

Tailoring a Sustainable Future

Sustainability Report 2013-2014



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Report Overview



About This Report

This is TAL Apparel Ltd.'s third biannual sustainability report. This report provides updates to our last report (2011/2012) as well as introduces new initiatives undertaken in 2013 and 2014. This report was prepared following the GRI (Global Reporting Initiative) G4 guidelines and includes all required General Standard Disclosures and other material sustainability topics as identified by the recommended methodology of the GRI. This report exemplifies the core values of TAL which are honesty, integrity and commitment to stakeholders.

Should you have any comments, questions and/or concerns please contact us via email: sustainability@talapparel.com.



Message from our Chief Executive Officer

Our industry has been receiving increasing focus on sustainability, especially due to the tragic incidents that occurred in Bangladesh in 2013. However, the way factories manufacture products has been the same for decades and it seems that nothing relating to the way they produce garments has recently made them more unsafe. It was unfortunate that it needed a tragic incident in Bangladesh to send a wake-up call to the entire garment industry, particularly to the brands and the retailers.

So what has changed in the last decade that has contributed to more unsafe factory environments? This could be related to the continuous pressure from the brands and the retailers chasing the lowest cost of production to gain the largest “initial” margin, i.e. the price the factory sells the product to the brand versus the “ticket” price the item is sold for.

Over the past 10 years, US brands in particular have trained consumers to only buy when the product is on sale because the brands chase volume growth to satisfy their shareholders. Consumers have been paying a cheaper price for their garment and brands, in turn, have put considerable pressure on garment manufacturers to drastically lower their pricing, while toughening their social, environmental and health & safety standards.

At TAL we have been focusing on sustainability for over 20 years. The cost to build and maintain such facilities has continued to increase over time but we have chosen not to lower our sustainability standards to simply sell cheaper, grow faster or make greater profits. We are directly responsible for nearly 25,000 workers who, in turn, provide a living for their families so any of our decisions may impact up to 100,000 people. We take this responsibility very seriously and would never intentionally compromise their safety, their well-being or the environment we all live in.

There is no doubt we need to be financially sustainable to continue to run a long term business. So while we continue to stick to our principles, we are also trying to engage more with our customers to discuss the existing disconnect between the price they try to constantly lower and the responsibility we have towards our employees to maintain safe, socially and environmentally responsible factories.

Our intent with this report is to transparently share our sustainability practices and progress. We also hope to contribute to raising the sustainability bar in the garment industry.



Mr. Roger Lee, CEO

“We are directly responsible for nearly 25,000 workers... We take this responsibility very seriously and would never intentionally compromise their safety, their well-being or the environment we all live in.”

Message from our President and Chief Technology Officer

It has been another 2 years since our last Sustainability Report. It has been a busy 2 years indeed. I am glad to see that TAL has managed to beat the Three Year Plan environmental targets in greenhouse gas (GHG) emission and water footprint intensity. On the social sustainability side, we conducted trainings on how to audit ourselves across different facilities within TAL. We report the results and the improvement plans transparently. We are well on down the road of self-ownership, changing from a mindset of being audited by external parties and being defensive to a mindset of ownership and self-improvement.

In the short 2 years, we have seen the Sustainable Apparel Coalition (SAC) grown to cover more than one third of the worldwide apparel business. All of our facilities have implemented SAC's Higg Index as a self-assessment tool. It has given us a universal "language" to talk about sustainability. In fact, it will be an essential part of our sustainability strategy and one of the Key Performance Indicators of our next Three Year Plan.

A highlight of our achievements in environmental sustainability is a recycled cotton product on the market. Producing garments in our facilities with sustainable practices is one thing, but to also take on the challenge of creating innovative products that sell is another. Being able to collect the cotton remnants from our own facilities, then working with our customers, to eventually having a product on the market is a satisfying journey. A journey which touches on many facets of the supply chain, from waste management in our facilities, our partners in recycling the remnants, our merchandising teams, the product design team of our customers and finally consumers. It is the last leg of the journey which sees us "close the loop" of sustainable garments made in sustainable facilities being sold to and accepted by consumers in the market.

We continue to pursue the ideals of self-ownership and transparency in managing sustainability. Once the low hanging fruits of sustainability are reaped and once we have put in management systems in TAL, we will fully embrace the next challenge of innovations in sustainable products and practices that will contribute and make real the concept of a circular economy.



Dr. Delman Lee, President & CTO

"I am glad to see that TAL has managed to beat the Three Year Plan of environmental targets in greenhouse gas (GHG) emission and water footprint intensity."

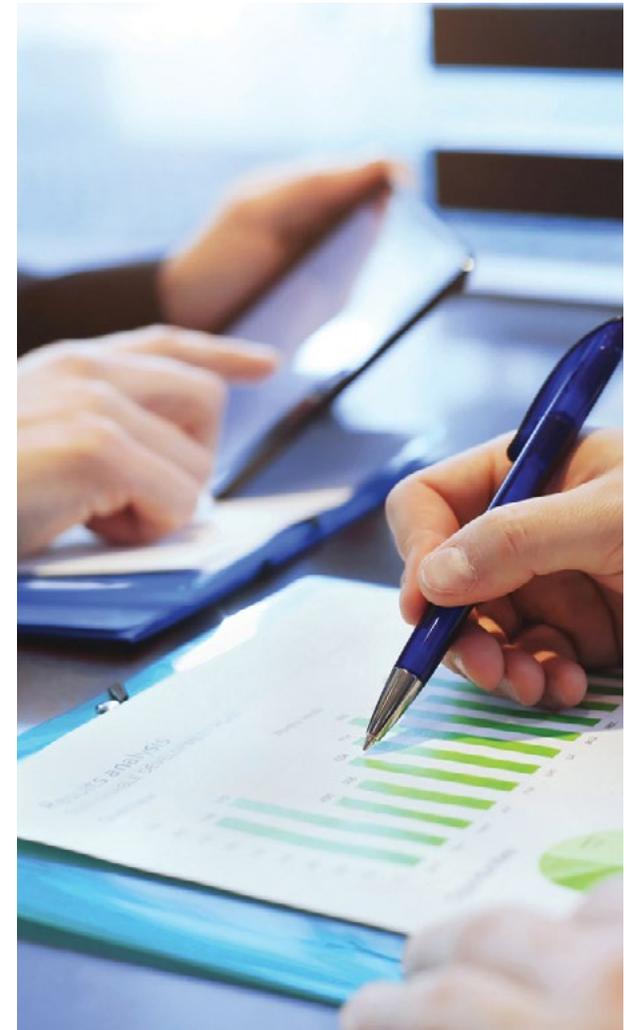
Sustainability Strategy

TAL strives to do business while limiting environmental and social impacts by following the triple bottom line approach. In order to execute the sustainability strategy in the most integrated way possible, we have defined sustainability as one of the 8 value drivers we use to run our company. Just as every other value driver, the Sustainability Implementation Plan is described in our detailed Three Year Plan which defines our social and environmental priorities.

We have placed the Higg Index at the heart of the strategy and our next Three Year Plan targets will reflect this profound change. The Higg Index is an industry accepted comprehensive measurement tool used to assess social and environmental sustainability and will hopefully assist the garment industry by developing it into an industry standard. It is our expectation that the Higg Index will also bridge TAL's sustainability agenda as a manufacturer with our stakeholders' agendas.

Our sustainability strategy addresses major social and environmental impacts associated with our operations and also addresses the needs of our major stakeholders, i.e. our employees and clients. Until we gain more progress in the challenges we are currently trying to address, our underlying focus and priority will continue to be our own operations as we want to build solid foundations and prepare for a long journey to a sustainable future. Moving forward, we aim to extend our efforts to our suppliers and to the communities in which we operate in. We consider them as very important stakeholders and we look forward to being able to work more closely with them.

Our 6-person sustainability team is relatively small compared to our operations. Over the past 3 years, we have focused on pushing and implementing our sustainability agenda down to our factories. Credit goes to the commitment and the leadership of our manufacturing operations' upper management who have successfully integrated sustainability into the day to day operations of our factories. Our greatest satisfaction comes from the realization of the partnership between operations and sustainability.



CHAPTER 01: REPORT OVERVIEW

It has been and will continue to be challenging for us to satisfy our commitment to sustainability and business priorities while still meeting our clients' diverse expectations. We are confident in our ability to diligently follow our sustainability roadmap; we will strive to explain the rationale behind our priorities to business partners who we trust will appreciate our commitment and proactive approach to sustainability.

TAL also commits to working tirelessly to link our customers' sourcing and sustainability approaches. We believe that the cost of our products should reflect our efforts and our commitment to sustainability.



Achievements & Highlights of 2013-2014

BUSINESS



In 2014 we transitioned into and implemented the **Standard Factory Structure**. The new structure enables each factory to be more efficient in their operations. The structure addresses issues in relation to analyzing job profiles, identifying gaps and overlaps in our work and benchmarking against the market.

In 2014 we closed one of our factories in Thailand. We have begun investing in a second factory in Vietnam which is estimated to be completed by the end of 2015.

SOCIAL



In 2014, we introduced Key Performance Indicators (“KPIs”) for monthly reporting to TAL top management.

KPIs put greater emphasis on each factory’s accountability and ownership of their key social programs such as **self-monitoring, health & safety initiatives, fire drills and subcontractor management**.

ENVIRONMENTAL



By the end of 2014, we **reduced our GHG (“greenhouse gas”) emissions by 25.97%** which exceeded our targeted reduction of 21% set against our 2009 baseline.

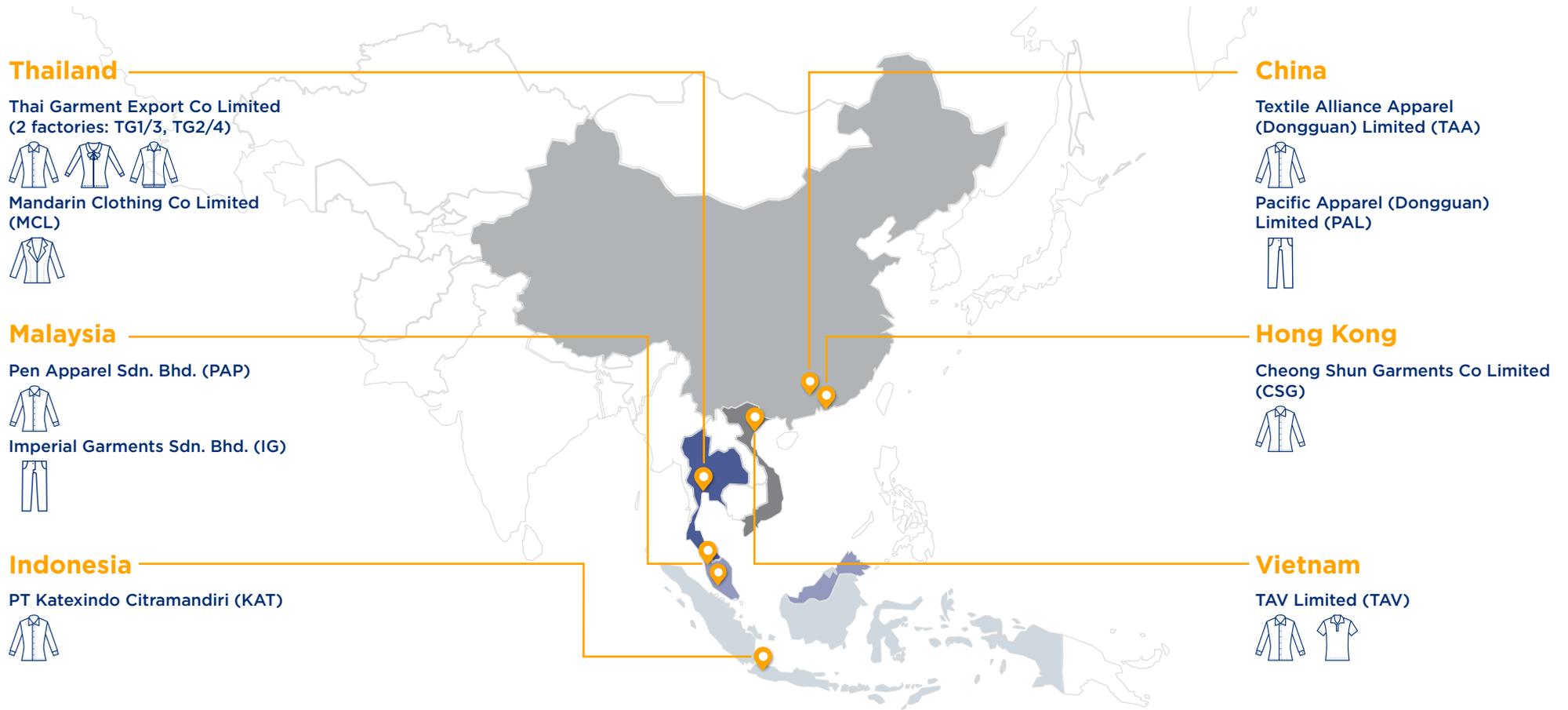
By the end of 2014, we **reduced our water footprint intensity by 29.43%** which exceeded our targeted reduction of 15% set against our 2011 baseline.

About TAL

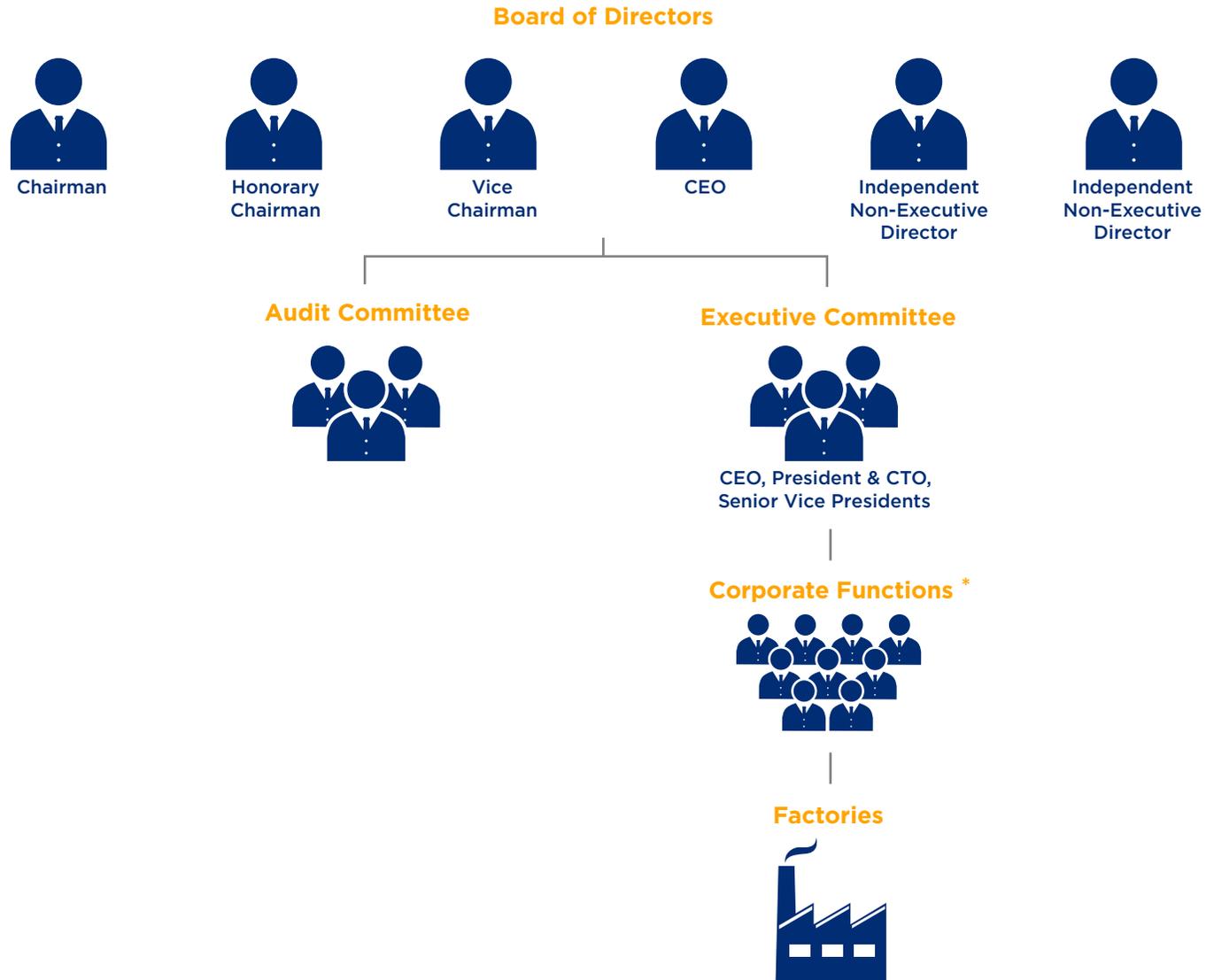


Our Locations

TAL's headquarters is situated in Hong Kong and as visually represented in the map below, TAL's facilities have a multinational presence spanning across 5 different countries.



Our Governance



*Corporate Functions include Product Innovation, Sales, Merchandising & Marketing, Manufacturing, Supply Chain Management, Finance, Information Technology, Human Capital Management, Internal Audit, Sustainability, Business Strategy, Analysis & Planning.

Our Vision and Strategy

2014 marked the last year of the company's second Three Year Plan. In the plan, 8 value drivers were introduced to TAL, including sustainability. The 8 value drivers have enabled us to focus on the things that matter most to our customers and our people so we can do more with less.

To achieve the best results consistently and for our long term success, we have invested in tools and infrastructures to produce the best products in the market, safe and comfortable work environments, technology and equipment to minimize the impact to the environment and training programs and systems to foster competent and engaged people.

TAL is committed to develop a deep understanding of our customers' businesses and to provide them with products and services to fulfill their needs. TAL endeavors to strike a balance between cost, lead time and product capability. We also pride ourselves on being at the forefront of evolving market trends while maintaining our leading position in garment innovation and replenishment services.

Our Value Drivers

	Lead Time		Profit
	Quality		Production Innovation
	On-time Delivery		Replenishment Solution
	People		Sustainability



Stakeholder Engagement

Being transparent in our reporting allows us to fulfill the commitments we have made to sustainability. At the same time it also enables us to minimize risks and to improve our sustainability performance.

We have defined material aspects and indicators to be reported based on the GRI G4 guidelines. Each aspect is scored in 2 categories:

- the degree to which an aspect reflects our significant economic, environmental and social impacts; and
- whether it can substantively influence the decisions of our stakeholders.

To determine our economic, environmental and social impact, we have scored each aspect based on 5 criteria on the scale from Least Material (1 point), Quite Material (3 points) and Very Material (5 points).

