained. Water supply is currently sourced from groundwater for the Myanmar and Bangladesh facilities of which metering is currently not available or is required. However, we still maintain the conservation practices accordingly.

### ***Use of Materials***

Packing materials are subject to client's needs and specifications, leaving us with very limited control over the selection of packing materials. While we have minimal control over the types of material used for packaging, we still try to manage by preventing any over order of packing materials.

## **4.2 Emissions**

Due to the nature of our business, we do not produce significant air emissions, hazardous waste or waste water discharge. Yet we ensure we comply with the relevant regulatory requirements and minimize our emissions where reasonably practicable.

### **4.2.1 Greenhouse Gas Emissions**

While the Group has not conducted any greenhouse gas (GHG) assessment before, we understand the use of energy is a significant source of GHG from our operations. Over the past years, the various scale of modifications of our facilities such as the replacement of more energy efficient lighting, the replacement of air compressors to better fit the downsized demand of factories, and the replacement of diesel to electric boilers with better fuel efficiency etc. have enabled reductions of our overall carbon emissions. Refer to Section 4.1 for more detailed energy–efficiency measures applied.



## 4.2.2 Air Emissions

Air emissions are insignificant to the manufacturing process due to its nature of tasks involved. We do not have any ownership and thus controls over logistics vehicle fleet for distribution. Other relatively major air emission sources are from the use of diesel boilers and back-up generators, though we no longer have back-up generators in the PRC facilities.

During the consolidation of the facility in PRC, we took the opportunity to switch the boiler from diesel- to electric-run, which in turn cut-out air emissions from boilers.

In our Bangladesh and Myanmar facilities, we still have boilers that are running on diesel, as well as back-up generators. We ensure regular monitoring of air emissions is carried out and that appropriate air filtering facilities are available to meet the local emissions requirements.

## 4.2.3 Waste Management

### *General Waste*

For rags, the Group continuously optimizes its production plans and procedures in order to minimize the production of rags. Waste fabrics are generally collected by recyclers periodically and we try to minimize the disposal of rags as wastes. Other general wastes are being properly disposed of in accordance to local requirements.

### *Hazardous Waste*

The Group is principally engaged in the sewing of garments. All raw materials are purchased from qualified fabric suppliers and we are not engaged in dyeing or bleaching business. Therefore, the Group does not generate significant hazardous waste in the manufacturing process.

For the limited waste machine oil generated, we have appointed qualified third-party companies for its handling and disposal, ensuring that the process is in compliance with the local laws and regulations on hazardous waste disposal.

#### **4.2.4 Waste Water Discharges**

Besides domestic waste water which is being properly managed through for example, the municipal treatment facilities, no wastewater is being generated from our manufacturing process.

#### **4.3 The Environment and Natural Resources**

The significant environmental issues faced in our business in relation to emissions and the use of resources is already disclosed in the above sections.

#### **4.4 Regulatory Compliance**

During the reporting period, we were not aware of any material non-compliance with laws and regulations relating to environmental emissions.

**A HKEx ESG Content Index**

<b>ESG Guide</b>	<b>Material Aspects</b>	<b>Descriptions</b>	<b>Section</b>
Environmental	A1. Emissions	<p>Policies relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.</p> <p>Compliance with relevant laws and regulations that have a significant impact on the issuer</p>	4.2
	A2. Use of Resources	<p>Policies on the efficient use of resources, including energy, water and other raw materials.</p>	4.1
	A3. The Environment and Natural Resources	<p>Policies on minimizing the issuer's significant impact on the environment and natural resources.</p>	4.3
Social	B1. Employment	<p>Policies on employment and compliance with local laws and regulations that have a significant impact on the issuer on the following aspects:</p> <ul style="list-style-type: none"> <li>▪ Compensation and dismissal</li> <li>▪ Recruitment and promotion</li> <li>▪ Working hours and rest periods</li> <li>▪ Equal opportunity and anti-discrimination</li> <li>▪ Diversity</li> <li>▪ Other benefits and welfare</li> </ul>	3.1.1
	B2. Health and Safety	<p>Policies on providing a safe working environment and protecting employees from occupational hazards and compliance with relevant laws and regulations:</p>	3.1.2

<b>ESG Guide</b>	<b>Material Aspects</b>	<b>Descriptions</b>	<b>Section</b>
Social (continued)	B3. Development and Training	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	3.1.4
	B4. Labour Standards	Policies and Compliance with laws and regulations on preventing child and forced labour.	3.1.3
	B5. Supply Chain Management	Policies on managing environmental and social risks of the supply chain.	3.2.1
	B6. Product Responsibility	Policies and compliance with relevant laws and regulations on health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	3.2.3
	B7. Anti-corruption	Policies and compliance with relevant laws and regulations relating to bribery, extortion, fraud and money laundering.	3.2.2
	B8. Community Investment	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.	3.3.1