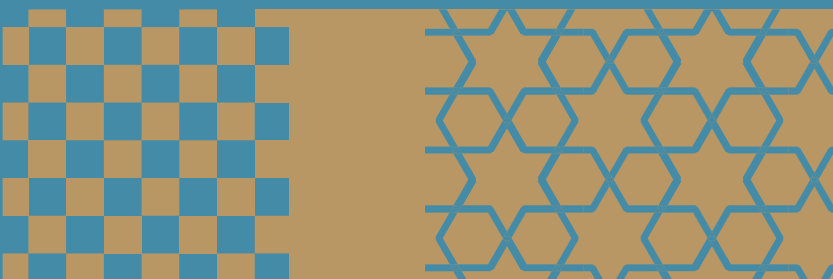




ENVIRONMENTAL,
SOCIAL AND
GOVERNANCE



Growing our leadership
in product stewardship,
regulatory compliance
and environmental
preservation



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Stella International Holdings Limited and its subsidiaries (the “Group”, or “we/our”) have always been striving to fulfill the mission of delivering outstanding and unique footwear. To enable all stakeholders to an overview of our policy, measures and performance in the environmental, social and governance (“ESG”) aspects, we prepared this environmental, social and governance report (the “Report”) in accordance with the ESG Reporting Guide (“ESG Guide”) as set out in Appendix 27 of the Rules Governing the Listing of Securities on the Stock Exchange.

The Report covers most of our casual and sports manufacturing business which is the major income source of the Group for the period from 1 January 2016 to 31 December 2016 (the “Reporting Period”, the “Financial Year”, “2016 Financial Year”). The management and staff of our key subsidiaries of different functions were involved in the preparation of the Report, assisted the Group to review its operations, identified relevant ESG issues, and assessed their materiality to our business as well as to the stakeholders. The table below highlights the ESG issues which were determined to be material to the Group covered in the Report:

ESG Guide Reference	Material ESG Issues
A. Environment	
A1. Emissions	• Waste management
A2. Use of Resources	• Use of energy, water and packaging materials
A3. Environment and Natural Resources	• Environmental impact management
B. Society	
B1. Employment	• Responsible employer
B2. Health and Safety	• Occupational health and safety
B3. Development and Training	• Employee development and training
B4. Labour Standards	• Prevention of child and forced labour
B5. Supply Chain Management	• Supply chain environment management
B6. Product Liability	• Product quality control and customer service quality
B7. Anti-corruption	• Anti-bribery and anti-corruption
B8. Community Investment	• Social contribution

A. ENVIRONMENTAL

Stella’s growth and prosperity is dependent on its operation policy that are both environmentally sustainable and beneficial to our multiple stakeholders (including our employees, customers, business partners and the communities within which we work) and its ability to overcome complex challenges.

We recognise that we have the responsibility to ensure the protection of the planet, as well as the safety, health and well-being of our many stakeholders. This is Stella’s “Corporate Social Responsibility (“CSR”) Vision” and it is at the forefront of all our business practices, operations and development. It also underpins our continuous efforts to conduct business in an ethical and responsible manner, striving to extend our leadership among numerous industry players in respect of various areas other than financially.

Apart from placing strong emphasis on quality and research and development, we also require all departments to strictly observe and ensure their compliance with laws and regulations. Our Group has complied with the requirements as set out in local environmental protection laws and regulations (including but not limited to the Law of the People’s Republic of China (“PRC”) on Environmental Protection (《中華人民共和國環境保護法》), the Law of the PRC on Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), the Law of the PRC on Prevention and Control of Air Pollution (《中華人民共和國大氣污染防治法》), the Law of the PRC on Prevention and Control of Environmental Pollution by Solid Wastes (《中華人民共和國固體廢物污染環境防治法》), Guangdong Regulations on Prevention and Control of Environmental Pollution by Solid Wastes (《廣東省固體廢物污染環境防治條例》) and the relevant environmental protection laws and regulations in Indonesia (Hinder Ordinance). There were no non-compliance cases in relation to environmental protection laws and regulations during the reporting period.