Materiality Score Criteria Based on Significant Economic, Environmental and Social Impact

Frequency



Severity



Responsibility



Preparedness



Advantage



Key Question	How likely does this aspect arise in our daily operations?	How severe will this aspect affect our stakeholders and our commercial performance?	Do we have control and are we liable?	Do we have the resources, expertise and capacity to manage this aspect now?	Will efforts in this aspect differentiate us from competitors?
Least Material	Rare or not very often	For continuous improvement; causes no critical impact on workers or customers	No control (e.g. designs and materials assigned by customers)	No structure or systems in place yet	Minimum requirement for operations
Quite Material	Regular intervals	Immediate action needed; causes some negative impact but can be resolved timely	Liability shared with stakeholders and dialogue can be initiated to address potential issues	Some structure and systems implemented	Beneficial but not urgent
Very Material	Every day or continuously	Zero tolerance; infringes on human rights, leads to fatal incidents or causes irreversible damage	Independent decisions can be made by TAL	Systems and dedicated resources already in place	Brings us a competitive advantage

CHAPTER 02: ABOUT TAL

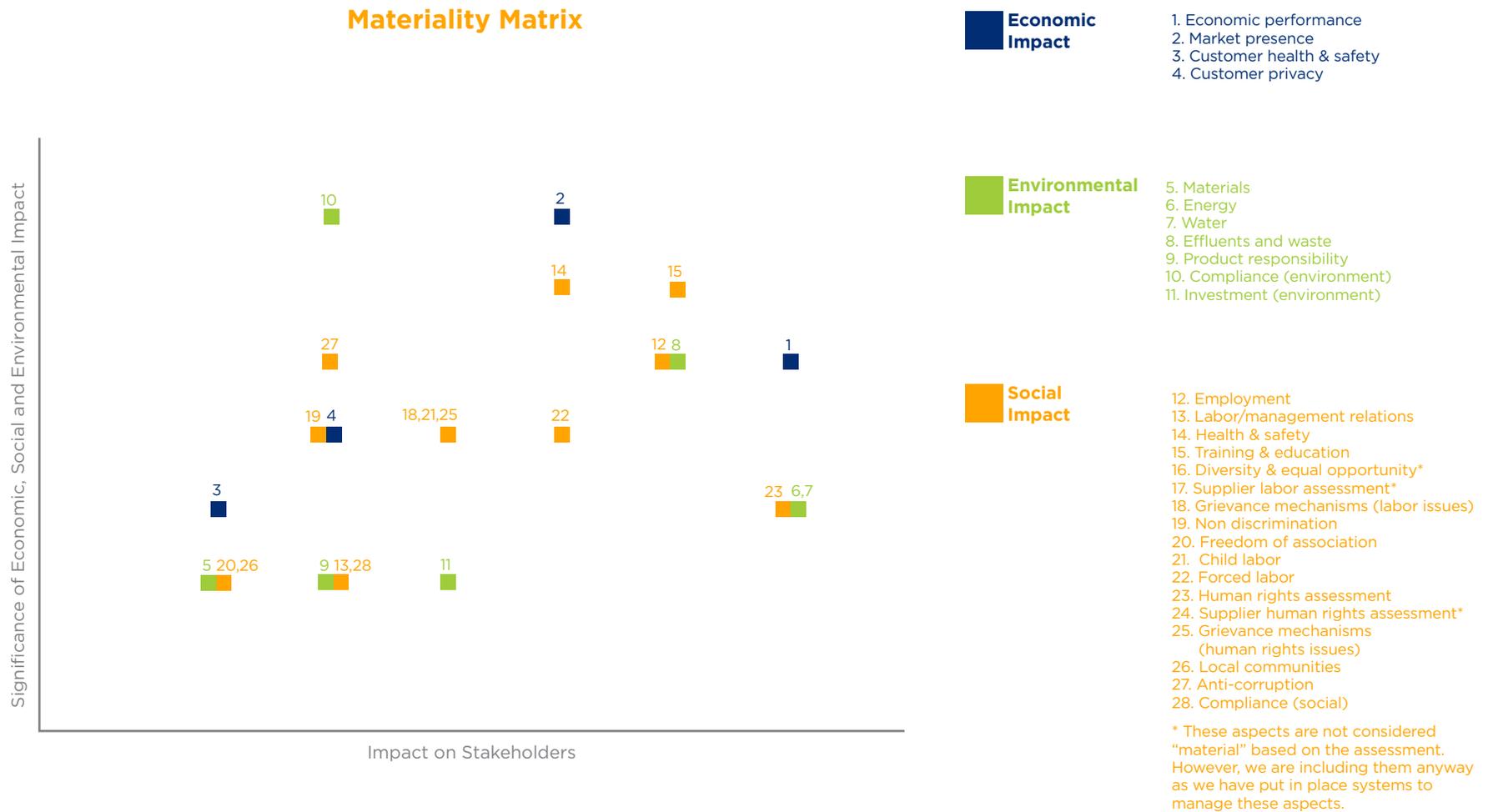
We also considered the point of view of 5 key stakeholder groups: customers, employees, company management, community and supply chain partners. For example, for customers, we reviewed the sustainability concerns they raised through compliance audits and their sustainability commitments in their public reports. We again weighted each aspect based on materiality. We also adjusted and increased the weighting for customers, employees and company management because these 3 groups impact our operations the most.

Materiality Score Criteria Based on Impact on Stakeholders



CHAPTER 02: ABOUT TAL

After completion of the assessment, we visualized all the aspects in a materiality matrix. The graphic below highlights the material aspects chosen for detailed reporting in the following sections.

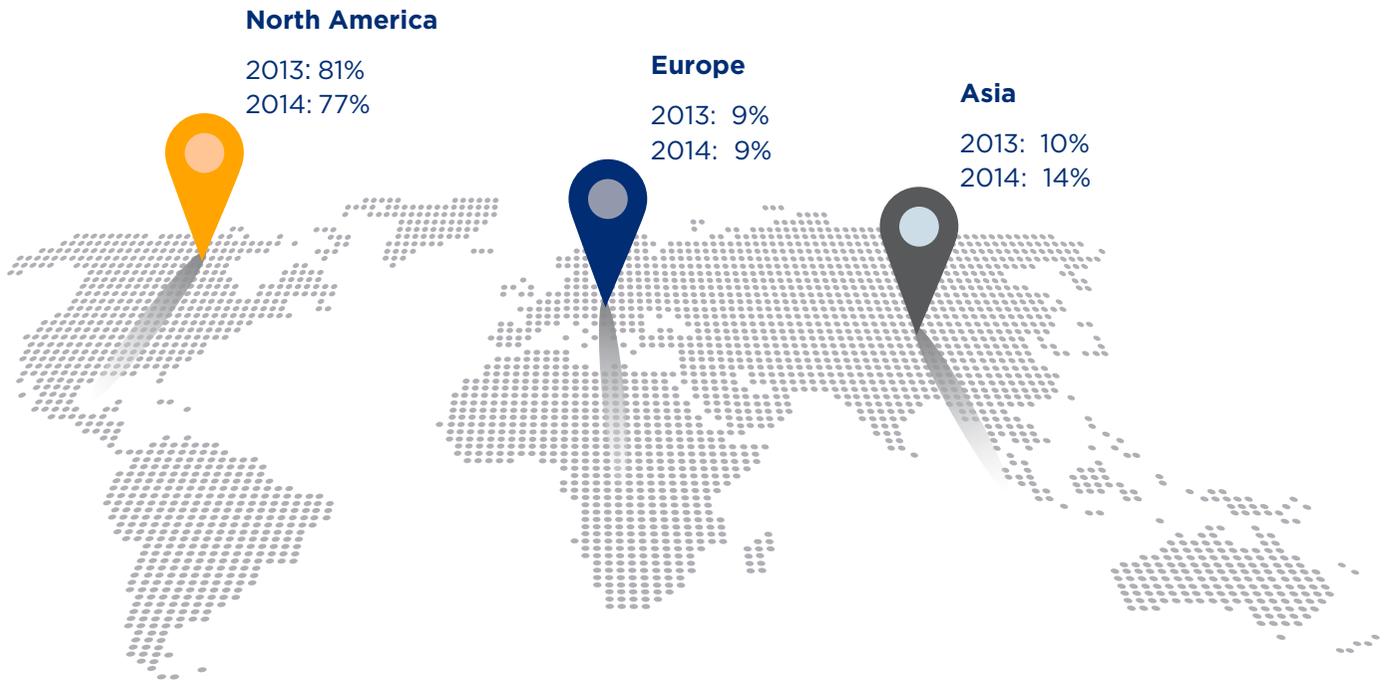


Business Performance

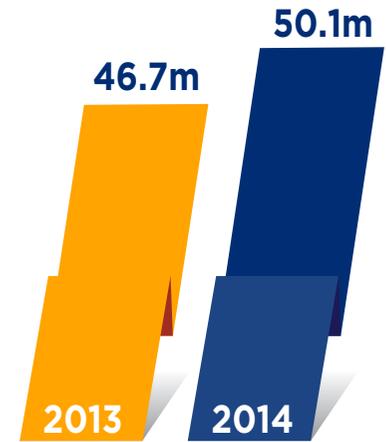


Our Business in Figures

Sales by Region



Total Garments Sold



Total Turnover

Average % Growth in Business: **7%** over 2011-2014

Our Supply Chain

Producing garments requires different materials, such as fabrics, buttons, sewing threads, laces, labels, zippers, etc. Therefore, supply chain management is needed to streamline the supply chain process and operation through cross functional collaborations. Collaboration begins with our partners from materials suppliers all the way to our customers. Thorough planning to turn different materials into high quality garments at just the right time and just the right cost involves taking full advantage of our production capacity in our 10 factories located across 5 different countries.

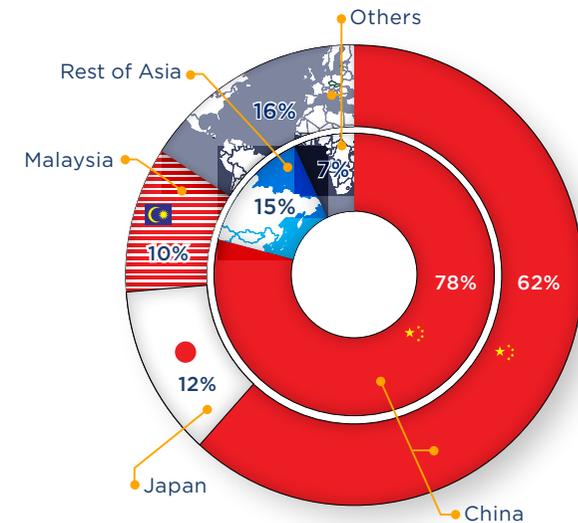
Supply chain management is comprised of 4 departments: Material Sourcing (MS), Material Quality and Services (MQ&S), Production Planning and Control (PPC) and Replenishment Solutions (RS). The purpose of all 4 departments is to realize the full potential of the entire supply chain by making it more effective and efficient.

TAL actively engages with over 800 suppliers to support our garment production. The majority of our suppliers are based in China. To complete our customers' orders, in 2013 and 2014, TAL spent over US\$300 million per year on purchasing fabrics and trims.

Managing Our Supply Chain

TAL manages the supply chain from end to end to ensure quality. Customer satisfaction drives and requires us to source high quality and hazard-free materials. Replenishment solutions is one of the value added services that we offer to our customers to optimize their inventory and service levels in their supply chain. By doing so, we help our customers to lower the total cost of doing business with TAL instead of simply lowering the garment's ex-factory price only. We also engage our top fabric suppliers by sharing with them our sourcing strategies and recognize top performers for their quality of work and commitment to service.

Trims and Fabric Supplier Distribution



**Outer ring refers to fabric
Inner ring refers to trims**

Recent Initiatives

TAL monitors suppliers' performance via monthly key performance indicator (KPI) reports to help with evaluating and formulating plans in supplier selection and to provide each supplier with constructive feedback on their performance. To provide greater support to both our internal and external customers, we are restructuring our material sourcing team to create specialized dedicated teams in key categories: woven, yarn dyed, woven piece dyed, knit and trims.

Furthermore, we have started the Sales and Operations Planning (S&OP) project in 2013 to better utilize and to increase efficiency of our resources in order to lower the cost of operations and to remain competitive in the market. For our fabric suppliers, we plan to extend the Vendor-Managed Inventory (VMI) concept and let our suppliers manage fabric stock and anticipate orders for us. In this way we share with our suppliers the same value we offer to customers in this increasingly volatile business. These initiatives will introduce new systems for TAL to manage suppliers and strengthen partnerships with them.



ConnecTAL

TAL implemented ConnecTAL on cloud technology in 2014 with the vision to foster a more collaborative and productive company culture. ConnecTAL is comprised of Microsoft Office 365 as well as an enterprise social platform on Salesforce.

ConnecTAL is at our fingertips regardless of locations or devices as long as internet connection is available. Secured connection to emails or instant messages can be accessed via laptops, tablets or mobile phones while at home, at the airport or on the road. With ConnecTAL being in the cloud, we are no longer bound to the physical limitations that we once faced because our operations are spread out across several countries.

Group projects between members of various functions and geographic locations are now brought together by ConnecTAL. Audio and video calls and instant messages are enabled on Lync. Focused



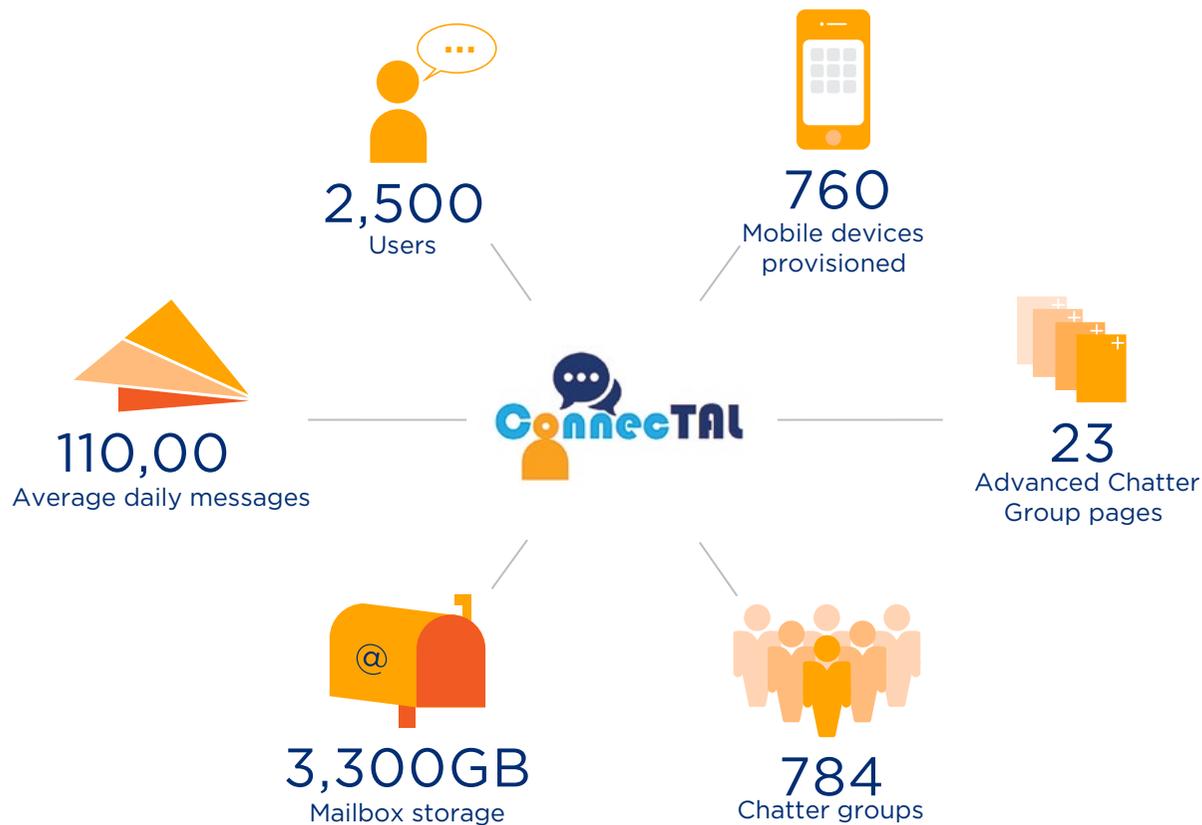
CHAPTER 03: BUSINESS PERFORMANCE

discussion on project topics can be tracked using hash tags in Salesforce. Messages can be directed to designated group members on Salesforce for quick follow-up. Project statuses can be shared anytime and anywhere.

Factory teams are invited into Advanced Chatter Groups (ACG) to post and share their best practices. Questions and ideas can now be bounced around transparently without redundant emails.

Furthermore, ACG enables the creation of department pages for the purpose of sharing and educating everyone about the different functions within TAL. Articles about our customers, key performance indicators (KPIs), new technologies and general TAL news are shared company-wide.

We expect the ConnectTAL platform to continue to bring our company closer while boosting our productivity and business into the next level.



Challenges

Sluggish macro environment in key markets during 2013-2014 affected retail performance in the US and China.

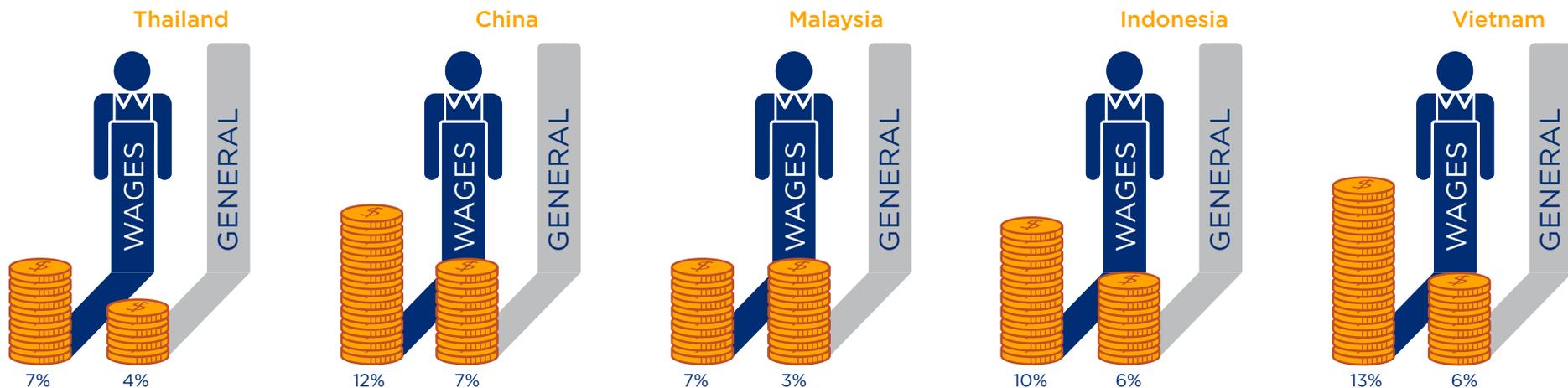
The US economy has since shown signs of recovery, such as declining unemployment rates and the end of quantitative easing. However, US consumers' confidence have remained low and below pre-recession levels. Household income and consumption have also been slow, causing retail sales to be mainly discount driven.

The Chinese economy has seen its lowest economic growth in the last quarter century. The economic growth in 2014 was only at 7.4%.

Weakness and uncertainty in the overall global economy can be seen in the performance of our customers. Despite the state of the global economy, TAL has still managed to record mid to high single digit sales growth. However, price pressure and rising costs continue to hit our profit margin.

Labor cost has been on a rise in all regions. At the same time, there is labor shortage in some of the regions TAL operates. In China, the younger workforce favors jobs in the service sector (such as retail and hospitality) despite earning a lower wage. Retention of foreign workers in Malaysia and Thailand has been an ongoing challenge as well because workers' home countries have seen their economies rapidly develop and wages increase at a significantly higher rate.

Expected Annual Cost Increase

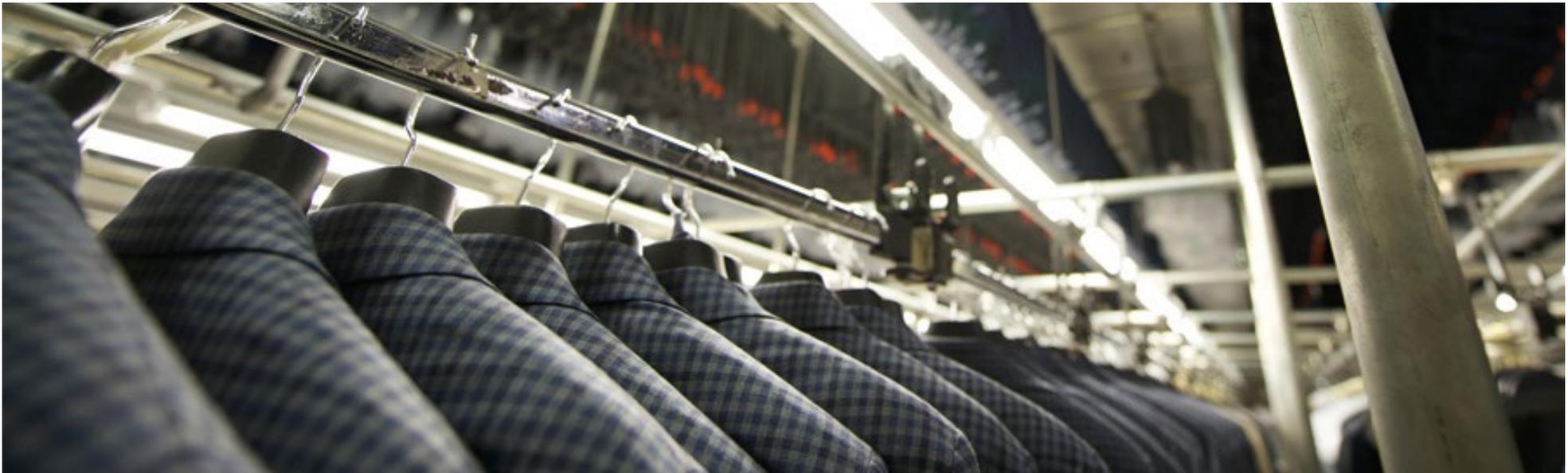


Major Business Changes

In 2014, one of TAL's factories in Thailand was closed. That factory had been struggling with labor and management staff shortage for an extended period. As the surrounding region expanded into automotive, technology and electronics industries, there was intense competition for workers and staff.

Over 800 workers and staff were identified to transfer to the other TAL factories in Thailand. Some of the identified staff were offered opportunities in other countries. Production was transferred to TAL's factories in Vietnam and Thailand.

TAL has begun investing in a second factory in Vietnam. The factory is located in Vinh Phuc Province, Binh Xuyen District. It is projected to create 8,000 employment opportunities for the region. As part of TAL's commitment to sustainability, the factory is built with respect to the Leadership in Energy & Environmental Design (LEED) requirements. The factory's initial product will be dress shirts and it is expected to be completed by the end of 2015.



