



SUSTAINABLE INTEGRATION

ESQUEL GROUP SUSTAINABILITY REPORT 2014

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SCOPE AND CONTENT

We are pleased to present the first Esquel Group sustainability report. This report marks our progress to date in best practices for the environment, society and corporate governance, while reflecting our long-term commitment to sustainability, as well as the transparency expected of our industry today.

For us at Esquel, this report extends beyond just communicating our activities and initiatives—it fosters a deeper understanding of what we believe in and the impact we have on our business and industry, the people we employ and communities in which we operate.

This report summarizes our efforts to promote and implement sustainable development over the past five years (2010 to 2014). Reporting is limited to our immediate operations, except where stated. We report on all our globally-owned facilities and the activities where we have a significant influence on investment, operations or performance.

This report uses the GRI G4 guidelines as a foundation for defining content and covers as many aspects as our data currently permits.

STAKEHOLDERS AND MATERIAL ISSUES

In preparation for this report, we conducted a formal stakeholder identification exercise in which our priority stakeholders were identified and confirmed by senior management. In the following chapters, we address our common interests through the lens of our sustainability strategy.

Discussions cover the material social, environmental and economic issues that influence our organizational development. Several issues are specific to our integrated supply chain, while others are shared with peer organizations, regulators and industry standards bodies. We also address issues raised by our customers, as well as the NGOs that focus on our industry's behavior and norms. How we manage risks—particularly those related to the people, natural resources and the institutions we rely on—is integral to our business development and is reflected in this report.

In relation to our employees, we discuss the practices that ensure our ethical standards and fairness as an employer. For our customers and suppliers, we emphasize the advantages of partnerships that deliver value. For regulators and industry interests, we put ourselves on the line to demonstrate that there are viable alternatives to current market standards, practices and expectations.

ABOUT OUR COVER

We seek to create a sustainable future in harmony with nature. We safeguard and respect the resources and skills we rely on and innovate for optimal efficiencies, while conscious of our company goals and our role as an industry leader.

For further information on activities, please contact our Corporate Communications Department: CorpComms@esquel.com



WHAT WE BELIEVE IN

Distinguished for our vertically-integrated supply chain, at Esquel we take an active role in the sustainable development of our operations, from cottonseed research to the production and retailing of our shirts. Our ethos of sustainability is shared by leading global fashion brands, for whom we produce cotton and cotton-blend woven and knit shirts.

Our vision of “making a difference” is reflected in how we manage our impact on the environment, the society and the communities in which we operate. We look beyond mitigating immediate consequences to what we can do, and we think of long-term sustainable strategies that will benefit our future generations. To this end, we innovate using technologies and information systems and we invest in people to advance balanced social, economic and environmental development.

At Esquel, we constantly strive to exceed stakeholder expectations.

PERFORMANCE HIGHLIGHTS

A RECORD

110 MILLION

SHIRTS WERE PRODUCED BY ESQUEL IN 2014

ECONOMIC

A YEAR-ON-YEAR INCREASE OF

6%

IN SALES WAS ACHIEVED IN 2014

THE GROUP MARKED

US\$1,398 MILLION

IN REVENUES FOR 2014

ENVIRONMENTAL

WE REDUCED OUR GLOBAL
ENERGY CONSUMPTION PER UNIT
OF PRODUCTION BY

20%

BETWEEN 2010 AND 2014

26%

REDUCTION IN WATER USE PER UNIT OF
PRODUCTION FROM 2010-2014

SOCIAL

373,856 HOURS

OF TRAINING WAS UNDERTAKEN ACROSS
OUR GLOBAL WORKFORCE IN 2014

AVERAGE PRODUCTIVITY ROSE BY

7%

DURING 2014, THANKS TO THE
CONTINUOUS IMPROVEMENT IN
TECHNOLOGY AND PEOPLE SKILLS

FROM MARJORIE YANG CHAIRMAN, ESQUEL GROUP

Since the founding of Esquel in 1978, our intention has always been to ensure that our customers sleep better at night. This means not only producing quality products on time, but also producing them ethically and responsibly. My father taught me the importance of long-term thinking in running a business. When I look back in later years, I want to know that we have helped “make a difference” in the world.

Esquel aims to be more than a shirtmaker. I like to think of ourselves as pioneers, with the ability to demonstrate how to manufacture with a minimal impact on the environment. To us, caring about sustainability is not about compliance nor for promotional purposes. Instead, it reflects our corporate vision and commitment, while at the same time it acts to enhance our competitiveness. We become a true agent of change, providing quality employment, improving the livelihood of the communities in which we operate and achieving sustainable organizational development.