A1 Emissions

Waste management

The waste from the manufacturing segment of Stella are generally classified into hazardous waste and non-hazardous waste. The hazardous waste refers to the waste listed in the National Directory of Hazardous Waste 《國家危險廢棄物名錄》, identified according to the standards and methods for hazardous waste stipulated by the PRC government authorities or those that are designated to be of hazardous nature by clients. Non-hazardous waste refers to solid waste other than hazardous waste.

The waste produced from our manufacturing segment during the reporting period was as follows:

Type of waste	Total (Tonnes)	Intensity (in kg, per pair of shoes)
Hazardous waste	224	0.0078
Non-hazardous waste	3,375	0.1178

Note: The above statistics covered both hazardous and non-hazardous waste produced by 9 (including Mainland China and Indonesia) factories during the reporting period.



Collection points for wastage



Hazardous waste collection point

In order to maximise the control on waste, suitably treat waste and minimise waste pollution to the Company and its surroundings, we have implemented the following measures:

- Management of the source of waste produced. All non-hazardous waste and hazardous waste produced during production activities will be collected, sorted and disposed of to the designated temporary storage area by site operators;
- The waste produced by the activities in office, laboratory and living quarters will be arranged for centralised storage to be treated by the respective department, and will be cleared by cleaning staff on a daily basis. In particular, a special collection storage site is established for collecting used lamps and batteries, which will be collected by a team of special management personnel;
- Leftovers of food and used oil in canteens are treated appropriately;
- The waste management department is responsible for directing the transfer of waste from temporary stacking site to the waste warehouse for further treatment;
- Hazardous waste allocated to the warehouse are handled by certified companies. Non-hazardous waste will be recycled or reused if possible; those that cannot be recycled will be disposed of (either landfilled or incinerated) appropriately, and it will be handled by solid waste disposal service provider permitted by the government; and
- The responsible department of the Company organises periodical safety training to strengthen the working skills and safety protection consciousness of the workforce and operators.

Greenhouse Gas Emission

Our carbon emissions are mainly derived from energy consumption. During the reporting period, carbon dioxide equivalence (CO₂e) relevant to the energy generated by the operations covered in this report was 64,422.98 tonnes with an intensity of 2.2493 kg CO₂e per pair of shoes. We have implemented all kinds of energy-saving measures to mitigate our carbon emissions. Please refer to the following section “Use of energy” for details.

Note: The carbon emission is calculated with reference to the Greenhouse Gas Protocol published by World Business Council for Sustainable Development (WBCSD) and World Resources Institute (WRI), Report Guidelines on Environmental Key Performance Indicators issued by the Hong Kong Stock Exchange, the Baseline Emission Factors for Regional Power Grids in China published by the Department on Climate Change of National Development and Reform Commission and the Baseline Emission Factors for Power Grids by the Ministry of Energy and Mineral Resources of Indonesia.

During the Reporting Period, our Group had no significant exhaust emission or waste water discharge, while all industrial waste water was treated by certified companies.

A2 Use of Resources

Stella advocates “power-savings is glorious, wasting is shameful”, and strives to set up the consciousness of conserving water and electricity. Through enhancing energy management, we take technically feasible and economically reasonable power-saving measures to reduce direct energy loss and improve energy efficiency. At the same time, we regularly detect our energy consumption to measure the usage of energy and achieve the aims of energy conservation, reduction of consumption, material, sanitary production and environmental protection.

Use of energy

Our total energy consumption during the reporting period was as follows:

Energy Category	Consumption	Intensity (per pair of shoes)
Electricity supply	95,251,577 kilowatt hours	3.3256 kilowatt hours
Natural gas	136,150 cubic meters	0.0048 cubic meters
Diesel	447,656 litres	0.0156 litres
Petrol (Unleaded)	264,685 litres	0.0092 litres

Note: The above statistics covered the main energy consumption of 9 (including Mainland China and Indonesia) factories. The above information included the energy the Group consumed during our operations and excluded the energy consumption that was unable to be directly controlled by the Group.