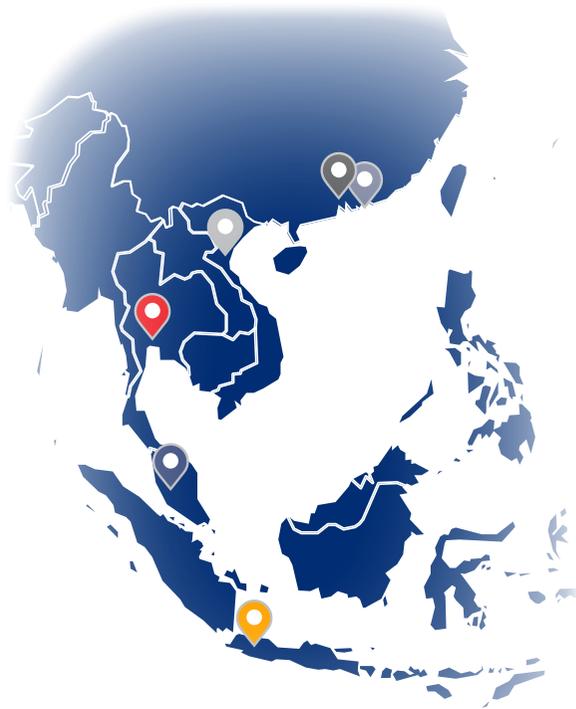
Social Performance



Our Workforce in Figures

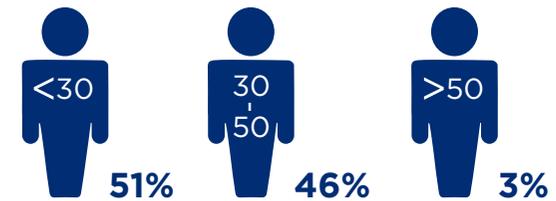
Total Workforce by the End of 2014: **23,736**

Workforce by Region



- China **28%**
- Thailand **23%**
- Malaysia **22%**
- Vietnam **18%**
- Indonesia **8%**
- Hong Kong **1%**

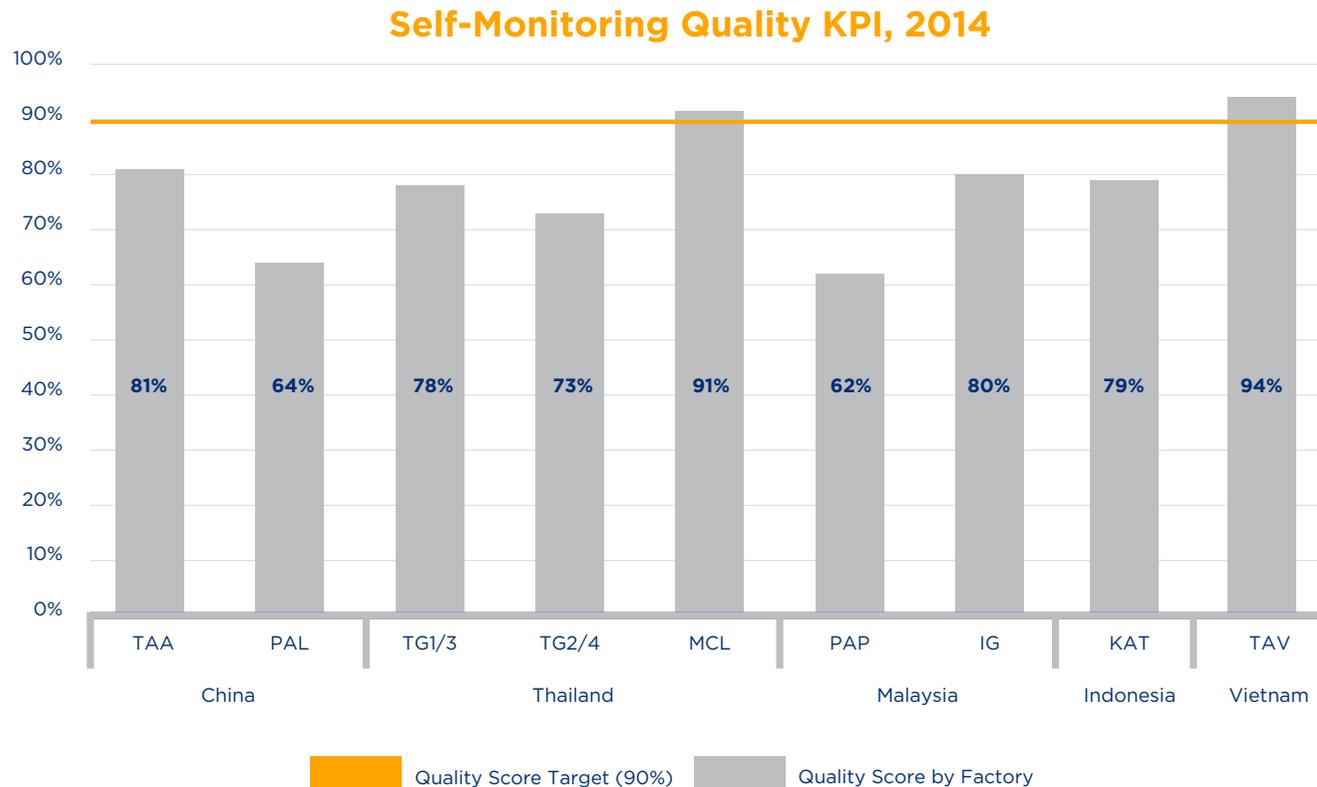
Workforce Diversity



Self-Monitoring

Ownership is core to TAL’s commitment to sustainability. As part of the sustainability strategy, we proactively employ self-monitoring to ensure that our factories monitor and improve their social performance. Self-monitoring is where factory compliance teams audit themselves, identify non-compliance in labor and health & safety issues, investigate the root causes of their findings and take actions necessary to rectify issues in a sustainable manner.

In 2012, we began educating all factories on self-monitoring. In 2014, we took a further step and introduced Key Performance Indicators (KPIs) to track the quantity and quality of self-monitoring audits conducted. KPIs are reported every month to TAL’s top management to keep factories accountable. The goal is not only for factories to be compliant with local and international compliance standards but to also nurture a proper mindset for sustainability, develop auditing skills and put in place systems to tackle social compliance issues.

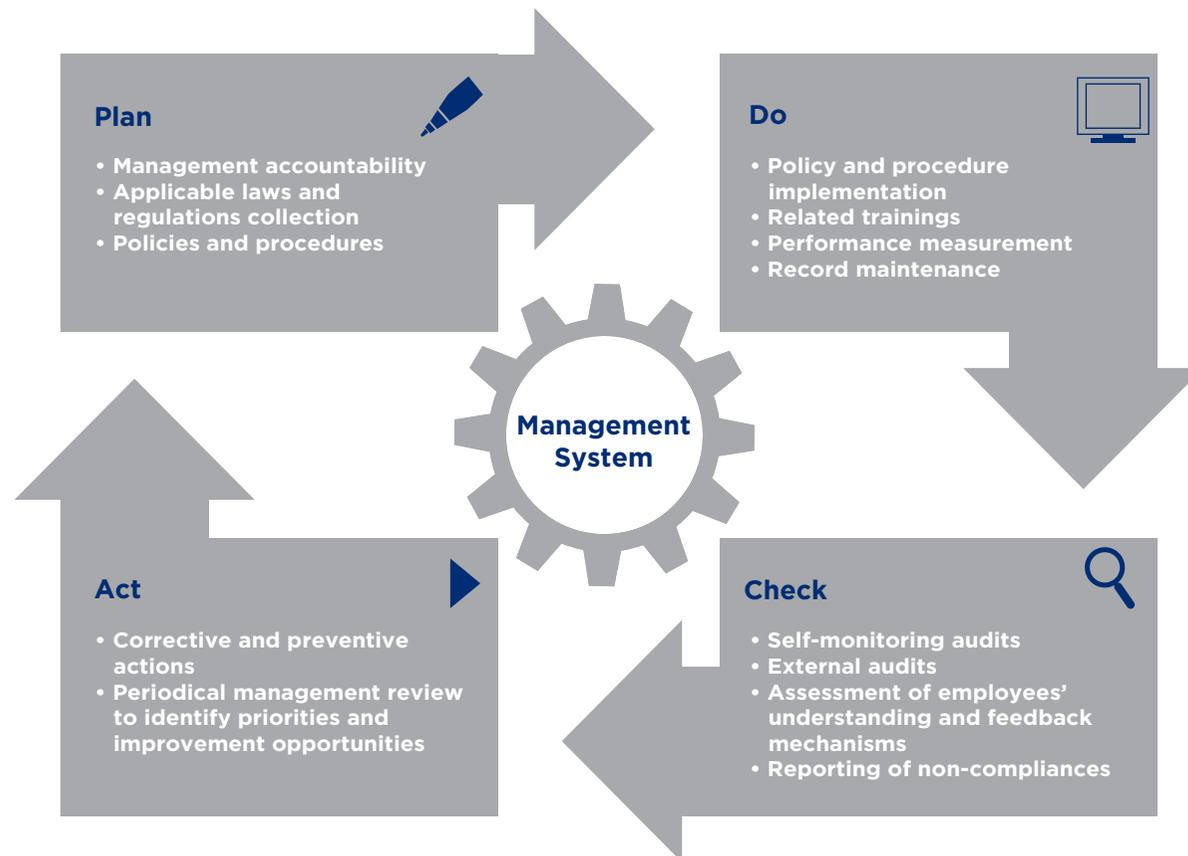


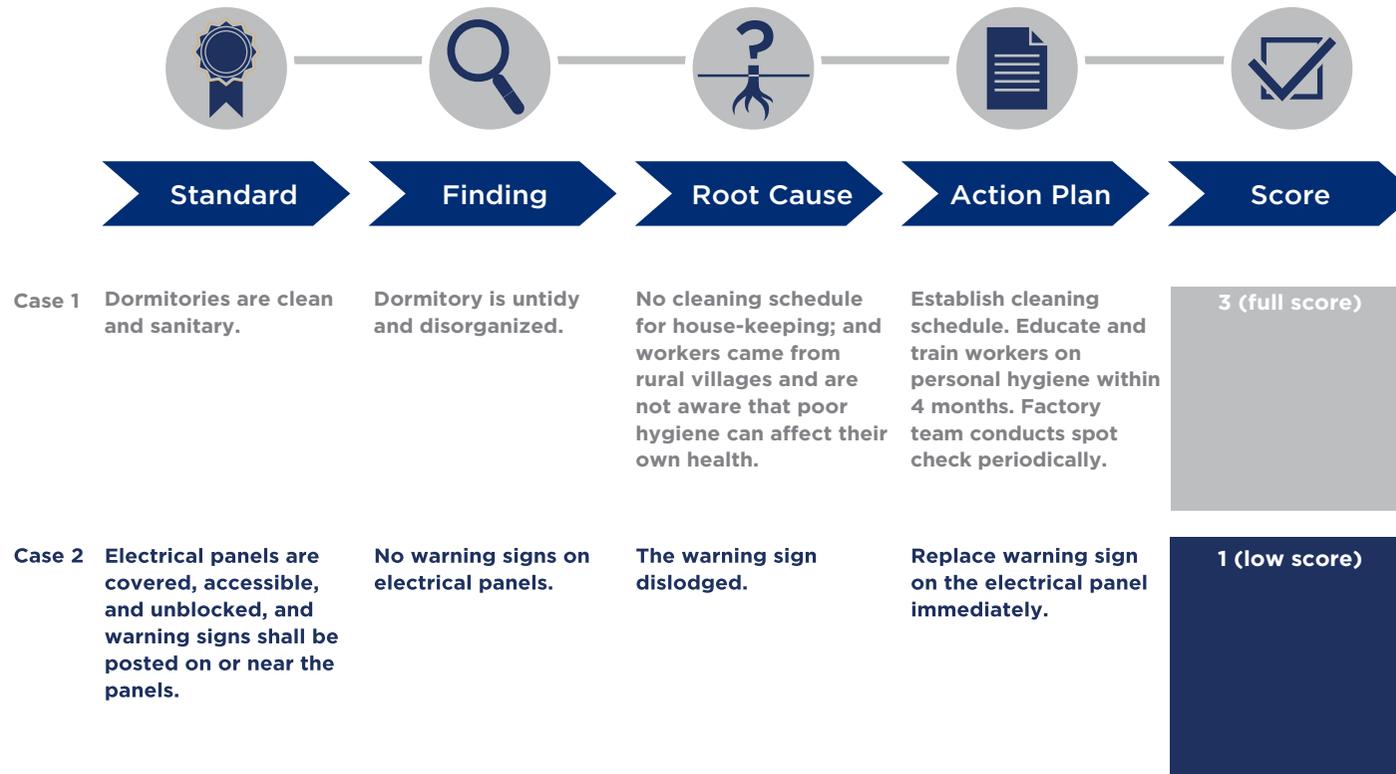
CHAPTER 04: SOCIAL PERFORMANCE

Self-monitoring occurs once a month. Factories are required to conduct at least one audit per month and the focus of the audit must alternate between labor and health & safety. Factories with sister factories in their country need to audit each other once every quarter on both labor and health & safety.

Factories are evaluated based on how non-compliances are identified, investigated and pursued. The assessment of the quality KPI is a two-fold process: (1) how each factory identifies findings, conducts root cause analyses and plans for corrective actions and (2) how each factory follows through on findings from previous months. By following this method we reinforce that a good self-monitoring system is about proactively identifying opportunities to improve social performance as well as finding solutions and taking preventive measures.

To implement the KPIs, we created a self-monitoring checklist and provided guidance based on TAL's internal labor and health & safety standards. TAL factories audit themselves against all the items on the checklist. The factory team then reports their identified issues in a specific format. Each finding and its corrective action plan is rated on a scale of 1 to 3 points.





We can use the table above to illustrate how findings are scored. For the dormitory issue (Case 1), the factory identified multiple root causes and proposed corrective actions specific to the root causes. The proposed timeline of 4 months is reasonable as there are over 1,000 workers that need to be trained. Time is also needed to create a spot checking system for cleanliness and hygiene. On this basis the overall rating of the dormitory issue is 3 points.

CHAPTER 04: SOCIAL PERFORMANCE

Conversely, in the issue regarding electrical panels (Case 2), the root cause analysis was not thorough. A deep investigation should focus on the “why”; for example, why the sign fell off and why no one noticed that the sign was missing. The proposed solution to immediately replace the sign does not address the issue for the long term. The warning sign will likely be dislodged again in a few months and the team will once again discover electrical panels without warning signs. The rating is 1 point because the factory did not put in place a proper system to assign specific individuals to proactively check and replace the warning signs and did not propose ways to make the sign stick longer.

If a previous issue is reoccurring then factory teams will be asked to review previous corrective action plans and to re-do the root cause analysis. They will also be required to determine a new plan to more effectively prevent the issue.

Factories also report monthly on the corrective actions taken together with evidence that can validate the improvements made. The evidence is assessed and those findings will be considered closed. The goal in 2014 was to reach a score of 90%.

Implementing self-monitoring has helped us to learn that factory compliance teams are not always equipped with the right mindset and skillset. There are times where factory teams try to overlook findings in order to “improve” their KPI figure. We also find that some factory teams are not thorough in their self-audit. Others may be unable to link their root cause analyses with sustainable corrective actions. To overcome these hurdles, we must continue to provide training. We also consistently communicate and coach factory teams to think about self-monitoring in a holistic manner and strive to set up measurement systems that reward transparency.

Self-Monitoring Training

The foundation of a robust self-monitoring program is a proper mindset together with competent auditing skills. However, our factory compliance teams are made up of human resources personnel and health & safety personnel and not everyone comes with strong audit skills. The issue is further complicated by staff turnover.

In 2013 and 2014, TAL’s Sustainability Team visited each factory to provide training. The training sessions were designed to help those with zero compliance knowledge and ready them to perform compliance work in their factory. A total of 10 one and a half day training sessions were conducted and 45 people were successfully trained.

CHAPTER 04: SOCIAL PERFORMANCE

Each training session covered:

1. compliance standards on labor and health & safety;
2. role and responsibility of the compliance team;
3. components of the self-monitoring program; and
4. how a typical audit process should be.

The training sessions included practicing how to conduct factory tours, interview workers and review documents.

The trained personnel are then responsible for the self-monitoring of their factory. Every month they receive feedback on their self-monitoring reports to provide them with continued coaching and specific advice for improvement.

In August 2014, our staff in 5 factories across Thailand and Vietnam also received self-monitoring training from one of our customers in addition to TAL's internal training.

We will continue to work with all factory teams and identify training needs for the bettering of the self-monitoring system.



External Audits

In addition to self-monitoring, TAL factories are subject to customer compliance audits each year. Sometimes the audits are accompanied by a security audit (or C-TPAT audit for US customers) and a product quality assessment.

In 2013 and 2014, we had 58 and 47 external audits respectively. Our factories in Vietnam and China received the most audits. The diversity of customers at the factory and their customers' compliance mindset are factors contributing to how many times a factory is audited. Only a few customers will accept and review existing audit reports of other brands in lieu of conducting their own additional audit, or encourage suppliers like TAL to have a proactive approach and to develop their own sustainability programs.

Overall, 1 in 3 issues identified by external audits were related to labor while the remaining two thirds were related to occupational health & safety.

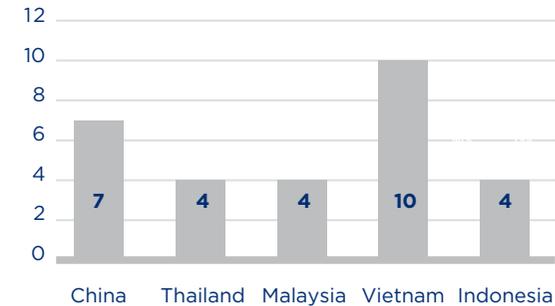
The top 3 labor issues were related to working hours (34%), wages and benefits (24%) and grievances (7%). To control working hours, TAL has introduced an internal standard to limit working hours to a rolling average of 60 hours per week over a 6 month period. This standard allows factories to maintain some flexibility to plan production across peak and non-peak seasons. Factories need to strictly adhere to this standard and report their compliance monthly as a KPI.

Compliance on wages & benefits are tackled by maintaining updated local labor laws and conducting regular self-audits. Please refer to page 26 for further information about our self-monitoring program. As for grievance mechanisms, please see further details at page 33.

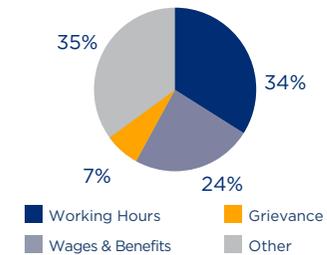
The top 3 health & safety issues were related to fire safety (37%), chemical safety (13%) and machine safety (13%). The largest concern of many customers in relation to fire safety is the width of evacuation aisles. To address this issue, TAL has developed a group aisle standard (please see page 45) to ensure safe evacuation.

To address chemical safety, we are in the process to set up a more comprehensive chemical management system. Furthermore, workers are taught to use proper personal protective equipment (PPE) and machine guards to prevent injuries.

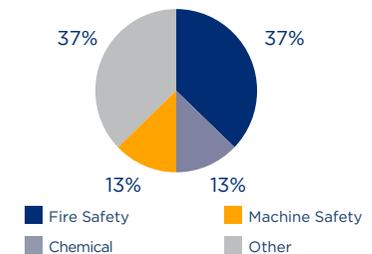
Number of External Audits per Year by Region



Labor Findings from External Audits



Health & Safety Findings from External Audits



Foreign Workers in Malaysia

Our manufacturing workforce in Malaysia includes thousands of foreign migrant workers. The foreign workers come for a job and higher income which they hope will help their family and themselves. These workers come from countries such as Myanmar, Vietnam, Nepal, the Philippines, Cambodia, Sri Lanka, Indonesia, Pakistan and Bangladesh.

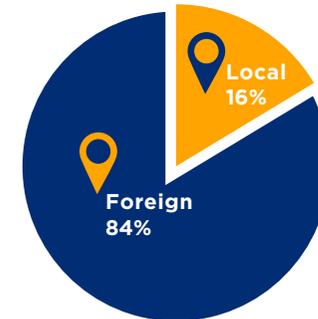
Foreign workers are prone to exploitation by unethical recruitment practices. We worked with labor recruiting agencies to set up specific requirements for them to be transparent in their operations and their recruitment process.

Foreign migrant workers used to pay recruitment fees directly to agencies and have little visibility on the exact amount and the interest rates they were charged. Through interviews with our foreign workers, we found that some were not able to track their reimbursement status because they were not being provided with any balance statements.

TAL took the initiative to control the costs incurred by our workers by changing the recruitment fee payment system. TAL pays the recruitment fees upfront to the recruitment agency and then provides a payback plan where the foreign workers gradually reimburse TAL for the recruitment fee, interest free. We formalized this process through an internal Standard Operating Procedure (SOP) to ensure the workers are fully aware of the loan before joining TAL, that the reimbursement is proportionate to their monthly earning and that they would be receiving monthly balance statements.

Free accommodation is also provided to foreign workers at the expense of TAL. To maintain good living conditions, a checklist in relation to the health & safety and quality of the housing has been drafted and used by the factory team to perform regular audits. A more thorough database has been consolidated to ensure timely update of the occupants in each unit. In addition, a housing maintenance system has been put in place for workers to launch maintenance requests and to record whether said requests have been responded to in a timely and adequate manner.

TAL's Workforce in Malaysia



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To provide better support, we created 2 different Human Capital Management teams in our Standard Factory Structure in 2014 (learn more in page 38). One of the teams is dedicated to providing counseling and follow up on worker requests, grievances, etc.

Since most foreign workers in Malaysia do not speak English or Malay, we identified that translators are necessary. We have not yet recruited translators for all nationalities but it is our intention to do so in the near future. To offer an additional channel for communication to our employees, we also appointed a “house leader” per dormitory and hostel.

We realize that there are opportunities for improvement to taking better care of our foreign workers. Therefore, TAL will be dedicated in the coming years to implement the standards we have identified so far.