The textile and garment industry faces many challenges—fragile ecosystems, wastage in the supply chain and, of course, rising labor costs. However, these challenges also motivate us to pursue innovations in our production technologies and processes, as well as to reduce energy and water usage. Besides using technology to increase productivity, we also devote efforts to “humanizing” the jobs and

tasks that are mechanized through industrial engineering. We are proud to have created a talent-centered organization that focuses on value-based leadership. Our vision of “making a difference” seeks to make tomorrow better than today.

While we continue to pursue a sustainable path across the company, I am excited by the prospects of our new development in Guilin. In this pristine and scenic environment, we are creating a revolutionary manufacturing concept that puts nature, industry and people in harmony. Complemented by the Integral Conversation—our annual forum where we bring like-minded thinkers and practitioners together in Guilin to discuss sustainability-related matters that affect every aspect of life—we hope to build a new kind of space, where we can live and breathe our dreams.

With this sustainability report, we wish to share our experiences and the values we hold dearly, as well as to illustrate how a player in the traditional textile and apparel industry can transform itself through technology, innovation and a commitment to sustainability. This is not a performance benchmarking exercise per se, but rather a documented set of concepts and practices that forges the path ahead for us to inspire and be inspired. I hope that this report will serve to stimulate ideas and discussions, as well as playing its part in a journey toward a better tomorrow.



Yours sincerely,

A handwritten signature in black ink that reads "Marjorie Yang".

Marjorie Yang

Chairman

31 August 2015

FROM PROFESSOR HAU LEE CHAIRMAN, ESQUEL SUSTAINABILITY COUNCIL

This report describes Esquel's sustainability journey over the past five years and documents our accomplishments. In the following pages, we share the challenges we face as a business and industry player. We discuss our thinking and the initiatives that are transforming Esquel into a leading organization that grows and operates in today's sphere of societal expectations and in an environment of increasingly restricted resources.

I have found that today's sustainability initiatives can be augmented by earlier quests for quality rooted in the 1970s. The Six-Sigma process, for example, focuses on product quality through reliable measurement systems, which lend themselves to the monitoring of production systems and to identifying any potential "out-of-control" conditions that need to be mitigated. Careful analysis of cause leads to innovation in solutions, frequently involving redesign of the production process, and sometimes to the complete redesign of the product itself. This search for quality is an iterative process that continuously sets higher standards as the cycle is repeated. This thinking captures our own quality growth strategy as discussed in this report.

At Esquel, our broader sustainability development follows a similar pattern, starting with measurement. We have developed very elaborate measurement

systems, ranging from environmental attributes to labor compliance and pay. Such monitoring is critical for both evaluation purposes and for quick detection of potential problems. A major task of Esquel's Sustainability Council is to review and synthesize the data from these measurement systems and to set the wheels in motion for action.

While we are swift to employ efforts and protocols to correct any "out-of-control" conditions, we look beyond simple mitigation to the exploration and identification of systems for future prevention. I proudly note that our colleagues across Esquel strive to do both—to respond swiftly with corrective actions and to innovate to prevent future occurrences, all the while setting even higher standards as we improve.

Taking up the challenges, innovating and improving our systems has led to the creation of new materials and new production equipment, as well as the redesign of our manufacturing processes and the improvement of our work environment. As a result, we have been able to reduce both waste and precious resource consumption, improve the environment of our factories and our neighboring areas, and ensure our employees are happier. Ultimately, our efforts have ensured we contribute positively to society and to the communities in which we operate.



Yours sincerely,

A handwritten signature in black ink, appearing to read 'Hau Lee', written in a cursive style.

Professor Hau Lee

Thoma Professor of Operations,
Information and Technology at the
Stanford Graduate School of Business
31 August 2015

SUSTAINABILITY AT ESQUEL

Esquel's sustainability strategy embraces four tenets of behavior—reducing our environmental impact, investing in our people, innovating our products and contributing to the communities in which we operate.

Living up to these tenets involves making difficult choices that often require substantial financial and business resources. Our choices reflect our beliefs by first, creating long-term and sustained value for the business and, second, by recognizing our responsibility to cherish the environment in which the next generation will live. The US\$150 million investment we have made over the last 10 years (2005–2014) toward managing our water and energy consumption has pioneered leading management processes and the infrastructures that address and mitigate the environmental concerns of China's textile industry. We apply a similar philosophy to our global facilities and are now exploring the next generation of tools.