The Group has implemented certain measures of energy conservation and emissions reduction during the reporting period as follows:

- Use energy-efficient illumination lamps; light should be turned off when staff leave the premises to reduce electricity wastage;
- The temperature of air conditioners in each department shall be adjusted and controlled according to working conditions, and the air-conditioned temperature in the office shall not be lower than 26°C;
- Stringent management of production equipment that requires large electricity consumption by the production department;
- Carry out electrician patrol, monitor and guide each department's energy consumption by equipment maintenance department, rectify any wastage if being identified to avoid electricity wastage;
- Conduct monthly statistical count on electricity consumption and prepare relevant records; if the consumption is over the range specified by standard, the reasons for such should be analysed and take timely remedial actions;
- Before purchasing any machinery equipment, respective departments should assess the energy consumption of the equipment, and select the machine types with low energy consumption if conditions permit;
- Conduct monthly statistical count on petrol usage of mechanical vehicles in plants; and
- Record car mileage and maintain and repair vehicles timely to reduce petrol wastage.

During the reporting period, we installed two environmentally-friendly air conditioners in the transparent materials workshop to substitute four cabinet air conditioners, and it is expected that approximately 2,903 kilowatt-hours of electricity can be conserved every year. We also improved the motors for better energy efficiency and it is expected that relevant electricity consumption can be reduced by approximately 30%. In addition, we replaced pneumatic tools with electric power tools, which are expected to reduce the power consumption by approximately 86%.



Water Management

Total water consumption of the Group during the reporting period was 4,155,399 cubic meters with an intensity of 0.1451 cubic meters water per pair of shoes, which was mainly for workforce residential usage. There was no water sourcing issue with our Group as we mainly consume municipal water. The Group has implemented the following plans to mitigate water consumption during the reporting period:

- To the greatest extent, expand the scope of recycled water for greening and for restrooms to increase the recycling rate;
- Conduct monthly review on water consumption and prepare relevant records; if the consumption is over the range specified, the reasons for such should be analysed for timely remedial actions;
- Install filter screen in canteen sewage outlet and conduct periodic cleaning and send to recycling company;
- Arrange clean and waste water segregation in water discharge, sanitary sewage to run into pipelines in a regular manner and for sedimentation treatment, then discharge after meeting standards;
- Enhance employees' education on environmental protection, and encourage employees to use non-phosphate detergent and washing powder; and
- Staff should save water in workshops, dormitories and in the workplace, and take measures of installing water-saving taps, reduce water pressure during holidays, and decrease the usage of water.

During the reporting period, one of our factories has implemented water circulation system across the manufacturing process, which has circulated 85.6% of water and saved about 700 cubic meters of water per day. In addition, we have 6,000 employees participated in water saving training to raise their awareness towards water conservation.

Use of packaging materials

In 2016, the packaging materials used by the Group were mainly shoeboxes, packing papers, carton boxes and shoe stretchers, reaching a total of 12,364 tonnes with an intensity of 0.4317 kg of packing materials used per pair of shoes.



Treatment of waste water for reuse



Reuse of water for planting

A3 Environment and Natural Resources

The Group closely monitors the potential impact on environment brought by its subsidiaries and plants, and strives to minimise the impact on environment caused by our operations. We endeavour to conduct regular assessment and continuously monitor environmental risks, and at the same time enhance our environmental management system, formulate and update our environmental policy.