Handling Grievances

As a company operating in multiple regions and with a diverse workforce, TAL needs to create grievance mechanisms to handle employees' complaints and concerns.

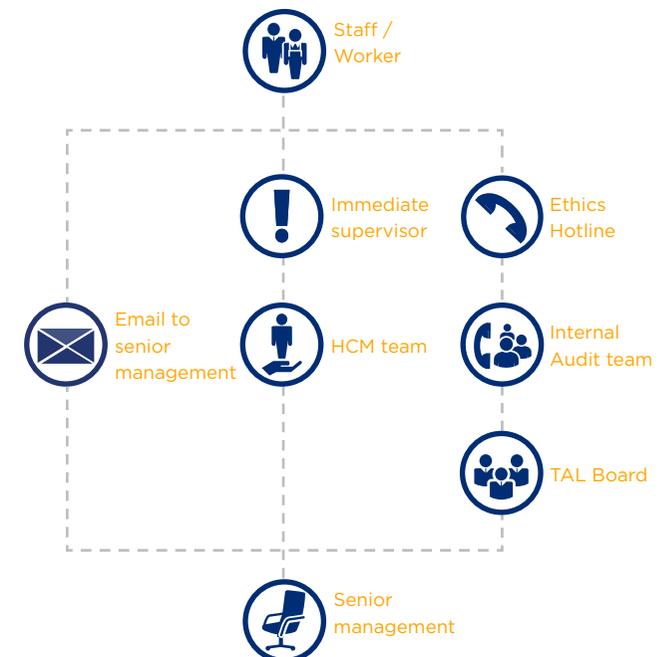
Ethics Hotline

In the past, employees could bring their grievances to the attention of management through:

- sending an email to senior management, such as the CEO and/or the President & CTO; or
- raising issues directly to their immediate supervisor, and where issues could not be resolved then they could be raised to the Human Capital Management (HCM) team.

The more serious allegations and concerns were taken to the relevant senior management members to follow up.

Grievance Channels for TAL Employees



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Since September 2014, we have rolled out a TAL Ethics Hotline (the Hotline) across all TAL sites in addition to existing channels. It is an alternative channel for employees to report any issues or concerns about unethical and improper business practices.

The reporter may choose from the following methods to make the report:

- TAL Ethics Hotline email account – All emails are diverted to the Internal Audit team made up of the President & CTO and Internal Audit Director; or
- TAL Ethics Hotline numbers – Dedicated phone numbers are set up for each location. All calls are automatically transferred to a voice mail recorder.

Reports can be made anonymously or with name and contact information for follow up.

Once the Internal Audit team receives a report they will review the nature of the complaint to determine how to approach it. If the complaint is related to unethical conduct, or violates normal business practices, the Internal Audit team will conduct an investigation to validate the facts provided. The results of the complaints investigated by the Internal Audit team will be communicated to the whistleblower.

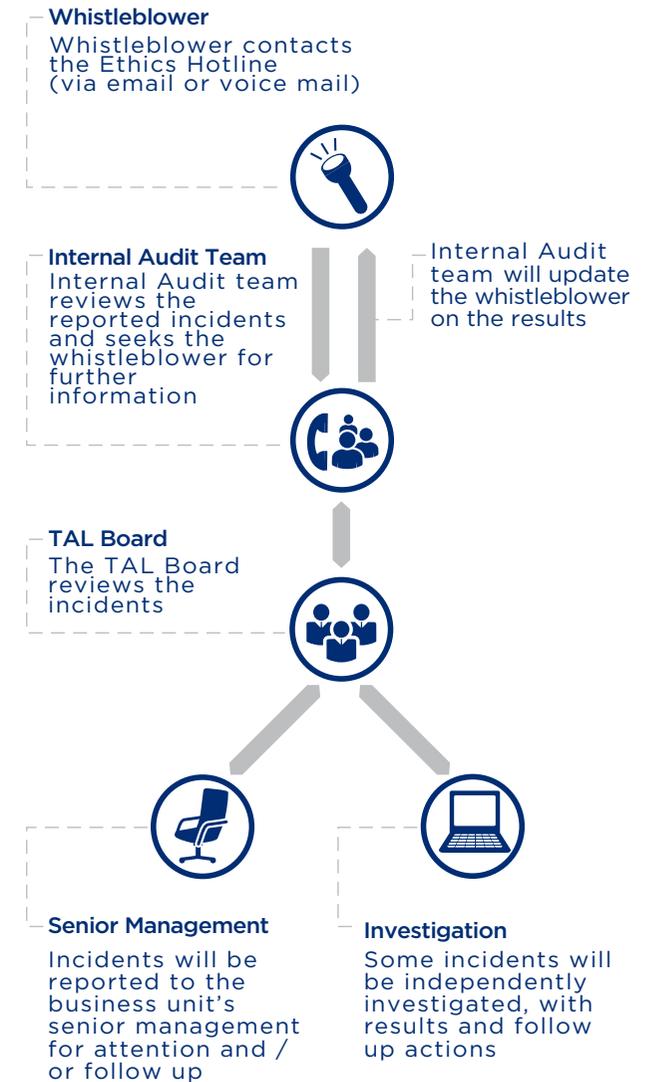
The Hotline received some reports during the first 3 months of being active. The reports covered topics such as labor management relations, procurement practices and other operations matters. As the Hotline is up and running, more focus will be put into handling the grievances. In our next report we will share our challenges, if any, in the implementation.

Big Sister Program and Handshake Hotline in China

Our production workers tend to have fewer options and resources to protect themselves when suffering from unfair treatment. For them, we have to create specific grievance channels in addition to the ones for office staff. These mechanisms include anonymous suggestion boxes, dedicated human resources personnel and third party hotlines.

Take our factories in China as an example. In 2008 we established a team of labor relations specialists called Big Sister to communicate with our workers. Over time the Big Sister program has matured

Ethics Hotline Workflow



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into a vigorous program with daily, monthly and yearly activities for workers. Big Sisters help new workers get settled into the factory and local community, listen to worker concerns in person and through social media (QQ and WeChat), resolve day-to-day problems and relay worker feedback to management. To the workers the Big Sisters are their counsellors, listeners and guides in the factory as well as a bridge between workers and production managers. From this program, we are not only able to enhance a sense of belonging but also collect valuable feedback to improve the way we support our workers.

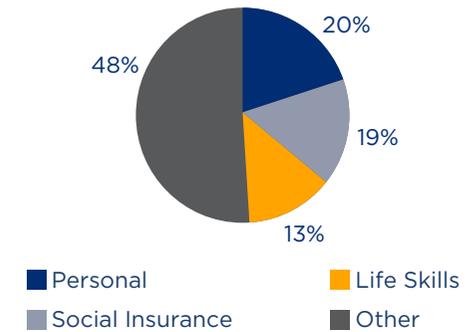
In 2014, we also began partnering with a non-profit organization called Inno Community Development Organization to set up a third party hotline called Handshake. Workers can reach professionally trained counsellors via phone or QQ to share their concerns anonymously. At the end of each month, Inno summarizes and provides each case's details for our reference.

Both our factories in China received approximately 90 submissions of feedback through Handshake in 2014. Most of the time, workers sought specific advice and information to help with their work-related or life issues.

The challenge with the third party hotline is their limited capacity to serve all our workers. Through Handshake, we collected 90 inquiries which is much lower than the almost 700 submissions Big Sisters internally gather each year. In China, the turnover rates are particularly high and continue to climb, so internal engagement mechanisms will continue to be critical for gauging the pulse of our workforce.

Moving forward, we will continue to refine our internal procedures for handling grievances and source competent third parties to service workers in all our factories.

Topics Raised through Handshake



Types of Issues Raised through Handshake



Freedom of Association

Synergy between employees, worker union and management is immensely valued by TAL. In most TAL factories, we have worker unions and they negotiate a collective bargaining agreement (CBA) with factory management for the acceptable level of wages and benefits. In October 2013, in our Indonesia factory, the existing CBA expired and therefore the worker union and management began negotiating for a renewal.

As the negotiations stretched into early 2014, workers became dissatisfied with the factory's proposal to adjust the tax deduction policy. Management wanted the new CBA to transition to the common industry practice in Indonesia which will be less advantageous for workers. The union felt that negotiations were not progressing and therefore commenced a strike on February 21, 2014. The union brought 19 demands to management.

The strike went on for 5 working days and the factory stopped production. During this time, the workers and management came to an agreement regarding the 19 demands. The strike ended and the factory resumed working on 28 February and a memorandum of understanding was signed on March 5, 2014.

We hope that the common ground found by both sides this time can be the foundation for better synergy moving forward.



Community Involvement

TAL continues to donate to causes in regions where we operate. In 2013 and 2014, TAL and its associated family foundation (Lees Charitable Foundation) contributed around US\$2 million each year. The majority of this donation went to educational causes. Other causes donated to include children’s welfare, health care and community development. In support of nurturing talents for the textiles and apparel field, we also funded scholarships and sponsored industry forums at various levels of education.

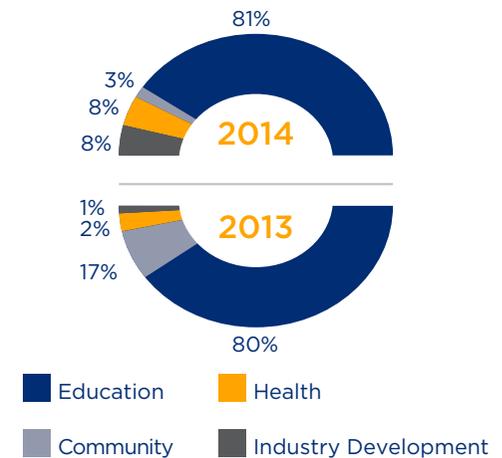
Social Responsibility Committee in Hong Kong

In late 2013, the Social Responsibility Committee (SRC) was relaunched in TAL’s Hong Kong headquarters. The SRC is responsible for raising awareness for a sustainable community among TAL’s Hong Kong staff.

SRC worked with the Ronald McDonald’s House of Charities (RCMH) and the Produce Green Foundation (PGF) in 2014. TAL has provided RMCH with volunteers for events as well as funded and organized an event bringing 18 families to a local attraction, Noah’s Ark. To support PGF, TAL had rice transplanting and reaping activities to appreciate the process and to promote the idea of valuing food and reducing waste.

SRC independently organized other activities as well, such as bartering between colleagues and donating any remaining usable items and collecting recyclables like red packets and spectacles. Monthly emails were also issued to further raise sustainability awareness.

TAL Group Donations



Transition to Standard Factory Structure

In 2014, we rolled out a standardized organization structure across all of our factories for the first time in our company's history. This marks a very important milestone because having the standard structure allows us to be more efficient and ensures that there are no gaps or overlaps in our operations. The structure also nurtures the understanding and trust needed for our teams to function more effectively.

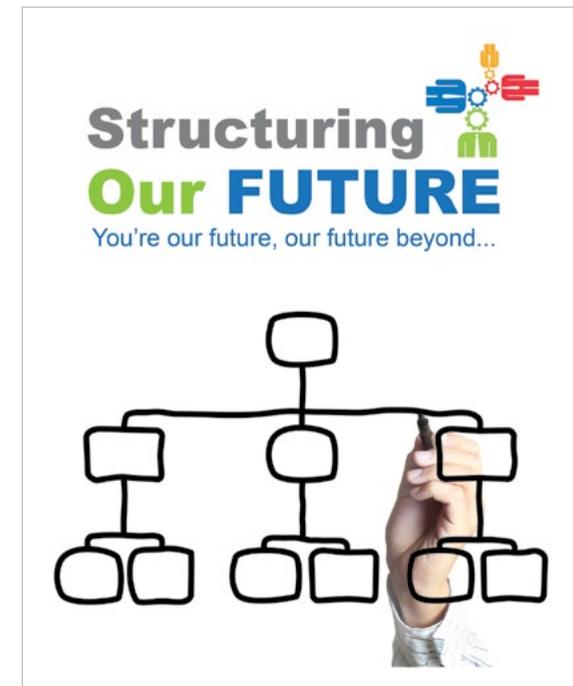
The transition to the Standard Factory Structure (SFS) has been a long and demanding process starting back in 2011. A lot of colleagues were involved in re-visiting the existing structures in the factories. It was found that the structure differed greatly from factory to factory. A lot of effort was then put into realigning and reorganizing the factories' departments and creating role-specific adjustments in the departments to ensure that all roles work efficiently together.

A total of 249 factory roles were defined and documented in the form of Role Profiles. With the efforts of over 30 colleagues across the factories and the Hong Kong headquarters, all 249 roles were evaluated using the Aon Hewitt JobLink™ Point Factor Evaluation Methodology. This methodology yielded role grades which we then confidently used to benchmark compensation and benefits in the market.

In order to prepare for a smooth transition to the SFS, a stringent process along with supporting materials and relevant documents were designed to give clarity and focus when reassigning employees in the new structure. The process also helped in communicating and implementing the structure in the factories. An appeal process was created to allow employees to voice out concerns regarding their reassignments to ensure fairness of the SFS transition for each and every employee.

The transition to SFS began in July 2014 and by September 2014 all of our factories were operating under the new structure. Roughly 4,400 employees were given new assignments and/or new grades as a result of the SFS transition. There were no known cases of employee resignations attributed to the SFS transition. 8 cases of appeals to new assignments were raised, all of which were successfully resolved.

The next big push on standard structures will be focusing on the Hong Kong functions (and their extensions at the factories). Approximately another 200 roles in the structure will have to be reviewed and redesigned. We will work hard to ensure a successful transition in the coming months.



Employee Engagement

Employee engagement continues to be a core subject of human capital management at TAL. Since our first 2 Employee Engagement Surveys in 2009 and 2011, we partnered with Aon Hewitt again for surveys in 2013 and 2014. The 2014 survey revealed that TAL's overall engagement increased by 4% points from 2011. The overall improvement was 11% points compared to the 2009 baseline.

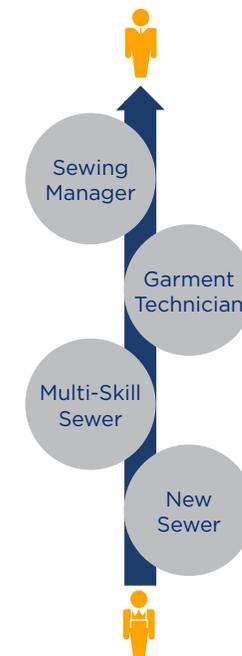
Many initiatives were carried out in 2013 and 2014 to enhance the engagement levels, for example:

- In China, the surveys revealed that workers and staff wanted more transparency in the promotion process, more feedback on their job performance, and more diversity in work tasks and future opportunities. Such feedback showed that engagement is closely linked with people development at the factories. As a result, the factory team introduced a career ladder to show how new workers can progress within production and non-production roles.
- In one of our Thailand factories, the management team conducted meetings with each and every single staff member and worker. The Factory Managing Director personally sat in all the sessions to make sure that all voices were heard. This proactive approach was incredibly successful. Engagement score increased dramatically by 25% points between 2011 and 2014, followed by outstanding business results.

The next step is to keep the momentum going and sustain engagement initiatives which we expect to be even more challenging. We will be required to move from analyzing data and planning actions to implementing changes, measuring outcomes and communicating results to all our employees. Each TAL site has set up an Engagement Committee to lead the way and face the upcoming challenges.



Example of a New Sewer's Career Path in China



Functional Skilled Knowledge

In 2011, the Functional Skilled Knowledge (FSK) initiative began. The pilot program was conducted in 2 factories in China and Malaysia. The program focuses on technical skills for critical production roles.

By the end of 2014, we rolled out FSK in all factories. 559 garment technicians, mechanics and quality control inspectors were enrolled in year-long courses. In 2014, 69 employees from the 2 pilot factories completed the training while 110 more are expected to graduate in 2015. Certified garment technicians and mechanics are continuously evaluated and trained on-the-job to ensure their knowledge is applied at work. Graduates have implemented approximately 48 projects to improve production efficiency and quality in relation to sewing techniques and machine maintenance.

We have identified the need for 52 FSK programs with 19 having completed curriculums covering garmenting techniques, mechanics, quality assurance, computer marker design and paper patterning. Each program is translated into 6 languages.

We also began to develop FSK training for non-production roles to build up product knowledge for the sales teams. This project began with pants and has moved into other products such as shirts and knit garments. Instructional guides with PowerPoints, handouts, videos and over 500 mock-up pieces were created.

To support the growing FSK training program, 9 more certified Instructional Design Architects joined the team making the total to 39 people. In addition, 129 experts have been certified as FSK instructors to help deliver training. Training coordinators were appointed in each factory to support FSK implementation.



Managerial Leadership Competencies

In 2010, TAL introduced 9 Managerial Leadership Competencies (MLCs) critical to the success of TAL and its employees. In our last report, we shared how tools were developed to integrate MLCs into human capital management systems.

In the past 2 years, to educate our colleagues on MLCs, we had to move from raising awareness to getting employees to apply the concepts at work. To achieve this, aside from classroom training, we arranged reinforcement activities (such as a writing competition and an experience sharing session) outside of the training rooms. Train-the-trainer activities were conducted to create MLCs Advocates who then drive the learning climate for MLCs in different TAL sites. There are currently 40 MLCs Advocates.

Our next step is to integrate MLCs with the training and development plans of specific roles. We engaged an external consultant to analyze the MLCs. The analysis revealed that one of the MLCs known as “Digging Deeper for More” is key for the role of Factory Managing Director to be successful as they need to systematically seek out information and ask probing questions to identify root cause and create deep insight into a wide range of issues.

Having a competent workforce is critical to the success of TAL. We will continuously promote MLCs to create a competitive edge through our people.



Health & Safety Performance

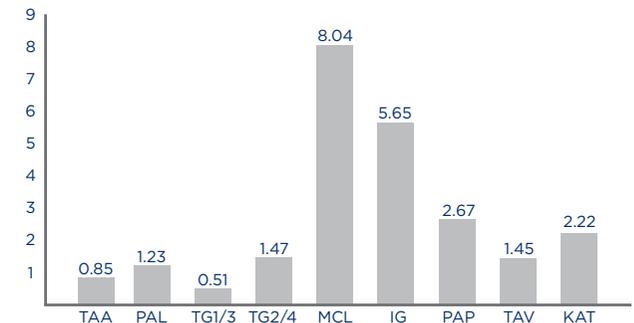
In 2014, we introduced Key Performance Indicators (KPI) to measure safety performance in a more standardized and comparable way. The indicators chosen were injury rate and working day lost rate. These metrics, by no means, cover all aspects of health & safety but may reflect how a factory propagates safety awareness and manages workplace hazards.

Each month, factories report on their injury cases. The incidents collected would include all kinds of work-related injuries regardless of severity. If the workers had to rest due to the injury then the factory would record lost time.

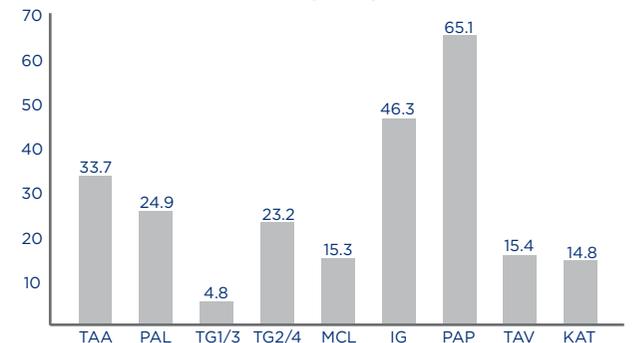
Based on OSHA standard, injury and working days lost rates are calculated per 100 full-time workers (working 40 hours per week, 50 weeks per year). The figures can then be compared across factories.

The purpose of collecting this data is to set a baseline in each factory and set a target to improve upon. However, it has been challenging to standardize data collection methods across all factories. Factories may report a low injury rate because they underreport their cases or because they do not dedicate resources to measure and analyze injuries. Some factories may account for cases resolved on the factory floor but others may not. Factories in different regions may also have different definitions of “work-related injury” because of different laws. We have a long road ahead to standardize data collection and we have already planned for the development of Standard Operating Procedures (SOP) concerning ‘Incident Reporting and Investigation’ as well as ‘Incident Reporting and Statistical Techniques’. Setting the KPI was just the beginning.