In 2013, we established our Sustainability Council to formalize and oversee strategy and its implementation. The Council, chaired by an independent non-executive Board director, oversees four committees, each of which is tasked with one tenet of behavior. These committees are supervised by a combination of senior management and Board members, placing our sustainability strategy within the purview of the highest decision-making body.

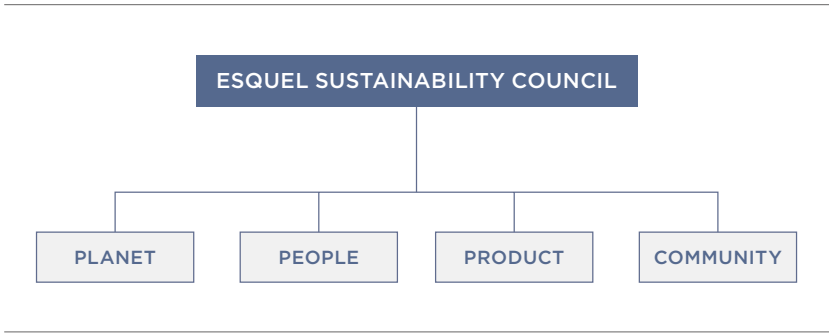
Our Sustainability Charter directs the Council in its delegation of relevant issues to management and employees. Under the Charter, the Council is responsible for defining and monitoring key measurements for the Group.