Apart from the hazardous and non-hazardous waste and energy consumption generated by the aforementioned section, Stella actively mitigates other major environmental impact, including noises generated from operating production facilities. To strengthen control and reduce environmental impact brought by noises, we have taken the following measures:

- Choose low noise equipment, such as low noise fans for machinery ventilation;
- Choose aluminium alloy with good sound insulation performance or double-deck structure for the doors and windows of the workshops;
- Conduct comprehensive treatment, such as noise reduction and shock absorption measures for boiler plants and generators;
- Report regularly the process of environmental protection and contamination control and their relevant outcomes to local environmental authorities;
- Formulate working programs of environmental facility and respective maintenance schedule to ensure these facilities are in good conditions during operation; and
- Provide technicians on-the-job induction and training to enhance their awareness on environmental protection and ensure all environmental protection facilities are running smoothly.

B. SOCIETY

B1 Employment

As a responsible employer, we strictly comply with all local employment laws and regulations. During the reporting period, there were no non-compliance cases in relation to human resources laws and regulations.

Recruitment, Promotion and Remuneration Policies

We attract talents using the fairness and objectiveness principle. Our recruitment is open to the public through various methods like posting recruitment advertisements, online recruitment, campus recruitment, job market recruitment, and head-hunter recommendation and comprehensive evaluation will be conducted.

Stella considers attendance, performance, rewards and punishments as means to promote morale. We also consider staff promotion for recommended staff to achieve the ultimate goal of talent dedication to the Group.

For remuneration, on the basis of evaluating the value of workforce and under the guidance of the Group's operation strategy, the Group has in place a competitive remuneration system with reference to industry and regional standards.

Working Hours

We strictly control working hours in accordance with the requirements of laws and customers, and ensure that all the overtime works are on a voluntary basis. The overtime pay is fully remunerated according to local applicable labour laws. New comers will be provided with pre-employment education, allowing them clear understanding of relevant working hours.

Equal Opportunities, Diversification and Anti-Discrimination

The Group is committed to providing fair, equitable and reasonable job opportunities for its staff. In the respect of engagement, wages, welfare and promotion, our considerations are solely based on our staff's work competence. We treat all employees equally, irrespective of their gender, age, race, blood, skin colour, nationality, political status, creed, marital status, maternity status, sexual orientation, disability or any other factors that are irrelevant to their work competence. If a discriminatory behaviour is discovered, the Group will conduct an investigation and take disciplinary action against discriminatory behaviour. At the same time, we also have in place a whistleblowing policy to ensure that complaints are made in strict confidentiality.

Holidays and Welfare Policies

We strictly comply with relevant national laws and regulations, review and improve employees' welfares, and pay various statutory social insurance according to the law and ensure that our employees can enjoy social statutory holidays and other welfares. Apart from this, employees are also entitled to paid annual leaves, marital leave, and maternity leave and so on. To safeguard the legitimate interests of female staff, no department is allowed to arrange pregnant staff to perform works related to moving things, work in high altitude, cold temperature and cold water during pregnancy. For female staff who is pregnant for over seven months, we do not suggest them to work on night shift or perform overtime work.

Stella provides regular health checkups to all employees throughout the year, as well as arrange employees to undertake first aid training, allowing them to contribute directly to safety in the workplace. We also organised a series of health lectures (on topics such as reproductive health and occupational health) in order to promote disease prevention and better health standards.

Social Activities

We arrange regular leisure activities such as sports competitions, field trips, shoe-making competitions and seasonal celebrations during major holidays such as New Year's Day and the Mid-Autumn Festival to enrich our employees' leisure life outside of work.



Company celebration with employees

B2 Health and Safety

Occupational Health and Safety

Workplace health and safety remains our top priority. Stella consistently meets all applicable standards and regulations, while also striving to develop the autonomy of employees so that they are involved in creating and contributing to a safe and hazard-free work environment and promoting occupational safety.

We have taken a number of steps to further improve workplace safety, including:

- Banning the storage of chemicals in our workshops;
- Maintaining notification boards throughout our workshops to reinforce awareness of workplace safety procedures among our workforce;
- Conducting regular audits of employee canteens to ensure food safety;
- Conducting regular emergency exercise activities, such as fire drills;
- Upgrading of existing machines to ensure workplace safety;
- Improving the training and innovation capability of technical personnel, and instructing our staff the correct way of using and maintaining equipment;
- Grasping the latest information of artificial intelligence in the market and developing new safety equipment;
- Evaluating and using new equipment for special use; and
- Rectifying the staging area for hazardous waste and increasing water spray cooling device.