2014 Injury Rate



2014 Working Days Lost Rate



Risk Assessment

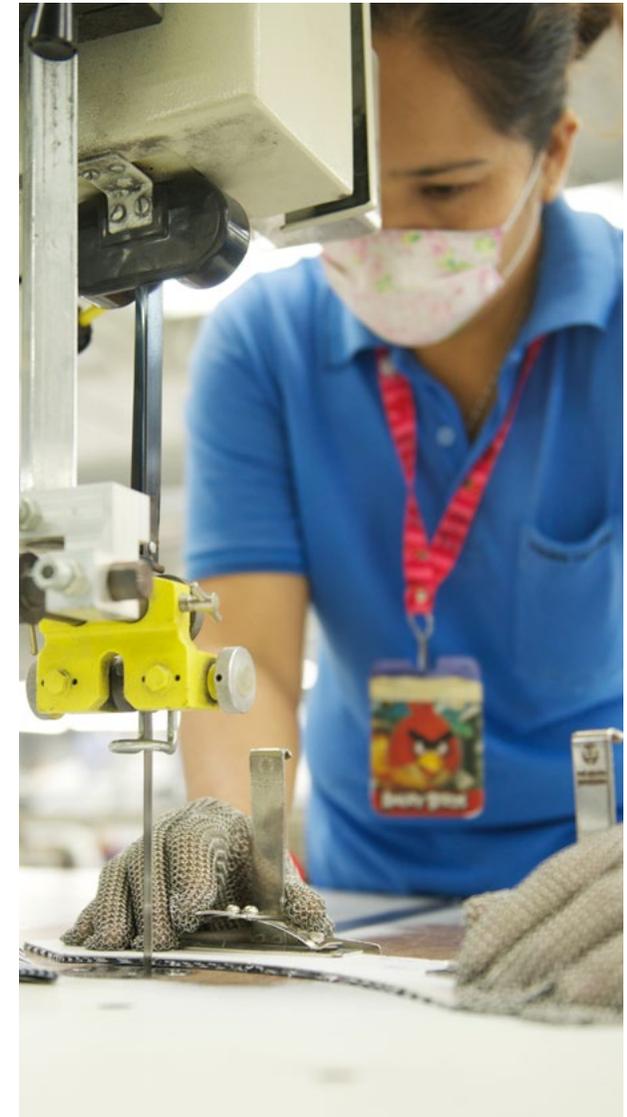
Hazard and risk are 2 key concepts to help us understand and prioritize our health & safety efforts. **Hazard** refers to the potential harm caused by an activity, situation, machine or equipment. **Risk** refers to the likelihood and severity with which a person can be harmed by a potential hazard. Hazard and risk are related but are not the same.

For example, with a cutting machine, there are potential hazards such as being cut by the blade. However, if workers wear metal mesh gloves, the risk of being cut will be lowered even though the hazard remains. Inside a factory, machines and equipment can bring many potential hazards to our workers. Our job is to assess and minimize the risk of injury.

The Hazard Identification Risk Analysis and Risk Control (HIRARC) is a tool for analyzing risk. We have been using this tool to identify all production activities and assess potential safety hazards of each activity. We involved an expert from each department to identify all the hazards in their own work activities from the beginning to the end. Afterwards, the probability and severity of each hazard is scored to quantify the level of risk. Low risk activities only require continued monitoring of existing control measures whereas higher risk activities will require an improvement plan to mitigate the risk.

To kick-start the HIRARC exercise, in 2014, we identified 2 pilot factories in Malaysia where there are employees with multiple nationalities. Training materials were prepared in 3 languages: Malay, English and Chinese. Senior team members from 13 different departments were invited to join the training on risk assessment and how to conduct it in their own department. By involving key persons from each department, we were able to better understand each department's work and enable them to generate ideas and take ownership of the improvements proposed.

While conducting HIRARC, we faced many challenges such as scheduling to accommodate all participants and making the most out of the training time (i.e. which part of HIRARC can be done before the training and what is best facilitated by the trainer). The pilot has given us valuable insights as we roll this out in other TAL factories in the foreseeable future.



Fire Safety

Our working environment consists of many fire hazards, such as fabrics that easily burn and machines that may have short circuits. According to the U.S. National Fire Protection Association, our industry is classified as high fire risk and we need to take all necessary precautions to reduce such risk in our factories.

One way to manage fire hazards is to ensure that all fire prevention equipment is reliable and accessible. We check this monthly through self-monitoring, where the factory health & safety team ensures that fire extinguishers, hose reels, hydrants, fire alarm systems, sprinkler systems, etc. are all in good condition.

Another way is to create procedures, provide training and set up Key Performance Indicators (KPIs). TAL's Sustainability Team partnered with TAL's Facilities Team to set up a Standard Operating Procedure (SOP) in 2013 covering fire prevention and emergency preparedness.

After creating the draft SOP, it was distributed to all factories for review. The factories compared the SOP with their existing procedures and local law requirements and reverted with their feedback. The SOP was then finalized as the standard across all TAL factories and it was also followed by 3 working instructions with detailed tasks to perform.

The first work instruction covers fire prevention. It provides guidance on how to identify highly combustible materials and ensure that they are controlled with proper housekeeping. We also asked factories to assign persons in charge to maintain high temperature equipment and machines. Employees who work with these materials were trained on fire hazards and how to manage risk. Each factory then submitted evidence of their implementation and their efforts were verified through on site visits.

The second work instruction covers emergency preparedness. Even though we control fire risk, we still need to best prepare our people to handle emergency situations. Each factory was asked to appoint a Fire Response Team with 2 sub-teams. The Emergency Response Team ensures that everyone evacuates from the factory and provides first aid when needed. The Firefighting Team



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puts out the fire with firefighting equipment. Both teams are trained regularly. Each factory was again assessed on how the SOP was implemented.

The third working instruction provides guidance for conducting fire drills. Fire drills are important exercises to prepare everyone to react accordingly when a real fire occurs. With more than a thousand employees in each factory, running a fire drill is no simple task. Each employee needs to understand what to do, who to follow, where to evacuate to and how to gather at the assembly point. Specific persons are trained to make announcements, support evacuation, conduct roll call, etc. Observers are appointed to identify bottlenecks, such as congestion at emergency doors and uncooperative evacuation behaviors.

In order to ensure that all factories conduct fire drills regularly, in 2014, we also set up a KPI for each factory to run one drill every 6 months.

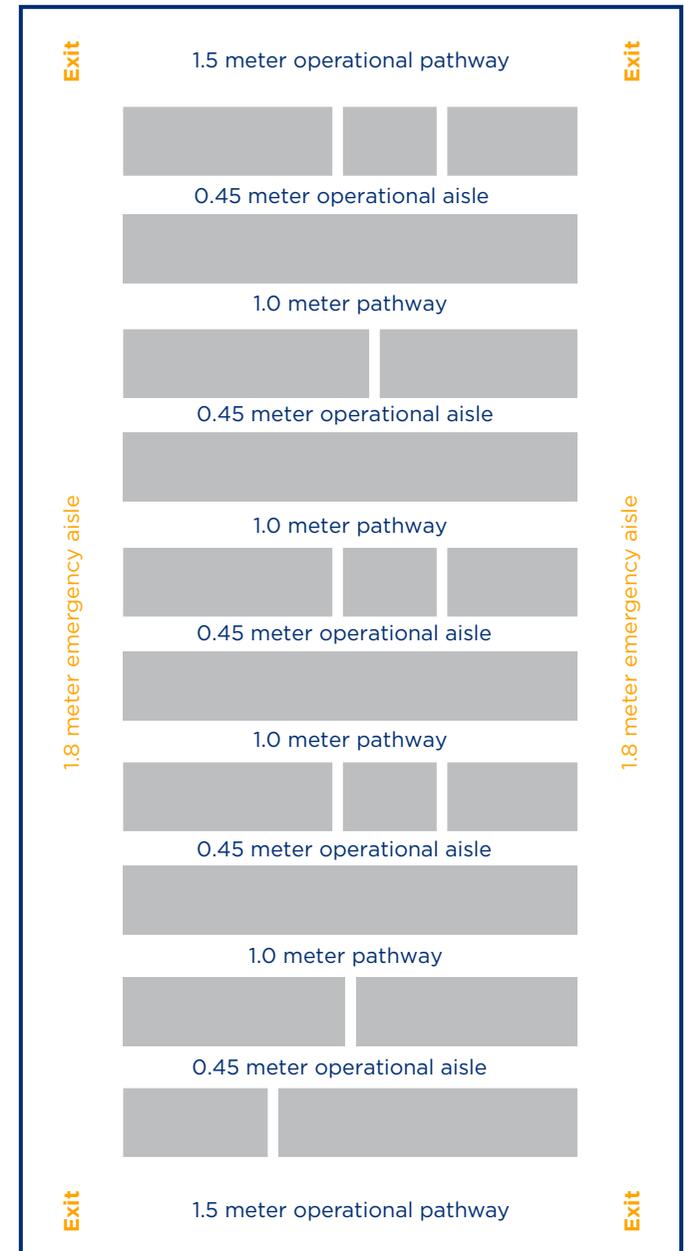
Setting up SOP and KPI was our first step. Now our factories focus on maintaining such safety awareness through training and refining procedures based on findings from self-monitoring and fire drills.

Emergency Aisles

Our production floor layout can impact how swiftly employees can evacuate in an emergency. Therefore, we have created a standard layout with clear requirements on aisle width.

We determined that for safety purposes, 45 centimeters is the standard minimum width of an aisle in our production line. We conducted research into fire codes and international advisories such as NFPA and OSHA. We also considered other industries such as the aviation industry and the width of aircraft aisles in which passengers and crew use regularly and in case of emergencies.

Our production line layout has evolved in accordance to the TAL Production System. It is basically a two-row layout, main line in one row and sub-lines in the other. The operational aisle between the rows of machines creates ease in mutual helping between operators. While the pathway at the sides have multiple purposes: supplying materials to line, changing machines, attending to Andon calls and management Gemba walks. This creates a highly visualized and structured flow of materials.



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Each operation aisle leads to emergency pathways which run along the perimeter of a building block and connect to multiple exit doors. Flows of people converge at these pathways. The pathways have a width of 180 centimeters to accommodate the influx of traffic from multiple aisles.

The process does not end with a design. This was followed by layout audits and corrective actions to address nonconformance. Employee education sessions were carried out to ensure everyone has a hand in sustaining clear aisles. Fire drills were conducted to determine evacuation capability, identify bottlenecks and risk areas for subsequent resolution.

The next big challenge we have comes from the machines. We have non-needle machines which come in various dimensions and protrude into aisles. We are modifying the larger sized machines so they will not protrude into an aisle. We will look further into other features associated with egress. This sort of continuous improvement process will help create a safer environment for everyone in our production facilities.

Factory Health & Safety Structure

Keeping our workers safe requires dedicated resources, infrastructure and management systems. More importantly, safety is an issue that requires commitment from top management. This is not something that we can compromise on or take shortcuts. We cannot remain passive and wait for stakeholders to get interested. Instead, we need to enforce workplace safety with clear structures and mandates.

In Thailand, the law requires factories to have a dedicated and trained health & safety officer. But in other TAL factories, the safety role used to be assigned in a less formal approach. Sometimes, facility engineers who take care of energy and water initiatives may be asked to take up safety on the side. Other times, the human resources staff responsible for social compliance would be asked to oversee safety initiatives. Many factories lacked dedicated persons with professional health & safety backgrounds. Safety related initiatives, such as safety audits, emergency preparedness,



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injury case investigation and safety awareness education, were handled in a fragmented way without a clear strategy for continuous improvement.

In 2014, we took advantage of TAL's new Standard Factory Structure (SFS) (learn more on page 38) and imposed formal safety roles inside each factory. We mapped out all the work processes the safety team would be accountable for and assigned tasks to the specific roles based on the complexity of the task. For example, preparing a 3 year safety strategy, establishing health & safety management system and setting metrics to measure factory health & safety performance are more complex tasks. Conducting safety audits, incident investigations and day-to-day safety training are considered less complex tasks.

2 safety roles were created to handle all safety related work processes inside each factory, an Environmental Health & Safety (EHS) Manager and a Safety Executive. They were evaluated by the job evaluation methodology to determine their grade together with all other roles in the SFS. This safety team will be under the Engineering & Maintenance team which includes mechanics, facilities engineers and wastewater engineers. This larger team will be overseen by the Operations Director who also manages production activities.

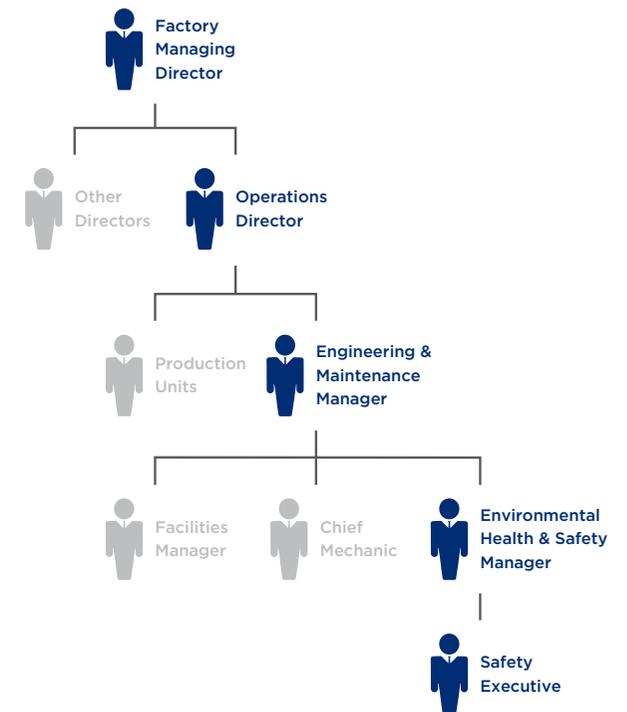
Since rolling out this new structure, all factories are taking steps to fill the safety positions. TAL will audit the factories to see if the structure is being properly implemented.

At the same time, we are evaluating the efficacy of this new structure in our factories. Is the safety team too many levels below the Factory Managing Director? Is the safety team prone to compromise with production priorities in the current structure? How can we ensure that the safety team is somewhat independent from production? How clearly should we define the academic qualifications and experience needed for our EHS Managers?

At the corporate level, hiring a Health & Safety Director will be our next big step. This suggestion was presented to TAL's top management in December 2014 and was well received. This position will be separate from the social and environmental positions in order to give safety more focus.

We are still exploring for the best safety structures and systems to implement. In the next report, we shall look back at our experience with this new structure and identify opportunities for improvements.

Factory Health & Safety Team Reporting Line



Health & Safety Awareness

Employee participation is key to building a health & safety culture. Our factories had various engagement mechanisms and activities to enhance safety knowledge and awareness.

Some factories set up a Health & Safety Committee to get employees more conscious of health & safety. The committee meets on a monthly or quarterly basis and includes representatives from management and workers. Each meeting discusses Health & Safety topics such as injury cases, new safety regulations, progress of action plans, upcoming training and findings from self-monitoring etc. Members can also bring up safety concerns directly to the management. In between meetings, committee members would work with the health & safety team to communicate health & safety standards to workers, engage them to implement health & safety programs, monitor program implementation and participate in incident investigations and risk mitigation.

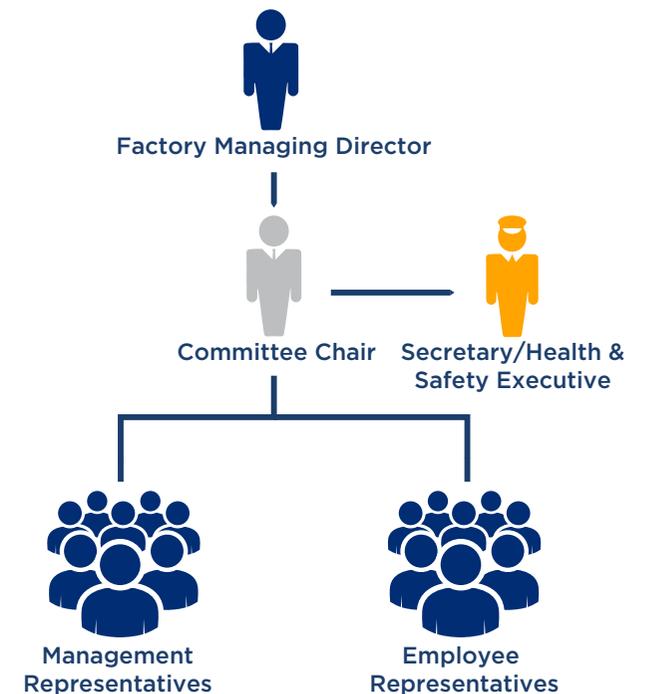
In several factories, we also found alternative and innovative ways besides classroom training to raise health & safety awareness amongst all levels of employees.

Here are a few examples:

One China factory conducted safety competitions. In July 2014, 5 teams of 10 workers participated in a quiz competition on stage. This competition engaged both the participants and the audience while refreshing their safety knowledge.

The same factory also ran 4 safety kaizen competitions in 2014. Each team consisted of 4 to 5 people from different departments. They were assigned to one area, such as a production line, to identify potential safety risk, design an improvement plan and implement the plan within a specific period of time. The Factory Managing Director then judged the results and declared one team as winner.

Typical Health & Safety Committee Structure



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One Thailand factory came up with a different kind of competition. Each production line formed a team consisting of the line supervisor and an office staff. The teams cross audited each other on 5 areas:

- metal free and sharp tools control;
- use of safety guard and personal protective equipment;
- workplace and emergency preparedness;
- 5S; and
- production line's participation in the cross audit and corrective action follow up from previous inspection.

Cross audit results were collected each week over a 6 month period. The team with the highest average score was the winner.

Engaging workers in these health & safety activities allowed our employees to learn about safety standards and follow through on safety practices at their own pace and terms. Competitions certainly brought excitement to our factories and were a great way to make a serious topic interesting and informative.

We firmly believe that the Health & Safety Committee and health & safety activities will positively impact health & safety standards of their respective factories.



Suppliers and Subcontractors

Our suppliers are an important stakeholder and since our aim is to be sustainable, it is vital that the rest of our supply chain partners are also sustainable. TAL is in the middle of the garment supply chain. We partner with fabric and trims suppliers to prepare for production and may fulfill orders with subcontractors that offer special expertise.

The table below outlines the main types of partners in our supply chain:

Suppliers Supply goods to TAL facilities such as fabric, buttons, interlining, carton boxes, etc. in certain quantity for a specified period of time	Subcontractors Supply production services such as embroidery, washing, etc. under certain requested specifications and performed in the subcontractor's premises
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Developing a sustainable supply chain has been a challenging area for us since we have been focusing our efforts on ensuring that we have systems to manage our own labor, health & safety and environmental impacts. Reaching out to the supply chain while still struggling to settle our own issues has proven to be difficult. However, we have taken some steps to introduce sustainability to the supply chain, particularly with subcontractors that have the most direct relationship with our production process and add value to our products.

In 2014, we worked with the Supply Chain Management team to integrate the TAL Ethical Business Practices into the Suppliers Welcome Kit. We also started to set up systems to screen and approve subcontractors. Our factory's compliance team will visit potential subcontractors and audit them based on our internal labor, health & safety and environmental standards. If the candidate does not present any major violations then we ask the candidate to share a recent audit report or relevant certifications to cross reference with our team's findings. Where such audit reports are not available, an external professional auditor will be arranged by TAL to audit the subcontractor. The candidate will only qualify upon passing these two steps of screening.

Subcontractor monitoring is included as a monthly Key Performance Indicator for our factory compliance teams. Each month, factories report all subcontractors that they are using or that are in the process of seeking approval. This provides a complete picture for prioritizing actions to manage subcontractors.

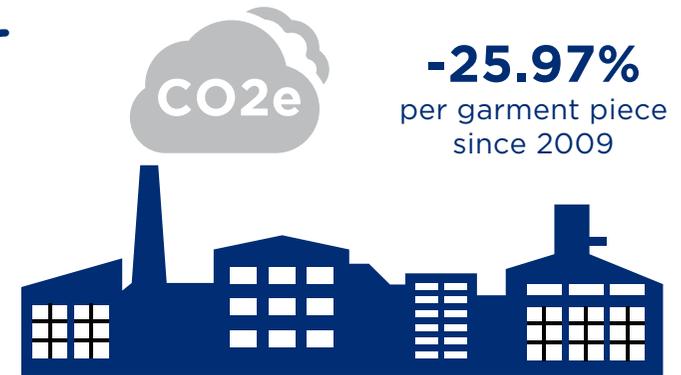
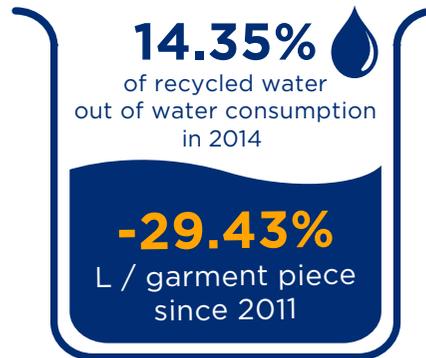
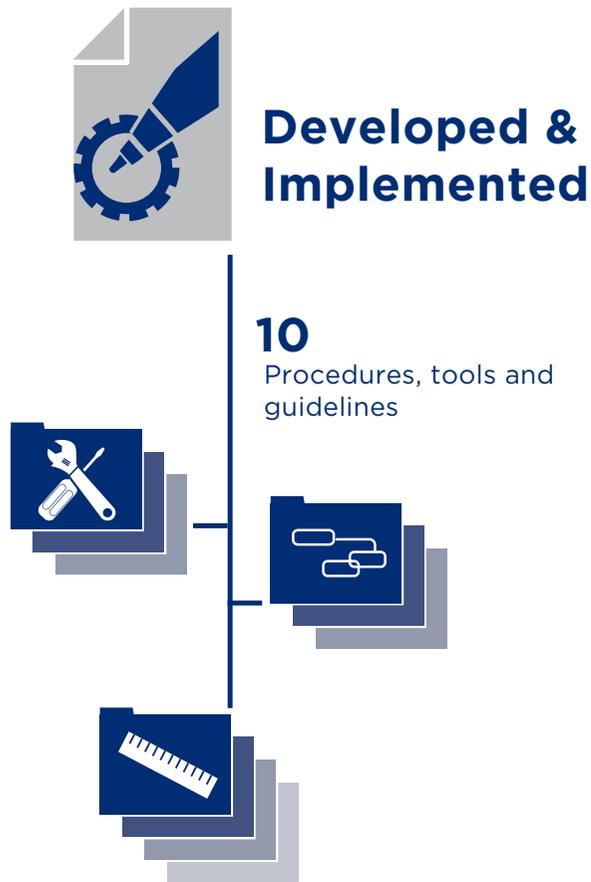
Our next step is to further refine the system based on the implementation gained from this past year and create standard procedures to guide factories on how to manage compliance risks with subcontractors. It is also necessary to ensure that relevant departments (e.g. sales, production, and compliance) communicate in an open and timely manner for the screening and approval process.