We have invested over

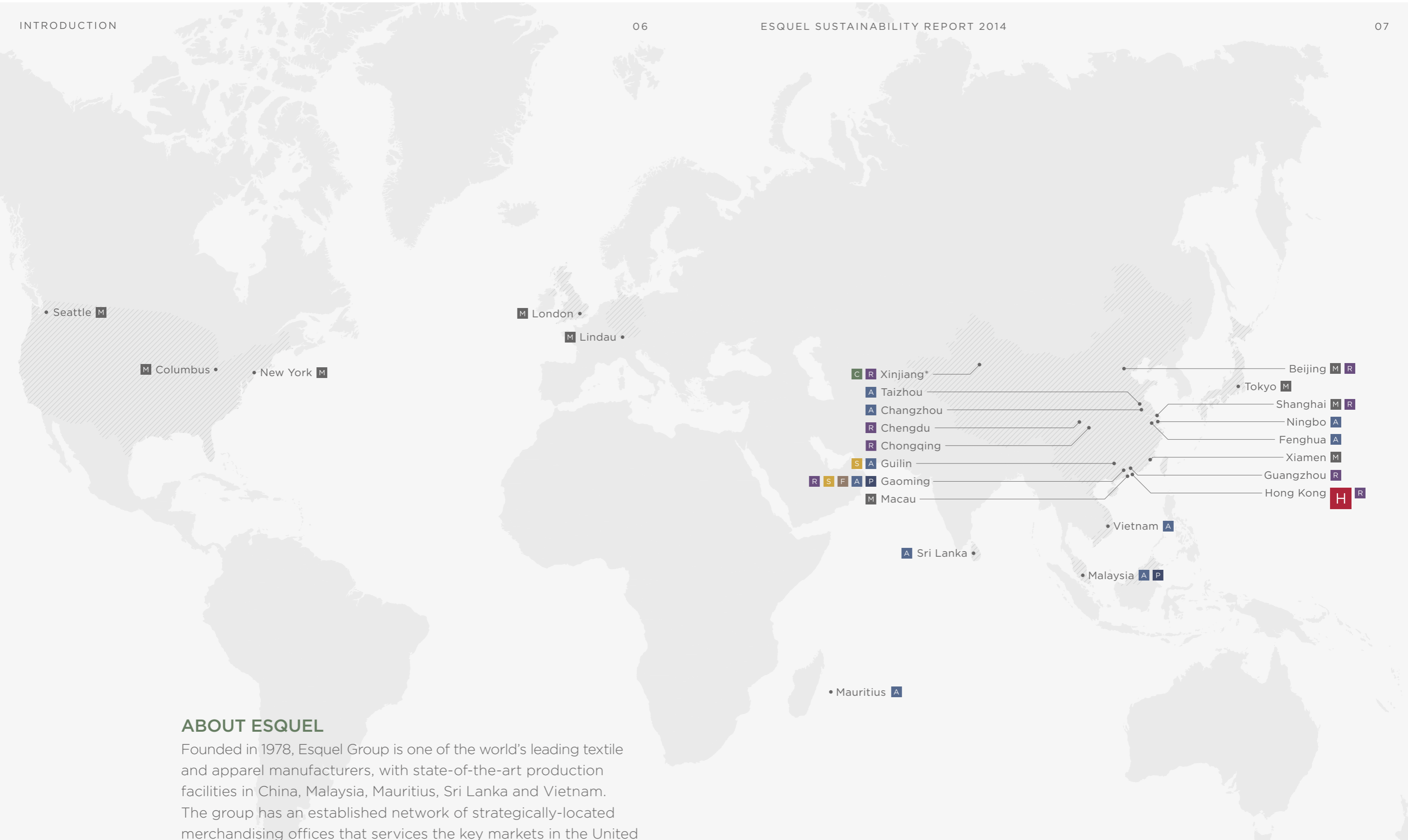
US\$150
MILLION

since 2005 to manage our water and energy consumption

“We established our Sustainability Council to formalize and oversee strategy and its implementation.”



Our sustainability strategy continues to evolve and guide our future organizational development. It serves to stimulate the rethinking of how we manage our people, work with our stakeholders and influence the communities outside our factories. While a number of site-specific projects are being developed across the organization to put change into practice, the Integral project—included in this report's discussions—best exemplifies the paradigm shift we seek.



ABOUT ESQUEL

Founded in 1978, Esquel Group is one of the world’s leading textile and apparel manufacturers, with state-of-the-art production facilities in China, Malaysia, Mauritius, Sri Lanka and Vietnam. The group has an established network of strategically-located merchandising offices that services the key markets in the United States, Europe, Japan and China. Esquel aspires to be the leader among textile manufacturers in innovation and environmental protection, as well as in aspects related to corporate social responsibility. Esquel’s goal is to contribute positively to the communities it operates in, while growing a sustainable business.

H

Corporate Headquarters

M

Merchandising Office

R

Retail and Direct Distribution

C

Cotton Farming, Ginning and Spinning

S

Speciality Yarn Spinning

F

Fabric Mill

A

Apparel Making

P

Accessories and Packaging

HEAD OFFICE

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* Kashi, Akesu, Changji, Urumqi and Turpan

“Our business development strategy focuses on quality growth, giving clarity to our business objectives and the development of our potential.”

FROM A SOLID FOUNDATION

A sustainable organization is one that develops its competencies within a framework that combines strengths to create value. At Esquel, we apply the strengths of our integrated supply chain, prudent commercial practices, corporate culture, stakeholder learning and the innovations of technology and science to continually transform our business.

VERTICALLY-INTEGRATED SUPPLY CHAIN

Our vertically-integrated supply chain offers a distinctive advantage. The value we deliver distinguishes us as a global industry leader. Control of core processes—from cottonseed research to product retailing—enables the critical end-to-end thinking on where and how we can deliver such value.

Being vertically integrated enables the holistic understanding of risks and their impact. We are well positioned to identify, prioritize and manage cross-supply-chain consequences. This allows the efficient allocation of resources and provides the framework for efficient process flows and productive work practices.

Through partnerships with stakeholders, we explore opportunities afforded by disruptive thinking to redesign and innovate. We are, for example, currently working with a major supplier to develop a waterless dyeing process applicable to the dyeing of cotton yarn.



The supply chain also gives visibility to the spectrum of talent and skills needed for business growth. As we grow, our human-resources requirements can be efficiently forecast at all stages of production. Importantly, promising talent from across the supply chain can be identified for career opportunities within the wider organization.

PRUDENT COMMERCIAL PRINCIPLES

Our business development strategy focuses on quality growth, giving clarity to our business objectives and the development of our potential. This is about expanding and diversifying our market presence. This translates to securing more customer orders that optimize asset utilization, production capacities and worker productivity. We achieve this through developing a more focused, partnership-oriented customer base.

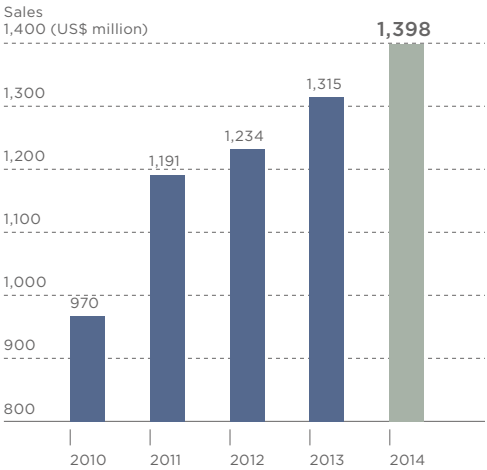
INFORMED DECISION-MAKING

From a US\$33 million installation of reverse-osmosis technology that turns wastewater into clean, drinkable water, to improving dormitory living standards, business decisions are based on generating positive value. Supporting this is our longer-term view on investment returns that allows us the opportunity to explore more diverse options when considering best solutions.