In order to promote safety at our production facilities, prevent and reduce accidents to safeguard the life and property of workers and continue to improve safety production management, we also hold regular environmental, safety and health (“ESH”) meetings, to review prevailing risks in the workplace, as well as an opportunity to evaluate any emerging risks. It is also an important conduit for face-to-face communication among employees, directors, supervisors, committee members and CSR coordinators, and is an essential component of our ESH management system.



Stella Factory



Safe factory interior environment

A new “CSR Internal Training Plan” was put in place to cover training, exposure control and the use of personal protective equipment, chemical management, safety awareness and communication, and fire safety, etc.

We also instituted annual centralised audits at all of our plants worldwide, including China, Vietnam, Bangladesh, Indonesia and the Philippines, to ensure that these initiatives and others are being implemented across all the factories of the Group. In 2016, we rectified all discovered security risks, including installing facilities (such as widened foot stand to avoid collapse in the process of carrying, baffles to prevent hands from being engulfed and protective covers and sensors to avoid clamping) on the machines. We will continuously call for all staff to carry out security examination and proactively facilitate safety production management to achieve modern and scientific safety in production. For example, we will develop equipment that is more convenient for operation and more suitable for ergonomics and machines that can integrate production processes to improve efficiency, thus reflecting the “human-oriented” scientific outlook on development.

During the reporting period, there were no non-compliance cases in relation to workplace health and safety laws and regulations.

B3 Development and Training

We firmly believe that it is necessary to improve employees’ professional standards continuously in the corporate responsibility department, with an aim to meeting our long-term development plan and cultivating our talents and sharpening our competitive edge. Accordingly, we have established a management system relating to education and training.

We organise regular voluntary training opportunities for our employees, providing them with an opportunity to upgrade their skills and grow with the Company. At the same time, to deal with emergency situations, implement fire evacuation timely and effectively and ensure orderly evacuation to minimize casualties, property loss and social impact caused by accidents, we conduct regular fire drills every year to enhance our staff’s disaster prevention awareness, including managing their own escape, self-help and mutual rescue skills.



Staff training



Staff training

In order to enable our employees to gain in-depth understanding of corporate responsibility and ESH knowledge and apply their correct knowledge learnt in the workplace, Stella provides basic pre-job training of corporate social responsibility for new employees or interns, and management trainees before they are on board. We also carry out relevant ESH trainings according to the job requirements of our employees. During the reporting period, the Group arranged a total of 429 fire drills, on-the-job trainings and EHS courses, with 64,554 participants throughout the year.

B4 Labour standards

We prepare our internal Social Responsibility Management Manual based on the global SA8000 certification. The SA8000 is based on the principles of international human rights norms as described in International Labour Organisation Conventions, the United Nations Convention on the Rights of the Child and the Universal Declaration of Human Rights, including health and safety, freedom of association, working hours and wage standards, the prohibition of child labour and the protection of minors, the prohibition of forced labour, the prohibition of discrimination, the prohibition of unfair punishment, and so on.

During recruitment, human resources department will verify the personal information of candidates according to the requirements of internal human resources policies and procedures and check their identity cards to verify their age. To ensure the employees' interests are not being infringed, all our employed staff must be recruited voluntarily, in other words, we prohibit any forced labour and never induce any employee to work by deception. Furthermore, our staff undergoing unfair treatment can report through our whistleblowing policy.

During the reporting period, there were no non-compliance cases in relation to labour laws and regulations.