Environmental Performance



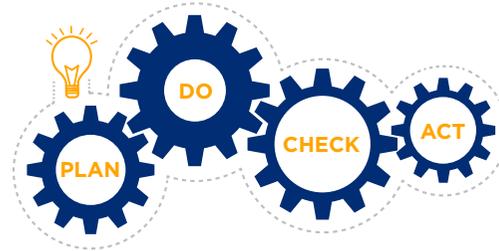
Our Environmental Performance in Figures

For many years, TAL has strongly believed that production should not mean pollution. The third and oldest pillar of TAL's sustainability strategy and commitment is the environmental performance. In the following section we will lay out some of our present achievements and future plans in regards to our commitment to reducing our impact on the environment.



Environmental Management System

Since 2009 TAL has started to implement step-by-step a robust Environmental Management System. Same as every management system, the continuous improvement work cycle is based on a “Plan, Do, Check, Act” approach.



Based on the environmental impact of our factories and on the hot topics of our major stakeholders, TAL has prioritized areas of improvement.

In the last 2 years TAL has focused on creating a new Standard Operating Procedure (SOP) on water use covering:

- wastewater treatment plant maintenance;
- wastewater treatment plant day-to-day operations;
- wastewater testing and reporting;
- reclaiming water from the wastewater treatment plant; and
- drinking water.

The new SOP developed was implemented across all factories. Each SOP contains a set of definitions, all necessary requirements to follow, an implementation workflow and the Responsibility Assignment Matrix (RACI Matrix) clearly identifying the scope of work for everyone concerned ensures that the procedures are fully embodied into the day to day work and process of every stakeholder.

Our strategy is to push forward one environmental aspect at a time. We strongly believe in quality and have focused our efforts to fully and consistently cover one subject through a full cycle of a management system instead of dividing our resources and trying to tackle multiple subjects at once.

The implementation of a robust management system takes time and a lot of efforts for all the factory teams. It was often the same team involved in the implementation of a new SOP and in maintaining and improving the existing ones. We could not implement too many topics at once because implementing a new SOP covering another environmental aspect does not mean dropping the existing management system.

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For the last 2 years we have kept working on water footprint and GHG emissions and have implemented SOPs on wastewater. Here is a summary of what has been done and will be done in the future:

	SOP written	SOP implemented in every factory	KPI developed to follow up performance	Targets released to challenge performance	New round of targets released
GHG emission calculation guidelines and reporting					
Water consumption guidelines and reporting					
Air emission testing guidelines and reporting					
Wastewater management					
Waste management (solid waste and hazardous waste)					
Chemical management system					
Supply chain management - Suppliers - Sub-contractors	*				
Environmental Aspect Impact Assessment			N/A	N/A	N/A

Implemented

To be developed in the next 4 years

Ongoing

* We believe that we need to lead by example and first reach a certain level of excellence before starting to engage our supply chain. In the next 4 years, we will focus on covering our major internal impacts and will develop a strategy on how to engage and empower our supply chain partner.

TAL acknowledges that most of our factories do not have an environmental management system certification. Instead of pursuing external certifications, TAL has taken ownership and has set up strict internal processes to audit ourselves against the SOPs drafted based on industry best practices. We prefer to dedicate our factory teams to implement technical solutions that lead to improvement in environmental performance. At the same time, TAL has collaborated with members of the Sustainable Apparel Coalition (SAC) to develop the Higg Index into an apparel industry standard. Learn more in page 74.

Environmental Aspect Impact Assessment

TAL has started to perform Environmental Aspect Impact Assessment (EAIA) to identify all the environmental **impacts** (negative or positive) at every step necessary to manufacture our products. Environmental **aspect** refers to all the activities of our production that can impact the environment. This analysis is a great tool to develop a robust action plan and to prioritize every action depending on their risks.

For example, we use steam for ironing which needs the combustion of fuel in a boiler. One environmental **aspect** of this activity is the use of fuel and the related environmental **impact** is the exhaustion of fossil energy resources. Another **aspect** is the emissions of NOx and its related **impact** is air pollution. A further **aspect** is the possible leakage of fuel and the related **impact** is the contamination of ground and underground water.

With the EAIA methodology, we first have to look at all our production activities, such as cutting, sewing, ironing, washing, wet process, etc. Then we engage the managers of all such activities to list the type of activities related to environmental aspects, such as transportation, energy, waste production, air emissions, water use or discharge, noise and nuisance, land use, etc. Afterwards, we match the aspects with impacts on air, water, ground and underground water and other natural resources.

Based on this analysis, we score the risks of the activities based on the probability of occurrence, gravity and scope of control.

Activities such as wastewater treatment, boiler fuel gas emission and hazardous waste management that need to comply with environmental regulations are automatically recognized as having significant risk.

In some cases, the assessment also considers the corrective or preventive actions that are already in place or are soon be implemented to control the risk.

Our 2 factories in Malaysia have started to pilot the assessment and begun mapping all the potential environmental aspects and impacts resulting from manufacturing processes.

In the process, not only are we able to get a better picture of our environmental impacts, we have also brought together a lot of different stakeholders. All parties involved have enhanced their awareness about the environmental impacts of their work and the process has enabled discussions about effective and customized plans to reduce such impacts. We hope that by involving all relevant stakeholders at an early stage, we will be able to more effectively implement actions on site.

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We look forward to completing the assessment for these 2 pilot factories as a test for the efficiency of our methodology and will apply it to all the other factories in the near future.

Example of Environment Aspect Impact Assessment Matrix

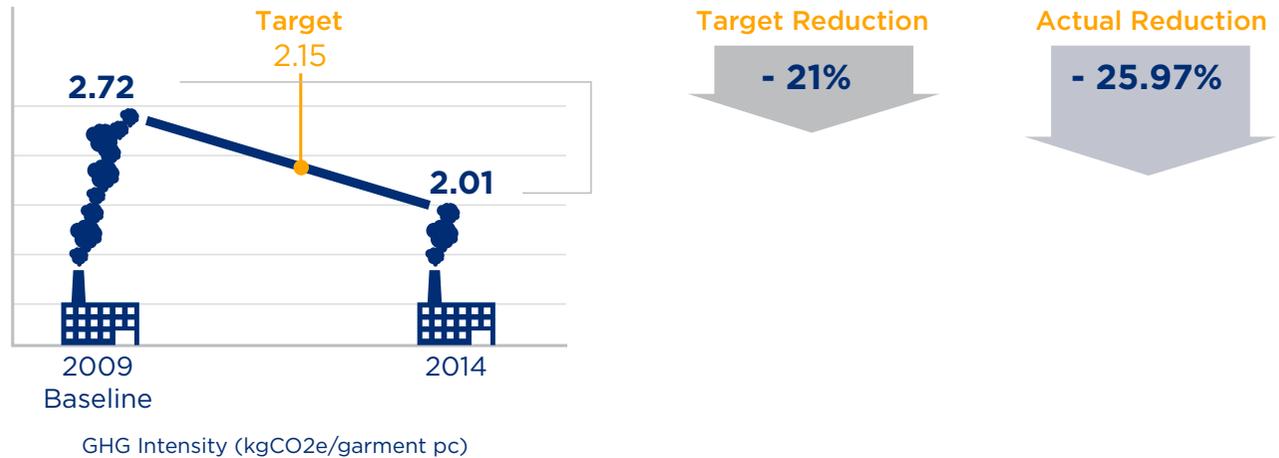
Area / Process	Activities	Situation		Environmental Aspects	Environmental Impact	Raw risk			Legal (Y/N)	Raw risk	Significance: "YES" if under Legal requirement or Score ≥ 15	Activities / Control Measures	Control level	Residual risk	Significance: "YES" if under Legal requirement or Score ≥ 15
		Business as Usual	Accident			Probability of Occurrence	Severity of Occurrence	Scope of control							
Fabric Testing	Cut the fabric as sample with scissors	X		Dust generation	Effect to surrounding community	5	1	1	N	5	NO	Dust filters maintained and changed	0.25	1.25	NO
		X		Use of fabric	Depletion of natural resources	5	4	0.75	N	15	YES	Cutting patterns designed on software to minimize the waste	0.25	3.75	NO
		X		Disposal of residual fabric	Land contamination	5	2	1	N	10	NO	Remnants of cut fabric sent for recycling	0.25	2.5	NO

Greenhouse Gas Emission Program Performance

GHG emission (kilograms of CO₂e per garment piece) is the indicator for evaluating our GHG footprint and reduction performance across TAL.

In 2009, TAL committed to reducing GHG emission by 21% by the end of 2014. Due to the great and constant effort and commitment of all factories, the reduction exceeded our target by 6%.

As previously mentioned in our sustainability report, TAL is following the Greenhouse Gas Protocol for quantifying and reporting on the GHG footprint.



“In **5 years** we **have reduced**

our GHG emissions by

11,625 tCO₂

= 1.8 million

yearly absorption



TAL GHG emissions (tCO ₂ e)		2009	2010	2011	2012	2013	2014
Scope 1	Mobile fuel consumption	699	796	762	678	678	673
	Stationary fuel consumption	32,000	33,874	27,021	22,434	19,562	15,945
Scope 2	Purchased electricity	64,764	70,749	60,237	63,382	64,829	68,422
Scope 3	Paper consumption	13	18	12	12	5	9
	Business air travel	894	871	1,618	1,596	1,366	1,695
Total GHG emission (tCO₂e)		98,370	106,307	89,653	88,101	86,440	86,745

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Based on our data collection, scope 2 emissions is the major contributor to our GHG footprint. Therefore, we are working on decreasing our electricity consumption by responsible usage and technical enhancement of machines.

Another angle can be to choose an energy provider with a greener energy mix to lower the emission factor of our purchased electricity. Unfortunately, in the countries where our factories are located, there are no such providers and the return on investment of installing renewable energy production devices on site is not compatible with economic efficiency.

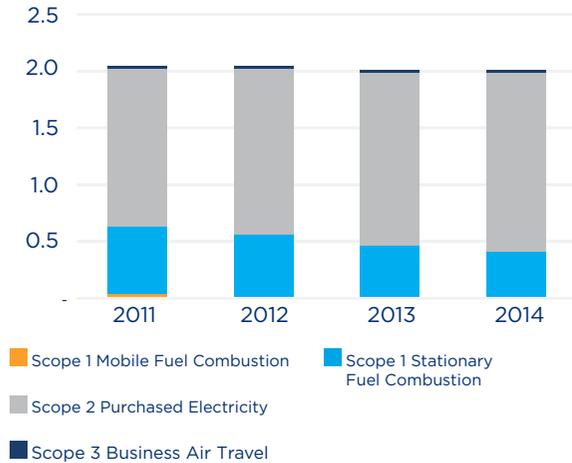
The second largest contributor of our GHG emissions is stationary fuel combustion equipment. Out of all our equipment, boilers are the main contributor to emissions. Heavy fuel oil (37.20% in 2014) was the main source of emissions, followed by light fuel oil (34.19%) and natural gas (22.82%).

In the last 2 years, we decreased our GHG emissions through 2 methods: decrease the overall consumption of energy and switched to greener energy.

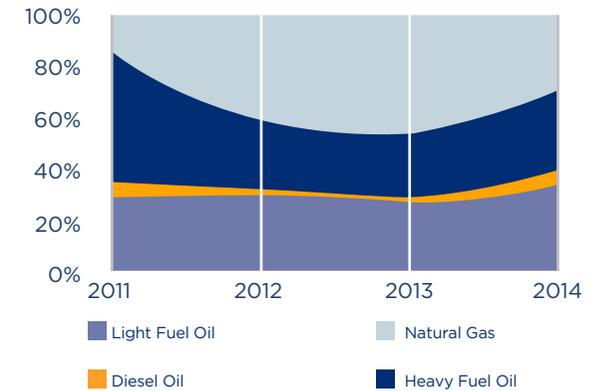
TAL is increasing the proportion of light fuel oil and natural gas because their emission factors are lower whilst decreasing the use of heavy oil. The LPG is mainly used for our wet process ovens and a small part for our cooking stoves. Please refer to GHG Reduction Initiatives on page 63.

*Our sources for the emissions factors used are DEFRA (Department for Environment Food & Rural Affairs of UK government) and HKCA (guidelines to account for and report on Greenhouse Gas Emissions).

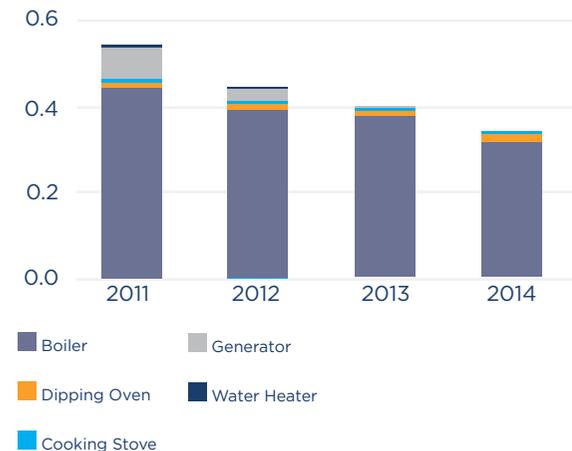
Trends of GHG Intensity (tCO₂e/ Output Piece)



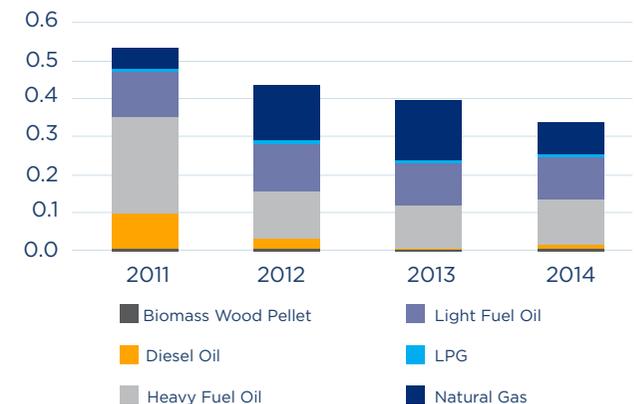
Ratio of Energy Type for Boiler (tCO₂e/Garment Piece)



GHG Intensity (tCO₂e/garment piece) for Stationary Fuel Combustion



GHG Intensity (tCO₂e/garment piece) per Type of Energy for Stationary Equipment

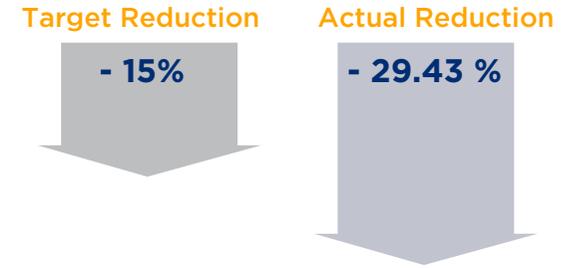
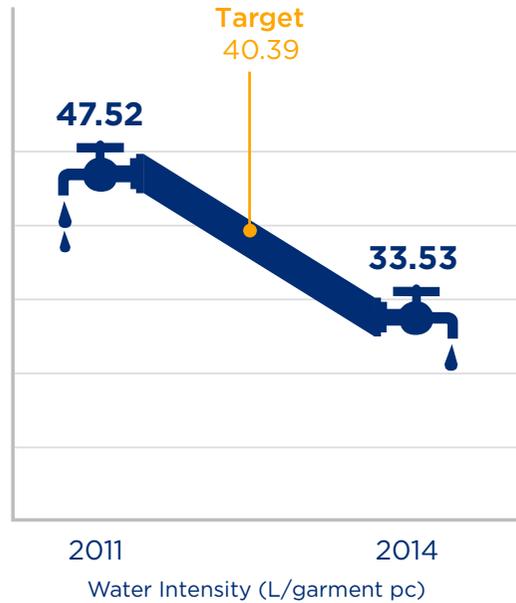


Water Footprint Program Performance

Water intensity (liters per garment piece) is our indicator for evaluating our water footprint and reduction performance across TAL. In 2011, TAL committed to reducing water intensity by 15% by the end of 2014.

Thanks to the efforts of all our factories, TAL has exceeded the original objective of 15% water intensity reduction. As a result of our 4 year action plan, water intensity was reduced by 29.43% by the end of 2014 when compared to water intensity in 2011.

The vast majority of water consumption source is municipal water (up to 81%). In the last 2 years TAL has made considerable investments to implement processes that allow us to reclaim and reuse water. In 2014 our water consumption consisted of up to 14.35% of reclaimed and reused water. See more information on our water reduction initiatives on page 65.



In **3 years** we **reduced**
our water consumption by
336,194 m³
= 134



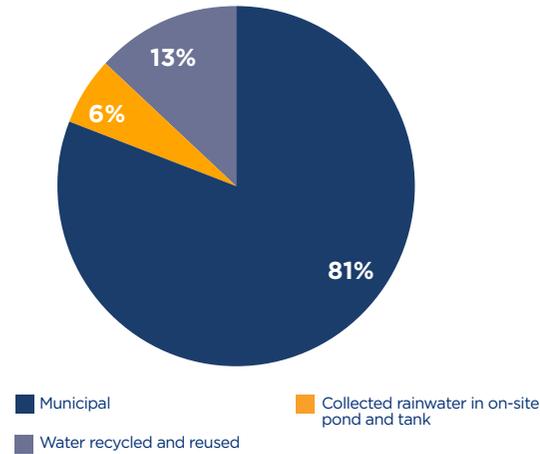
CHAPTER 05: ENVIRONMENTAL PERFORMANCE

To get an accurate and more granular picture of our water consumption we installed sub-meters in all factories. We were therefore able to detect leakages and to better manage our consumption as well as to identify the “thirstiest” process, equipment or area in order to prioritize our effort and launch an efficient action plan. We separated usage into 4 buckets:

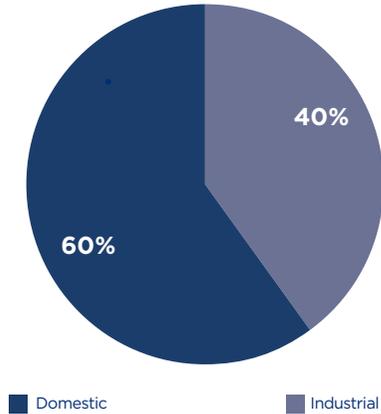
1. domestic water,
2. industrial – wet process,
3. industrial – other process use, and
4. industrial – facility use.

We realize after months of reporting that maintaining the accuracy of the sub-meter measure is no easy task because of piping design modifications. We will need to work on this to allow us to collect and analyze data more accurately.

Water Consumption by Source in 2013-2014



Water Withdrawal by Use in 2013-2014



Energy and Water Audits

At the end of 2013, TAL contracted a highly specialized consulting firm with different fields of expertise to identify possible improvements in terms of energy and water efficiency. Energy and water audits were conducted to help us design plans to reduce usage. The ultimate objective was not only to have a clearer and more precise picture of our impact but also to find technical and engineering solutions to reduce our impact.

Water and energy consumption data were collected and analyzed and the type and model of equipment or machines used by each factory were also considered. A report that highlighted potential improvements to the systems installed and a plan to achieve objectives and targets were issued for each factory.

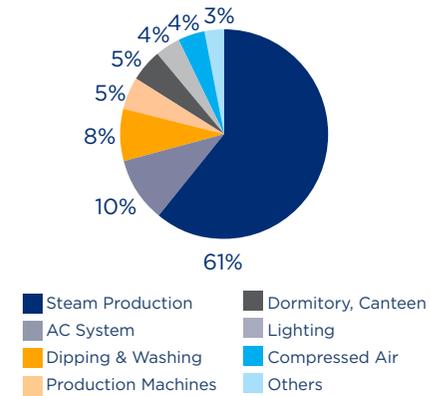
In each report, energy and water consumption was broken down by specific machines and appliances. The report was so detailed that it could identify a specific group of pressing machines for example. With this information we were able to better prioritize our actions and make efficient reduction plans.

We were surprised that each factory's usage differed. Some factories required focus on steam production while others needed to start improving their HVAC system. There was also difference in water data. Some factories had to start their work on dormitories and canteen usage while others on the manufacturing process. Therefore, each factory required a tailored plan.