Decision-making is taken within an established risk management framework that is economically sensible and which ensures the best allocation of resources. We mitigate against risks and implement the management tools necessary to address exposures such as currency fluctuations, geopolitical events and unexpected production interruptions. Our risk approach also considers preventive actions. Our seed technology research produces strains that are more drought- and pest-resistant. When assessing supplier risk, we refer to organizations and programs such as the China-specific “Green Choice Alliance” for supplier ratings in environmental performance. To align with the quality growth strategy and manage external market risks, we periodically rebalance our customer portfolio.

Overseeing this decision-making framework is our Board of Directors, comprising executive and independent non-executive directors. The Board observes high standards of governance in keeping with our overarching philosophy of delivering value to our owners and stakeholders. The Board uses a comprehensive set of management systems, procedures and practices to monitor operations effectively and to safeguard internal controls.

REVENUE GROWTH 2010-2014



BOARD DIVERSITY

| Gender | Total |
|--------|-------|
| Male | 4 |
| Female | 2 |

“Our business decisions are based on generating measurable net positive value.”

INTEGRATED SUSTAINABILITY: QUALITY GROWTH



As our quality growth strategy evolves, the increased interplay with stakeholder interests advances organizational sustainability. Standardized and large-volume orders improve process management through better forecasting, procurement and resources planning. Efficiencies are realized through subsequent capacity management and integrated supply-chain production flows. Established long-term partnerships introduce new service models and collaboration within the supply chain, to which our business—along with its constituent processes—then gets redesigned appropriately, in order to improve learning, technologies, skills and fabric science. It is the continuous and cyclic interaction between efficiencies and redesign that differentiates us, improves our competencies and enhances integrated sustainability.

FARMING

>9,200

TONS OF PREMIUM EXTRA-LONG-STAPLE (ELS) COTTON
GINNED IN XINJIANG IN 2014

MANUFACTURING

110 MILLION

SHIRTS WERE PRODUCED BY 20 FACTORIES WORLDWIDE
IN 2014

SPINNING

>281,000

SPINDLES WORK 24/7 TO PRODUCE HIGH-COUNT
AND SPECIALTY YARN

TRIMS (ACCESSORIES & PACKAGING)

~60%

OF ACCESSORIES AND PACKAGING IS
PRODUCED INTERNALLY

FABRIC

WE HAVE AN ANNUAL CAPACITY OF

140
MILLION

YARDS OF WOVEN FABRIC AND

24,000

TONS OF KNIT FABRIC

SALES & MERCHANDISING

30

CORE CUSTOMERS ARE SERVED BY 12 OFFICES
LOCATED IN KEY GLOBAL MARKETS

RETAIL

PYE

6 RETAIL SHOPS OPERATE IN
LANDMARK LOCATIONS IN MAINLAND CHINA
AND HONG KONG

Our vertically-integrated supply chain allows for efficient cross-supply-chain planning to meet capacity demand and ensure optimal asset utilization. Selected efficiencies and value gained in 2014 are highlighted on page 2 of this report.



5E- CULTURE

Ethics, Environment, Exploration,
Excellence and Education

CORPORATE CULTURE

At Esquel, we believe that every employee has the potential to be an agent of positive change. Our 5E-Culture—defined as Ethics, Environment, Exploration, Excellence and Education—puts this into practice. We are committed to ethical behavior. Each individual is expected to maintain our high standards and respect others in all circumstances. We are passionate about the environment and we work tirelessly to safeguard the health of this planet for future generations. We explore possibilities and seek new ways of doing things by being curious and questioning the status quo. We strive for excellence in all that we do and we deeply value education, which leads to further discovery and knowledge in this digital age, so that we can be the best in ourselves, our industry and our community.

We see our corporate culture at work every day across the organization. For example, for Environment and Exploration, we are experimenting to develop better vegetable dyes and use of natural pest controls in cotton fields. In our offices, guided by Excellence and Education, the Skywalker program engages 250 volunteers from across the company to mentor over 7,000 staff on the use of Microsoft Office 365 as our primary office productivity suite.