B5 Supply Chain Management

Our Group follows the common principles and objectives with suppliers. We are committed to building close relationship with our suppliers and maintaining constant communication with them through various channels to ensure that the services and products provided by them meet our requirement, thus enabling us to maintain our quality. We only select suppliers that pursue constant perfection and possess environmental protection consciousness and business ethics as our partners. We choose suppliers by taking into account factors such as their scale of production, capability of on-time delivery, price advantage, quality assurance and after-sale service in a principle of justice and in accordance with our internal policies, and request them to undertake responsibilities for the following environmental and social issues:

- Employment is based on a voluntary and fair basis
- Reasonable remuneration and working hours are offered to the staff
- Child labour is prohibited
- Discrimination, harassment and abuse are not tolerated

- The workplace is healthy and safe, with protective equipment given as required
- Freedom of association is respected
- Environmental impact is minimised

Suppliers are evaluated regularly and we will continue to cautiously select partners to make sure an effective and excellent supply chain management.

B6 Product Liability

We are always seeking to fulfill our dedication to deliver outstanding and unique footwear. Stella is guided by its spirit of “making the best shoes”. Our products are of high quality and exquisite technology that have gained the attention of internationally renowned luxury and casual brands.

Product Quality Control

We select our products offerings carefully and strictly control the safety and quality of our products. We integrate the whole production process monitoring with production standardisation and successfully implement good management at our production facilities. For raw materials management, we only cooperate with suppliers holding valid business licenses and various related qualification documents. Besides, we will take into consideration factors such as the capability and credibility of suppliers, performance and whether the commitment for quality is consistent with the national and industry production standards so as to endeavour and assure the quality of raw materials, whereby ensuring our product quality and safety.

Customer Service

We are always customer-driven and passionate about our business, and are dedicated to provide the best quality products and services to our customers. By being close to our customers, we strive to fulfill their needs with innovative and cost effective solutions. Through empathy, responsiveness and dependability, we seek to become the partner of choice of our customers.

Due to the ever-changing demand of customers, we pay more attention to keep abreast of their demand and expectation from time to time, especially the after-sale evaluation on products and services. We set up an effective customer communication mechanism, with an aim to continuously enhance the ways to respond and handle requirements and improve the communication system in addition to guaranteeing the quality of products and services have met standards. We also conduct customers' satisfaction surveys and take the initiative to contact customers, allowing them to offer their rating and opinions on after-sales service in all aspects, hence driving us to constantly improve.

During the reporting period, there were no non-compliance cases in relation to the quality of product and services laws and regulations.

B7 Anti-corruption

Stella is committed to maintaining a fair and equitable business environment, protecting the interests of the Company, inheriting and developing the Company's traditional corporate culture and reducing the Company's operational risks, whilst maintaining the reputation of the Company and customer brand in the industry, society and the world. We absolutely desist from any form of bribe or accepting bribe to provide commercial benefits, or obtaining any form of benefits by force or threats.

We attach great importance to our sense of honesty and integrity and conduct regular evaluation on the risks of corruption existing among each factory. We will also check whether the rules relating to payment conditions and commission in the agreements entered into between each plant and agent or business partner are clear and appropriate. Besides, the anti-corruption measures approved by suppliers and investigated by customers will also contribute to the mitigation of risks of fraud and money laundering. The Group has also formulated policy documents relevant to anti-corruption covering such areas as bribery, extortion, fraud and money laundering to encourage our staff to report any malpractice and improve their consciousness.

During the reporting period, there were no non-compliance cases in relation to corruption-related laws and regulations.

B8 Community Investment

Stella encourages our employees to support community projects and protect the natural environment. Relevant activities we participated in the reporting period included:

- Tree planting activities to raise our employees' consciousness on environmental protection and greening environment;
- Round-the-city race of "unified efforts to create a civilised city" to improve our employees' awareness of scientific fitness as well as physical quality, whilst coordinating with the labour union at Hongjiang district to promote the creation of a civilised city effectively;
- Caring for the disabled to provide practical help and support to the disabled, helping them to integrate into the society;
- Regular family visits and visiting orphanage activities within the communities where we work;
- Donations to "Shuchona Neurodevelopmental Disorders and Mental Health Foundation" in Bangladesh.



Donation



Tree planting activity