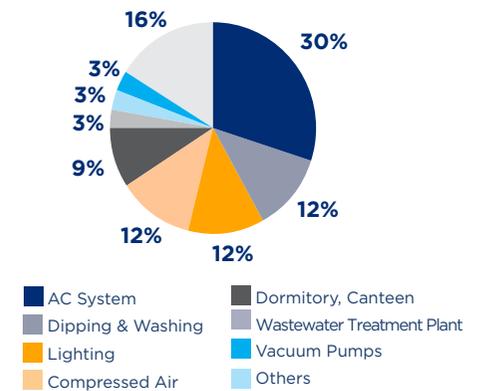
From this analysis, the auditors conducted detailed root cause analysis for inefficiencies and came up with tailor-made technical action plans and reduction schemes.

Each factory was provided with a specific action plan divided into 3 top priorities based on the 3 most energy and water consuming equipment categories. Then each action was classified, based on their Return on Investment (ROI), into 2 buckets: energy and water savings potential and investment required. Every action proposed was based on the issues identified on site for specific equipment and the root cause analysis undertaken.

Breakdown of Energy Consumption by End-use



Breakdown of Electricity Consumption by End-use



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This thorough and highly technical study was used in 2 major internal projects.

First, every factory used its own tailor-made report to implement an effective action plan to achieve reduction targets. The audit provided each factory with technical advice and clear prioritization driven by the ROI.

TAL then used the reduction scheme of the audits to customize GHG and water targets for the next 4 years for each factory. The detailed analysis from the audit enabled us to take into account factory specific constraints to tailor realistic but challenging targets for each factory. With the analysis we can yield tangible and efficient results from each factory.

“In each report, energy and water consumption was broken down by specific machines and appliances. The report was so detailed that it could identify a specific group of pressing machines for example. With this information we were able to better prioritize our actions and make efficient reduction plans.”



Greenhouse Gas Reduction Initiatives

Maximizing Energy Recovery in Wet Process

Our factory in Vietnam has found several ways to optimize the energy efficiency of their wet process area.

All piping that goes out of wet process containing hot water is insulated and the piping material is chosen to not transfer heat as much as steel. The temperature of the water is then used to preheat fresh water for the next round of washing.

A heat exchanger has been installed on the exhaust duct of the thermal oil boiler. Water circulating inside the exchanger “collects” the heat and maintains the high temperature in the hot water storage tank. During the summer, hot water is entirely supplied by recovered energy.

For fabric drying process, the hot exhaust air that is released is drawn back and reused. Drying requires 150 degrees Celsius while the exhaust is at 100 degrees Celsius. Therefore there is only a difference of 50 degrees Celsius. Solar air heating panels were also installed on the roof to preheat the fresh air supplied to the drying process. In the summer, solar energy can heat the air to 70 to 90 degrees Celsius. Heating up fresh air from outside is more efficient than heating up air that is at room temperature.



Switching to Cleaner Lighting

In 2013 and 2014, a couple of factories switched from fluorescent to LED lights. In one of our factories in China we substituted some 5,600 T8 tubes and replaced spotlights. This project reduced total energy consumption by 422,000 kWh. Our plan will be to gradually shift to LED lighting in all TAL facilities.

Optimize Chiller Performance

All TAL factories are air-conditioned and the HVAC system is a major source of energy consumption.



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In Vietnam, the factory has taken advantage of cooler winter temperatures to minimize the chiller's load. Whenever the outside temperature is low and the humidity is below 65%, they reduce the return air volume by half and increase fresh air intake. This relatively small investment has saved around 153,800 kWh over 2 years of implementation.

Secondary Insulation for High Temperature Machine

The fusing and pressing machines we use in production release heat into the surrounding environment. This lowers HVAC system performance and creates safety risks for workers.

One China factory has designed insulation covers to reduce heat loss. The cover was made with 3 materials: polyethylene foam, glass fiber and rock wool. Each material was used based on the machine's temperature and was sewn in-house. Using this insulation method alone saved around 35,000 kWh.

Switching to Biomass Boiler

All our factories use boilers to generate steam for production and these boilers are propelled by fuel combustion. One of our factories in China switched from diesel to natural gas in 2011 and then to biomass in 2014. The biomass used is wood pellets made from furniture waste and crop straw in a bordering province. In order to be really sustainable, it is important for us to not use wood pellets made from direct forestry but to find wood pellets made from a by-product of other close by industries. By switching from fossil fuels to biomass, the project reduced energy cost by 20% and reduced carbon emissions by over 3,000 tons per year as the CO2 emission of wood pellets is much lower than natural gas.

Introduce Smarter Energy Management

We have installed an online energy monitoring system in our China factory to track energy usage in real time. The system can show if some machines are left idle and relevant people are alerted to turn those machines off. It can also allow us to benchmark the performance of different equipment and the energy usage of specific production areas and processes. This tool has allowed us to quickly identify machines and systems that may be malfunctioning, inefficient or idle. On this basis, the factory estimates energy savings of 5%.

5,059*



yearly absorption

470,000*



yearly absorption

*These figures show the amount of greenhouse gas emissions reduced by a project, equivalent to the amount of carbon dioxide absorbed by a certain number of trees per year.



Water Reduction Initiatives

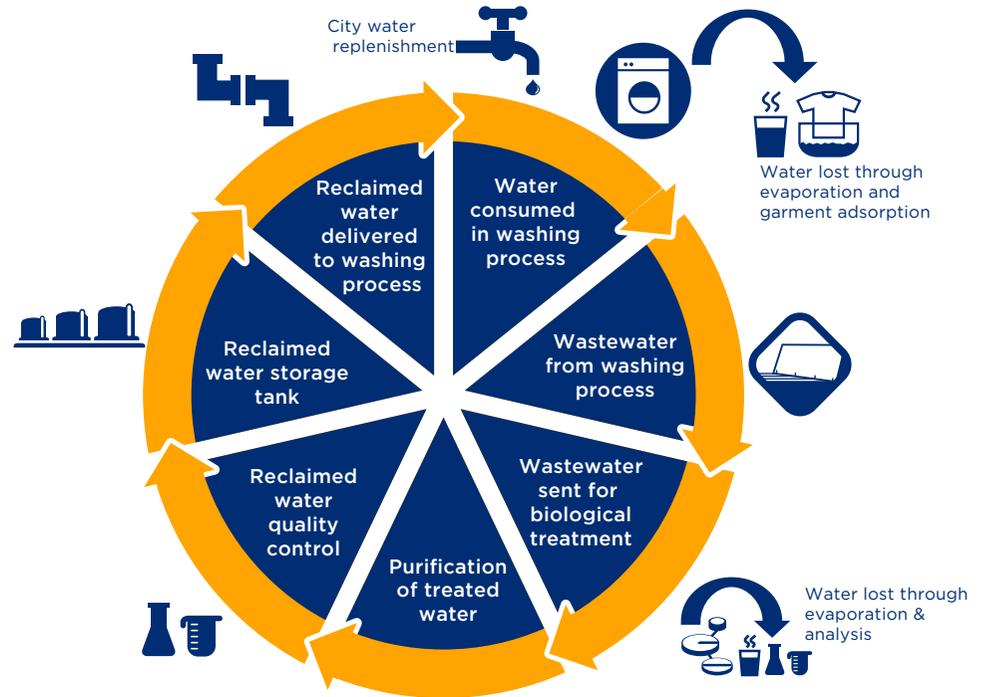
Reclaim Wastewater through Recycling Processes

Since 2011 and the first water reduction target plan, TAL has been working on several technical solutions to reduce our water consumption. The entire water conservation program was expanded from reuse to recycling. Prior to 2013, the water reuse program was vastly endorsed by harvesting the rainwater or reusing the industrial water within the washing process, also called cascade use in wet process.

In the reuse water program, the water is collected and consumed without passing through any treatment system. We have worked on this project since 2011.

Starting in 2013, 2 plants in China were chosen to upgrade their wastewater treatment systems with the objective to treat the water for reclaiming purposes. The systems were ready to operate by January 2014. The reconstruction of the piping system and installation of water tanks took more time than we expected. Reclaiming water is more complex than reusing water because it involves the recovery of wastewater to the desired standard before it can be used again. The reclaimed water needs to meet much more stringent quality parameters for it to be able to be used again in the process.

A series of mechanisms were set up to measure the system's efficiency from a qualitative and quantitative perspective. The monitoring parameters included water quality, reclaimed water consumption and water intensity.



Parameters to be Tested before Recycling

Parameter	Range
pH	6-8
Free Chlorine	< 0.1 ppm
Iron	< 0.1 ppm
Total Hardness	< 25 ppm
Silica	< 3 ppm
Manganese	< 0.01 ppm
Alkalinity (to Methyl Orange)	< 64 ppm
TDS	< 150 ppm
Color	< 10 Hazen Unit
Fecal Coliform	< 17% of Sample ND or Max 25cfu/100mL

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To ensure that wastewater is good enough to be reclaimed, we have identified a set of parameters to be tested before the water is qualified for recycling. After the treatment process, the reclaimed water sample is collected and tested before the water is sent to the storage tank.

Reclaimed water consumption and water intensity are 2 related indicators to gauge the overall efficiency of reclaimed water in the wet process. Monitoring the volume of reclaimed water consumption is a direct method to track our capacity to treat, recycle and reintroduce water into production at the desired quality. To measure this, water meters were installed at the main reclaimed water distribution pipeline to measure the volume of reclaimed water returning to the factory on a daily basis.

Furthermore, water intensity is established as a complementary parameter because the amount of reclaimed water consumed is dependent on the number of garments that go through the washing process. Reclaimed water consumption may increase during the peak season and decrease in the low season. Therefore, water intensity is established to measure the amount of municipal water used per garment piece. The more water that is reclaimed and reused for wet process, the lower this measure will be as the consumption of fresh water will decrease.

The percentage of reclaimed water usage increased from 2% in 2013 to 56% in 2014 for our 2 China factories.

When fully efficient and during the peak season, one of the plants was able to reclaim 100% of wastewater back in the wet process. So only 3-4% of city water was needed to compensate for evaporation and lost water during the reclaiming process. This system allows the factory to go from an average of 21 liters to 5 liters of city water



Volume (m³) of Water Reclaimed and Reused



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consumed per garment piece in the wet process.

The other TAL factories have implemented the recycling program too but are not yet able to reclaim the water back into the production process. Instead, the reclaimed water is used for gardening, flushing toilets, irrigation, etc.

Moving forward, TAL will expand the industrial water reclaiming effort to other factories, such as Malaysia and Thailand.

Minimizing Water Usage in Wet Process

In our Vietnam factory, we introduced counter flow principles to maximize water use efficiency in our wet process. Fabric enters from one side and water flushes through from the opposite side. After rinsing the fabric, the water and chemicals are collected in a storage compartment for reuse. There, we also manage water flow through a CPU (central processing unit) calibrated to control water use (in liters) based on the weight (in kg) of fabric washed. The CPU automatically varies the flow rate as the rate of production or the weight of fabric being washed changes. In this way, we optimize the water needed for washing our garments.



LEED in Hong Kong Headquarters

In our last sustainability report, we reported how we renovated and expanded our factory in Vietnam in accordance to the LEED (Leadership in Energy and Environmental Design) Gold standard. We have continued our green building efforts with the renovations of our Hong Kong headquarters. We commenced renovations in June 2014 using the LEED Commercial Interiors (2009) standard. The aim is to create a workplace that is not only aesthetically appealing but also comfortable for our people and beneficial to the environment. Stay tuned for updates in our LEED projects in the next sustainability report.



LEED Features in Our Offices:

Energy

- LED light panels replaced fluorescent lights, reducing lighting power by 35% and keeping the indoor environment cooler and brighter;
- 90% of new equipment purchased are ENERGY STAR labeled, ensuring high energy performance of our appliances;
- Lighting systems have occupancy and daylight sensors to optimize the use of natural light; and
- Zoning control for HVAC is installed to keep the office at comfortable temperature while saving energy.

Water

- Low-flow faucets and toilets in bathrooms and kitchens, reducing up to 45% of water use.

Indoor Air Quality

- Fresh air vents and carbon dioxide monitors to ensure that outside fresh air is pumped indoors;
- Furniture, furnishings and finish materials tested for low VOC levels to reduce indoor contaminants; and
- Use of eco-friendly housekeeping products to reduce chemical use.

Materials and Resources

- Furniture containing regional FSC certified wood, recycled metal and recycled plastic and manufactured within TAL's region;
- Reuse existing materials for renovation, such as plugs, doors, etc.; and
- Recycling paper, cardboard, metals, plastic and glass during the construction phase and on renovated floors.

Chemical Management

Chemicals are used in textiles and apparel production. Some of these are hazardous and can be harmful to the environment. In 2011 and 2012 Greenpeace issued the reports “[Dirty Laundry](#)” and “[Toxic Threads: Putting Pollution on Parade](#)” which shaped the formation of the Zero Discharge of Hazardous Chemicals (ZDHC) initiative. A number of our key customers started to commit to zero discharge of hazardous chemicals throughout their supply chains and products by year 2020.

There are 11 classes of priority chemicals:

- Alkylphenols (APs) & Alkylphenol Ethoxylates (APEOs)
- Azo Dyes
- Brominated and Chlorinated Flame Retardants
- Chlorinated solvents
- Chlorobenzenes
- Chlorophenols
- Organotin
- Phthalates
- Short Chain Chlorinated Paraffins (SCCPs)
- Total heavy metals
- Perfluorinated Chemicals (PFCs)

TAL aims to eliminate the use of the above chemicals in our own wet process and is also setting up policies requiring our upstream suppliers not to use any of the above chemicals in their manufacturing processes. 2 classes of priority chemicals above are particularly relevant to TAL manufacturing. They are: APs & APEOs and PFCs.

In 2013, we completely substituted chemicals that contained APs & APEOs. By the end of 2014, we switched from C8 to C6 PFCs in our pants factory. We aim to stop the use of C8 PFCs in all our factories by the end of 2015. We strive to phase out the use of all PFCs before 2020 in all our production facilities.

At TAL, we monitor the use of chemicals based on the Restricted Substance List (RSL) as set up by the American Apparel & Footwear Association (AAFA). The RSL is to monitor and limit restricted substances found in the finished products. The RSL is updated regularly by AAFA and we keep a close eye on it. In the ZDHC Joint Roadmap, a Manufacturing RSL (MRSL) was developed which addressed hazardous substances potentially used and discharged into the environment during the manufacturing and related processes (not just those which could be present in finished products). In 2014, TAL responded by working with each of our chemical suppliers to ensure that purchased chemicals for our own production met the established MRSL limits. Our wastewater has been tested twice a year since 2013 by a third party laboratory to confirm whether any relevant priority substances (APs/APEOs and PFCs) exceed the stipulated limits.

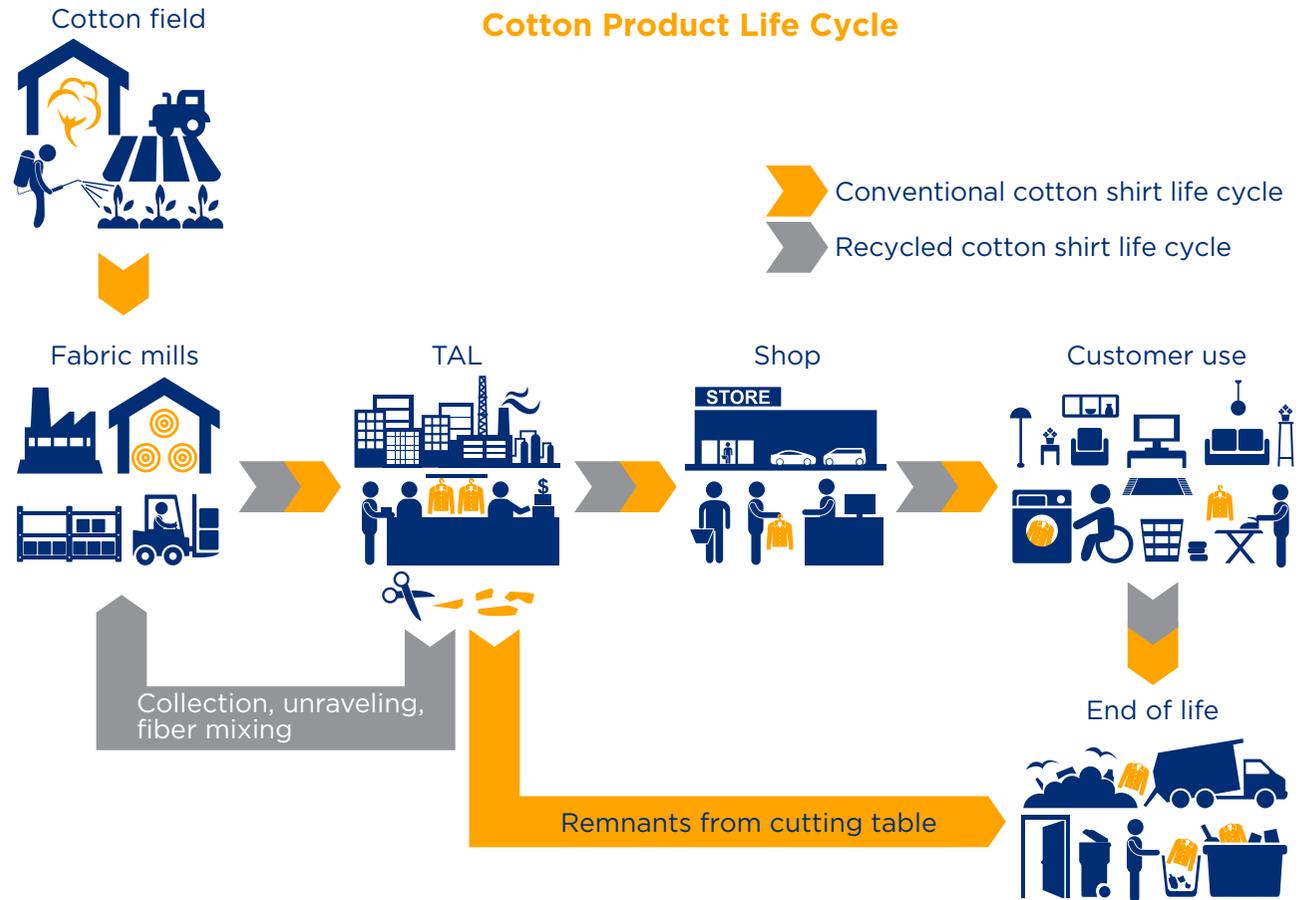
In the coming years, we will continue to work on our chemical management system to make it more robust, to cover all of our factories and to go beyond production areas such as laboratory, maintenance, dormitories and cleaning.

Recycled Cotton

The conventional life cycle of cotton garments leaves a high environmental footprint. As a cut-and-sew manufacturer, TAL has a part to play in “closing the loop” by giving cotton scraps from our cutting tables a second life. This effort is not limited to collecting scraps for down-cycling into products such as carpets, towels and insulation, but also up-cycling them into more valuable, fashionable recycled cotton products.

Cotton remnants are collected from our factories in China and Malaysia and sorted based on color (white, blue, red and mixed). The remnants are then compressed into bales to reduce the volume. The recycler unravels the remnants, mixes the loose fibers and spins the fibers into new yarn. Finally, upon weaving or knitting the yarns into recycled fabrics, they are shipped to our factory in Thailand for garment production. Our study estimates that leftovers from 16 virgin cotton shirts can generate sufficient remnant for one recycled cotton shirt.