Inspired by the 5E-Culture, the annual Creativity 2000 competition (page 30) solicits creative ideas and invites teams from across the company to showcase their efforts to achieve improvements in the workplace. This competition inspires the can-do spirit that energizes our workforce.

STAKEHOLDER FOCUSED

In preparation for this report, we conducted a priority stakeholder identification process. The outcome corroborated the general alignment of prioritized groups with previously acknowledged top stakeholder categories. These are business owners, management and employees, customers, regulators, suppliers and the communities in which we operate. We also take into consideration our relationships with external Board members and the financial institutions with which we work.

Stakeholder engagement looks beyond the business proposition. It is about building relationships that share common values and creating synergy. Our business owners and managers guide our sustainability, while employees help to develop workplace practices that engender trust. Our suppliers share new thinking that enables mutual growth. Customers introduce product innovation and broaden our market intelligence. Governments and regulators provide us with the baselines for our social and environmental behavior. Communities give us our license to operate and our financial partners align us with prudent commercial practices.

SUPPLIERS—CULTIVATING PARTNERSHIPS

Cultivating long-term partnerships with suppliers promotes innovation and shared values related to business sustainability within the supply chain. Interaction transfers technical skills, improves efficiencies and enhances productivity. This leads to stronger, more resilient and more profitable operations. We undertake joint research and development with our suppliers, leveraging our strengths for better outcomes. One example of this is the development of new technologies for sewing machines.

Among the many activities we undertake with our supplier partners, our supplier-specific forums share the latest industry developments and stimulate internal R&D, in particular for best environmental practices. The switch to biodegradable enzymes in washing generates positive results for both the business and the environment. We are recognized as a partner who seeks to innovate products.



Partnership with our suppliers stimulates the innovation that transforms fabric research into real-world applications.

“Stakeholder engagement looks beyond the business proposition. It is about building relationships that share common values and creating synergy.”



“Our testing gives credible feedback and encourages our research specialists to look beyond a specific purpose toward overall business impact and benefit.”

INNOVATION: TECHNOLOGY AND SCIENCE

Technology empowers us to be a highly-efficient organization that learns and grows. We listen and respond better to our workforce. We incubate and develop ideas collectively and we form virtual communities to disseminate new practices. Such connectivity enables mobility and collaboration, as seen with our internal customers who use the EsquelPass mobile app. With migration to the Cloud platform, the whole company is present on a single online window, facilitating the ability to crowd-source and innovate in new ways.

Yammer, the enterprise social network we use, facilitates peer-to-peer interaction and education. It enhances our 5E-Culture and popularizes social interaction through platforms such as Reading Club, where people share their thoughts on topics of interest, or Green Trade, where users trade and donate new and used items.

Within our factories, advanced technologies significantly improve production and process flows. Computerized systems closely manage order traceability, while automation boosts productivity and enhances the workplace skills that lead to quality employment. Our use of data and deployment of robotics and the AI (artificial intelligence)-enabled Baxter robot hold promise for further efficiency gains, while maintaining our cost competitiveness.

SCIENCE

Some 3% of our annual sales budget funds research and development. This enhances our capabilities in developing eco-solutions. We have professionally-trained talent for the development and application of new fabric science, eco-processing and better work methodologies. Our testing gives credible feedback and encourages our research specialists to look beyond a specific purpose toward overall business impact and benefit. When developing our patented Esquel Durable Press (EDP) wrinkle-free treatment, we engineered a new process introduced at the fabric-finishing stage, using less water and energy while eliminating a more time-consuming process at a later stage of garment production.

Collaboration and partnerships with other parties in scientific research enables us to be better informed about the latest developments and scientific breakthroughs that might impact our business. Working with tertiary research institutions and global suppliers, breakthroughs have been seen in advanced water-treatment infrastructure, automation on the factory floor and the nanotechnologies that serve us well in today's increasingly-competitive operating environment.

ASPIRATIONS IN ACTION

Latest data places China's textile industry third among all other domestic industries for its 3 billion tons of wastewater discharge and second for its chemical oxygen demand (COD) loading. Some 17% to 20% of the nation's industrial water pollution is from textile and dyeing treatment. The industry is also among the most energy-intensive industries nationally, consuming some 110 million tons of coal in 2012 alone.*

While we cannot improve these statistics single-handedly, we hope to introduce an alternative to how to operate the business. Using our sustainability strategy's four focus areas of Planet, People, Product and Community as the compass points for action, we employ our talent, technology and relentless curiosity to seek innovative solutions.

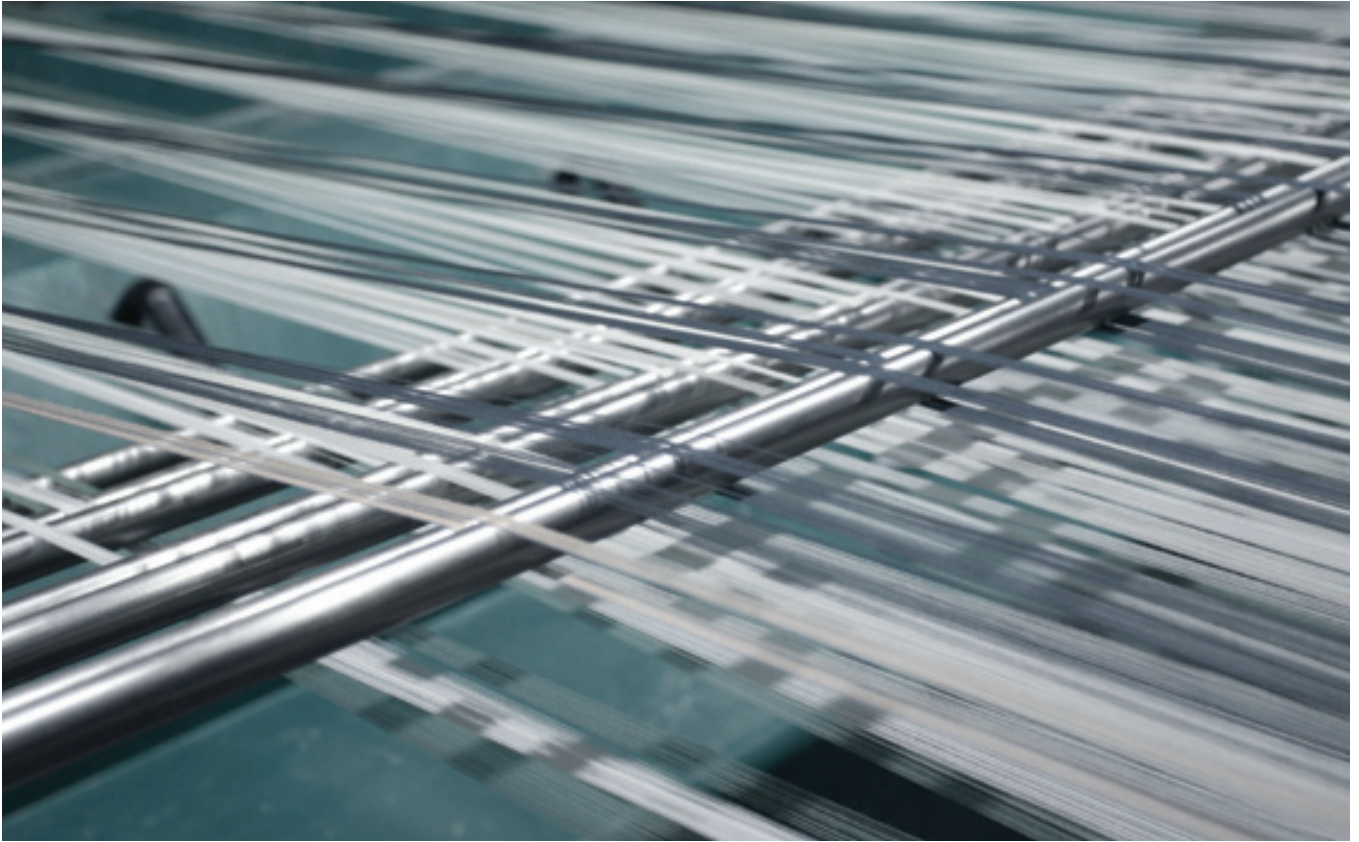
* *The Textile Industry Leaps Forward with Clean by Design: Less Environmental Impact With Bigger Profits*, NRDC (p.2); ChinaWaterRisk.org

PLANET

As a cotton grower and textile manufacturer, we have directly witnessed the environmental degradation accumulated over 40 years due to the rapid economic development in China. We respond actively to some of our industry’s biggest environmental challenges, specifically in relation to energy, water, air quality, chemicals and waste.

HARMONY





“As a China-based operator, we support and join national initiatives such as the Corporate Information Transparency Index (CITI) developed by the Institute of Public & Environmental Affairs (IPE) and the Natural Resources Defense Council (NRDC).”