While the research and development of recycled cotton commenced in 2011, we partnered with one of our clients, Patagonia, to launch our first recycled cotton garments in the fall of 2014. Our garments, made of



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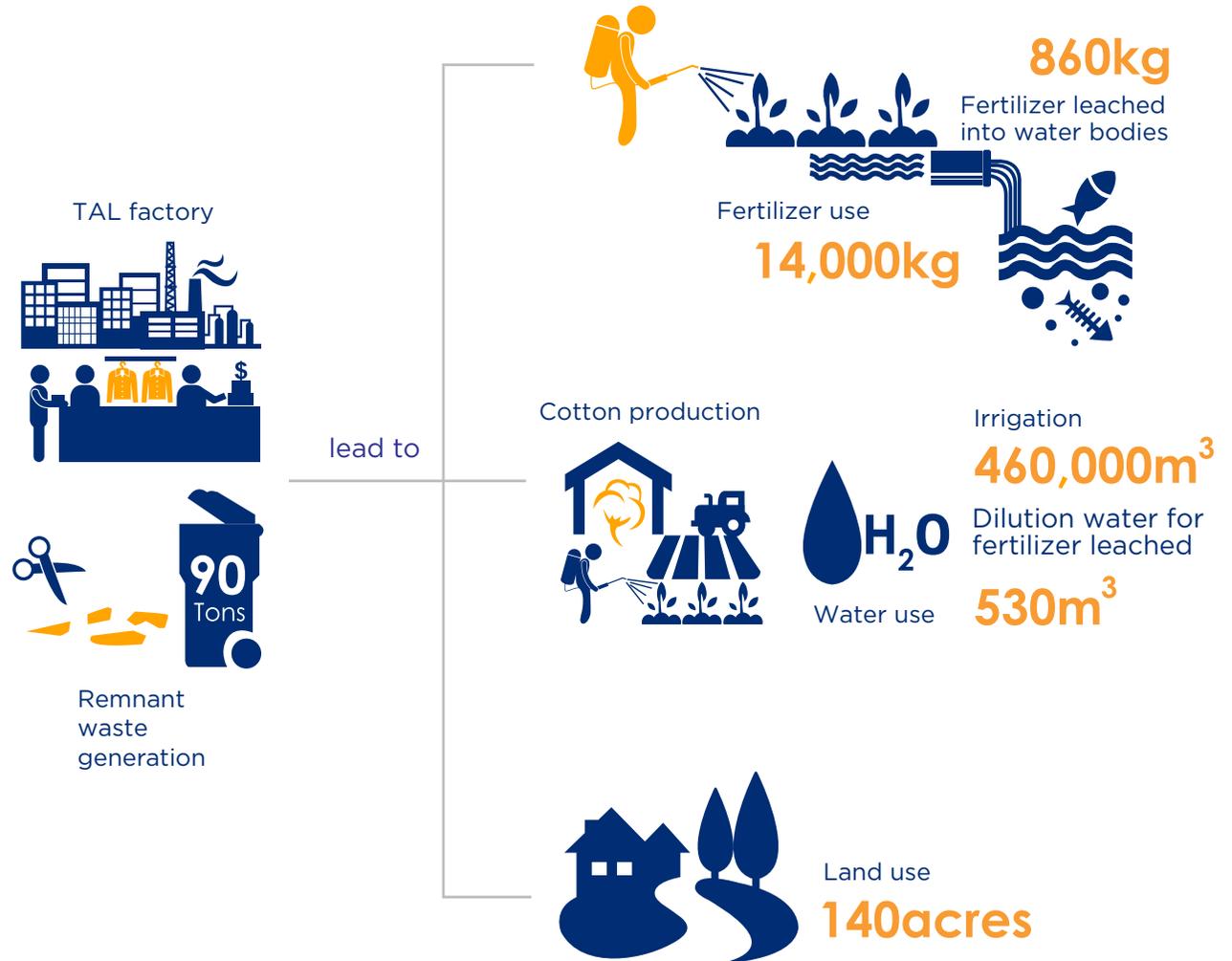
blended reclaimed cotton with virgin organic cotton, were included as part of Patagonia’s [Truth to Materials](#) collection. The collection featured garments made of undyed cashmere, reclaimed wool and recycled cotton in order to raise awareness of responsible products that use less processing and fewer virgin resources. Over 2013 and 2014, TAL collected close to 100 tons of cotton scraps and sold over 13,000 garments. This iconic, green and fashionable collection was recognized by Vogue US in October 2014.

Through launching this garment, we learned at least 2 major challenges for scaling up our recycled cotton project: quality and economics.

Compared with virgin cotton yarns, recycled ones are generally of lower quality because the unraveling process shortens fiber length and the new yarns blend fibers of different qualities. Furthermore, recycled cotton yarns seldom come in consistent colors. For example, reds and blues come in many shades. Despite white-colored remnants being separated from dominant colors such as red, the recycling process still gives the fibers a greyish “washed out” color.

To ensure the quality of recycled cotton fabrics, only high quality fabrics can be used (e.g. shirt fabric instead of pants fabric) and employees

Environmental Impact Reduction throughout the Recycled Cotton Product Life Cycle*

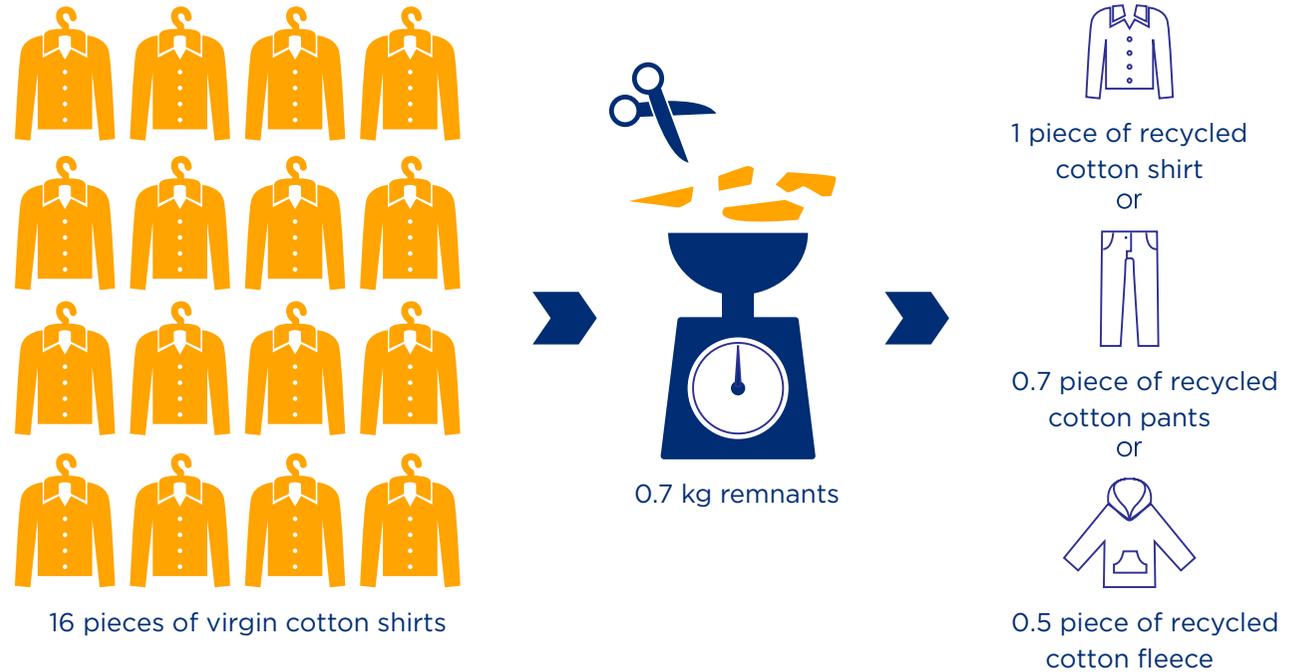


*Product Life Cycle Assessment & Carbon footprint test report - study performed in July 2010. The study is based on the World Resource Institute Greenhouse Gas Protocol Product Life Cycle Standard.

CHAPTER 05: ENVIRONMENTAL PERFORMANCE

dedicated to sorting out cotton remnants by color are needed. Despite its environmental benefits, the challenges to maintain quality make recycled cotton a “harder sell” than conventional cotton.

The scaling up of recycled garments not only depends on TAL’s research and development but also the market’s appetite for eco-friendly garments. Recycled garments involve many interlinked parties to produce. Cotton recyclers require manufacturers like TAL to supply cotton remnants but also need us to buy back the recycled cotton to keep their business sustainable. On the other hand, buy-in from fashion brands and demand from end consumers are needed for us to continue producing recycled garments. Hence, we are not able to work alone to close the loop; our customers have a critical part to play as well. We hope to work with more brands to integrate environmental considerations into their product design and bring recycled fashion into the mainstream.



Industry Collaboration



Industry Collaboration

Sustainable Apparel Coalition

It takes more than one to build a sustainable future. Working on sustainability issues without trying to link and address the sustainability challenges of the rest of our value chain, both upstream and downstream, would not allow us to address any sustainability matter in any meaningful way.

Therefore, TAL became a member of the Sustainable Apparel Coalition (SAC). We are an active participant and have invested significant amount of our time to work on the development of the Higg Index, a suite of tools which provides an industry common approach for measuring and evaluating apparel and footwear sustainability.

TAL feels very strongly about SAC's vision as it is the first time an industry approach looks at sustainability without focusing exclusively on the manufacturing aspect. SAC's approach is more comprehensive and unprecedented as it also measures the sustainability of a product by measuring who designs and sells the product.

In 2013 and 2014, our work within the SAC reached 3 major milestones:

1. Equal Partnership

We have pushed the Equal Partnership concept to be at the center of the SAC agenda. Many brands and retailers tend to have a rather top down approach when they discuss sustainability with their suppliers. They traditionally approach their suppliers with their list of requirements to



CHAPTER 06: INDUSTRY COLLABORATION

be complied with but do not consider whether their suppliers already have a sustainability strategy and roadmap. For suppliers to take ownership of sustainability, their clients have to give up their “one size fits all” methodology. Equal partnership requires trust, respect, listening and consideration of the supplier’s existing sustainability agenda and acknowledgement that the unequal approach stifles innovation, ownership and problem solving.

2. Consumer Facing Label

For the past 20 years, the retail cost of garment has been constantly decreasing whereas the manufacturing cost has been steadily increasing. Consumers have therefore been buying garment at an inaccurate and unsustainable price. TAL is delighted to contribute to the thought process of a consumer facing label that would display sustainability performance of apparel and footwear products and educate consumers to change their purchasing behavior.

What might the consumer facing label look like?

1. Provide information about product sustainability to influence consumers to make sustainable purchases;
2. Provide information to educate the consumer for a more sustainable use phase of the product; and
3. Collect data on buying habits, application and end of life information via smart devices. Currently we lack information regarding the way the end consumers handle (wash times, wash temperature, iron, tumble dry, etc.) and dispose (reuse, recycle, dispose, etc.) of their garment. A smart label can help collect this type of information and can also provide insight on how to create a more sustainable ‘next version’ of the product.

3. Higg Index Verification

In 2014, we started working on the verification process of the Higg Index environmental facility module. Currently, the Higg Index has a self-assessment component only. For the Higg Index to become a common approach for measuring and evaluating sustainability performance, validation is an absolute necessity.

TAL is dedicating time and resources to the development of the Higg Index verification portion as we hope the Higg Index will become the industry standard to measuring environmental and later, social sustainability. We have been suffering from numerous audits and complying with multiple standards which are causing us a high degree of frustration and efforts redundancy. We hope our dedication in the verification task team will serve to eliminate all these inefficiencies in the future.

Talking to the Future

Every year in May, we welcome a group of merchandising students from The University of North Texas to talk about sustainability and also to see one of our factories for them to learn about manufacturing.

This yearly encounter happens during their Hong Kong - Beijing Study Tour during which the students interact with business leaders and industry insiders in the retail and merchandising industries. The students visit textile mills, apparel production factories and all points along the apparel supply chain to enhance understanding of international business challenges and opportunities.

TAL feels very passionate about taking the opportunity to talk about sustainability to future merchandisers, retailers or tourism professionals. We feel it is a blessing to talk about what sustainable manufacturing entails to people who will in the future, be able to make decisions that impact the sustainability of the value chain. Conversations with these students often go beyond manufacturing and retail and turn into discussions on purchasing habits as consumers and the different mechanisms which contribute to the outpacing of our planet's natural resources.

We feel it is imperative that sustainability be part of the educational curriculum. We only make meaningful and lasting changes for a sustainable future by prompting awareness in the next generation as they will be the one carrying it forward.



Appendices



Appendices

Global Reporting Initiative Index

General Disclosure Standards

This report is aligned with the Global Reporting Initiative (GRI) G4 guidelines. Our disclosure level is “in accordance” – Core and our report is at the moment not externally assured. The below tables outline the indicators which we have reported against.

GRI Indicator	Article	Page	GRI Indicator	Article	Page
	STRATEGY AND ANALYSIS			IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES	
G4-1	Message from Our Chief Executive Officer	05	G4-17	Our Locations	11
	Message from Our President and Chief Technology Officer	06	G4-18	Stakeholder Engagement	14
			G4-19	Stakeholder Engagement	14
	ORGANIZATIONAL PROFILE			Global Reporting Initiative Index	78
G4-3	About This Report	04	G4-20	Global Reporting Initiative Index	78
	Our Locations	11	G4-21	Global Reporting Initiative Index	78
G4-5	Our Locations	11	G4-22	Note: No restatements from previous reports.	N/A
G4-6	Our Locations	11	G4-23	Note: No significant changes in reporting scope and aspects.	N/A
G4-7	Note: TAL is a privately held business.	N/A		STAKEHOLDER ENGAGEMENT	
G4-8	Our Business in Figures	18	G4-24	Stakeholder Engagement	14
G4-9	Our Locations	11	G4-25	Stakeholder Engagement	14
	Our Business in Figures	18	G4-26	Stakeholder Engagement	14
	Note: We have excluded our total revenues in this report. Instead, the average growth rate of our business is included.	N/A	G4-27	Stakeholder Engagement	14
	Our Workforce in Figures	25		REPORT PROFILE	
G4-10	Our Workforce in Figures	25	G4-28	About This Report	04
	Note: For details, refer to Appendix 1	80	G4-29	About This Report	04
G4-11	Appendix 1: Workforce Demographics	80	G4-30	About This Report	04
G4-12	Our Supply Chain	19	G4-31	About This Report	04
G4-13	Major Changes	23	G4-32	Global Reporting Initiative Index	78
G4-14	Note: TAL top management holds regular meetings to make decisions on critical management matters, including precautionary policies for suspected risks that may be harmful to the company, environment and public.	N/A	G4-33	Global Reporting Initiative Index	78
G4-15	Sustainable Apparel Coalition	74		GOVERNANCE	
G4-16	Sustainable Apparel Coalition	74	G4-34	Our Governance	12
				ETHICS AND INTEGRITY	
			G4-56	Sustainability Strategy	07

CHAPTER 07: APPENDICES

Specific Standard Disclosures

Following GRI's recommended methodology, we have generated a sustainability matrix highlighting material aspects in the Stakeholder Engagement section. In this report, we have followed disclosure standards for all aspects rated 3 points or above (out of 5 points) for both axes in the matrix. The table below provides more detailed information about the specific indicators selected and the boundaries of each aspect reported.

Material Aspect	Indicators	Article Covering This	Aspect Boundary (whether this Aspect is material within and / or outside of TAL)			
			Page	Within TAL	Outside of TAL	
Economic Performance	EC1	Our Business in Figures	18	Y	N	
Market Presence	EC5	Note: Our workers are paid on piece-rated basis and at least at minimum wage.	N/A	Y	N	
Customer Health & Safety	PR2	Note: No non-compliance case reported.	N/A	Y	N	
Customer Privacy	PR8	Note: No substantiated complaints reported.	N/A	Y	N	
Energy	EN3	Greenhouse Gas Emission Program Performance	57	Y	N	
	EN4	Greenhouse Gas Emission Program Performance	57	Y	N	
	EN5	Greenhouse Gas Emission Program Performance	57	Y	N	
	EN6	Greenhouse Gas Reduction Initiatives	63	Y	N	
	Water	EN8	Water Footprint Program Performance	59	Y	N
		EN10	Water Reduction Initiatives	65	Y	N
Emissions	EN15	Energy & GHG Performance	57	Y	N	
	EN16	Greenhouse Gas Emission Program Performance	57	Y	N	
	EN17	Greenhouse Gas Emission Program Performance	57	Y	N	
	EN18	Greenhouse Gas Emission Program Performance	57	Y	N	
	EN19	Greenhouse Gas Emission Program Performance	57	Y	N	
	EN22	Water Reduction Initiatives	65	Y	N	
Effluents & Waste	EN22	Water Reduction Initiatives	65	Y	N	
Product Responsibility	EN27	Recycled Cotton	70	Y	Y	
Compliance (Environment)	EN29	Note: No non-compliance case reported.	N/A	Y	N	
Investment	EN31	Note: In preparing this report, we learned that collecting all the environmental protection expenditures is a complex task. We will put in a place a more thorough system and define clearer scope for each stakeholder in each factory to report on in the next.	N/A	Y	N	
Employment	LA1	Appendix 1: Workforce Demographics	80	Y	N	
Labor/management Relations	LA4	Note: No minimum notice period mentioned in the CBA. But as general practice, TAL informs employees well in advance before significant operational changes that could substantially affect them.	N/A	Y	N	
	LA6	Health & Safety Performance (Note: This issue is included in our self-monitoring program and subcontractor screening process.)	42	Y	Y	
Health & Safety	LA6	Health & Safety Performance (Note: This issue is included in our self-monitoring program and subcontractor screening process.)	42	Y	Y	
Training & Education	LA10	Functional Skilled Knowledge	40			
	LA10	Managerial Leadership Competencies	41	Y	N	
Diversity	LA12	Appendix 1: Workforce Demographics	80	Y	N	
Supplier Labor Assessment	LA14	Supply Chain Sustainability	50	Y	N	
Grievance Mechanism (Labor Issues)	LA16	Handling Grievances	33	Y	N	
Non-discrimination	HR3	Self-Monitoring (Note: This issue is included in our self-monitoring program and subcontractor screening process.)	26	Y	Y	
Freedom of Association	HR4	Freedom of Association (Note: This issue is included in our self-monitoring program and subcontractor screening process.)	36	Y	Y	
Child Labor	HR5	Self-Monitoring (Note: This issue is included in our self-monitoring program and subcontractor screening process.)	26	Y	Y	
Forced Labor	HR6	Self-Monitoring (Note: This issue is included in our self-monitoring program and subcontractor screening process.)	26	Y	Y	
Human Rights Assessment	HR9	External Audits	31	Y	Y	
Supplier Human Rights Assessment	HR10	Supply Chain Sustainability	50	Y	Y	
Grievance Mechanism (Human Rights Issues)	HR12	Handling Grievances	33	Y	N	
Local Communities	SO1	Community Involvement	37	Y	N	
Anti-corruption	SO4	Note: The Ethical Business Practice is communicated to all new employees in orientation and included in supplier welcome kit. However, the exact number of trained employees have not been collected.	N/A	Y	Y	
Compliance (Environment)	SO8	Note: No non-compliance case reported.	N/A	Y	N	

CHAPTER 07: APPENDICES

Workforce Demographics

Total workforce

	2013	2014
Total number of employees	22492	23736

Employees by employment contract

	by number		by %	
	2013	2014	2013	2014
Permanent	11171	11846	50%	50%
Fixed Term/Temporary	11321	11890	50%	50%

Employees by gender

	by number		by %	
	2013	2014	2013	2014
Female	17315	17928	77%	76%
Male	5177	5808	23%	24%

Employees by employment type

	by number		by %	
	2013	2014	2013	2014
Full Time	22490	23734	100%	100%
Part Time	2	2	0%	0%

Outsourced workers

	by number	
	2013	2014
Outsourced Employees	30	161

Note: This figure only includes workers who are hired through third party, and excludes other outsourced services onsite, e.g. cleaners, security service, contractors. We only use outsourced workers in one Malaysia factory.

Total workforce by region

	by number		by %	
	2013	2014	2013	2014
China	6312	6517	28%	27%
Thailand	5194	5336	23%	22%
Malaysia	5073	5268	23%	22%
Vietnam	3634	4367	16%	18%
Indonesia	2002	1958	9%	8%
Hong Kong	277	290	1%	1%

New hires

	by number		by %	
	2013	2014	2013	2014
Total New Hires	13740	14160	5%	5%

New hires by age group (new hire rate is calculated on monthly basis)

	by number		by %	
	2013	2014	2013	2014
<30 Years Old	10534	10925	8%	0%
30-50 Years Old	3122	3136	3%	2%
>50 Years Old	144	125	2%	1%

New hires by gender

	by number		by %	
	2013	2014	2013	2014
Female	8456	8349	4%	4%
Male	5284	5811	9%	8%

New hires by region

	by number		by %	
	2013	2014	2013	2014
China	8230	8301	11%	11%
Thailand	2097	2106	3%	3%
Malaysia	1777	1951	3%	3%
Vietnam	1416	1459	3%	3%
Indonesia	108	170	0%	1%
Hong Kong	66	84	2%	2%

Total turnover (turnover rate is calculated on monthly basis)

	by number		by %	
	2013	2014	2013	2014
Total Turnover	12134	12989	4%	5%

Turnover by age group

	by number		by %	
	2013	2014	2013	2014
<30 Years Old	9020	9798	4%	5%
30-50 Years Old	3041	3109	3%	2%
>50 Years Old	106	112	1%	1%

Turnover by gender

	by number		by %	
	2013	2014	2013	2014
Female	7678	8023	4%	4%
Male	4456	4966	7%	7%

Turnover by region

	by number		by %	
	2013	2014	2013	2014
China	7229	8065	10%	10%
Thailand	2265	2535	4%	4%
Malaysia	896	1095	1%	2%
Vietnam	1508	1028	3%	2%
Indonesia	144	159	1%	1%
Hong Kong	58	73	2%	2%

Board members by gender

Female	0%
Male	100%

Board members by age group

<30 Years Old	0
30-50 Years Old	33%
>50 Years Old	67%

Gender by employee category

	Overall		Manager		Professional		General		Worker	
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
Female	76%	75%	46%	46%	65%	66%	67%	67%	80%	78%
Male	24%	25%	54%	54%	35%	34%	33%	33%	20%	22%

Age group by employee category

	Overall		Manager		Professional		General		Worker	
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
<30 Years Old	52%	51%	3%	2%	23%	22%	48%	47%	55%	54%
30-50 Years Old	45%	46%	82%	83%	72%	72%	46%	50%	42%	43%
>50 Years Old	3%	3%	15%	15%	5%	6%	3%	4%	3%	3%

Nationality by employee category

	Overall		Manager		Professional		General		Worker	
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
Local	81%	81%	89%	91%	96%	97%	96%	95%	78%	77%
Foreign	19%	19%	11%	9%	4%	3%	4%	5%	22%	23%

Employees covered by collective bargaining agreement

	2013	2014
Total	45%	45%

Employees covered by collective bargaining agreement by region

	2013	2014
China & Hong Kong SAR	0%	0%
Thailand	81%	81%
Malaysia	12%	12%
Vietnam	100%	100%
Indonesia	81%	73%