OUR MANAGEMENT APPROACH

To promote the ground-level sustainable development of operations, we have designed internal environmental management systems that outperform national and international standards. Each facility’s environmental impact and potential consequence are closely measured and managed to understand what works well and what can be improved.

We actively participate in industry initiatives to benchmark performance. We pilot-tested the Sustainable Apparel Coalition (SAC) Higg Index 2.0 in 2013 and continue to use it as a performance measurement across our global operations. Importantly, the Index helps us to identify cost-saving opportunities and catalyzes internal education and collaboration.

As a China-based operator, we support and join national initiatives such as the Corporate Information Transparency Index (CITI) developed by the Institute of Public & Environmental Affairs (IPE) and the Natural Resources Defense Council (NRDC). Their 2014 Greening the Global Supply Chain report evaluated 147 international brands for supply-chain environmental practices. Esquel ranked third overall and was the only textile and apparel manufacturer among the top ten. We see this ranking as the fruit of our past hard work, yet a strong reminder that more is required.

ENERGY

Progressive applications of energy-efficient technologies and the upgrading of machinery and equipment have significantly reduced our global energy consumption by 20% per unit of production since 2010, while our global garment production has grown by more than 22% in the same period. Significantly, we have reduced energy consumption by 43% from 2005 to 2014, while garment production increased by 75% over the same 10 years. With most major refurbishments, retrofitting and improvements having now been completed, gaining additional energy efficiency is even more challenging. However, improvements are continuously being made, as seen with our year-on-year use reduction.

We currently focus on additional production process improvements, renewable energies and innovative technologies. We have introduced a broad range of initiatives that target process improvement and the reduction of energy use along our supply chain. Management teams at all production plants oversee implementation and monitor progress. Programs include promotion of environmental awareness and a new energy management system to systematically collect and analyse data.

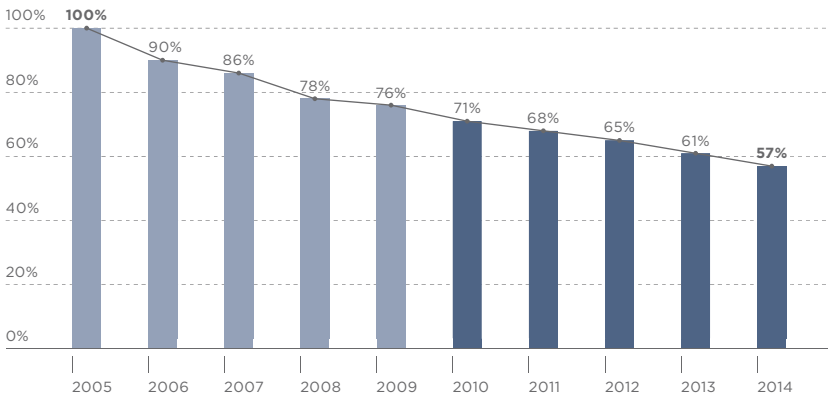
At our textile manufacturing center in Guangdong Province, we have set a stringent target of 15% energy savings for 2014-2016, against our 2013 baseline. We realize that gaining significant additional energy savings at this center will be more difficult due to maturing efficiencies and the wider variety of product mixes. However, with the introduction of the Energy Management System (EMS) in Guangdong and our continued focus on energy management, we anticipate progressive improvements.

In Sri Lanka, our biomass boiler project demonstrates our further energy-saving initiatives. The boiler consumes cotton fabric waste as renewable fuel and has reduced our carbon footprint there by half since its adoption in 2014.



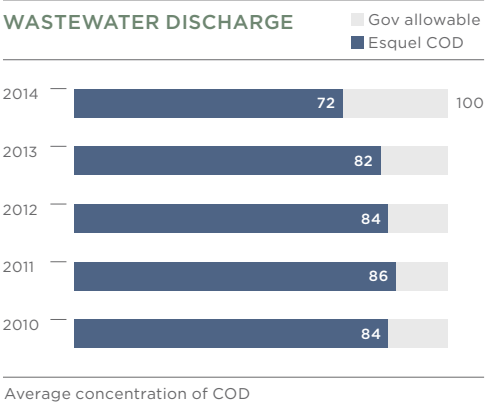
Careful management of our thermal power plant contributes to emissions reduction.

GLOBAL ENERGY CONSUMPTION REDUCED PER UNIT OF PRODUCTION



Energy consumption per unit of production reduced globally (2010-2014)

20%



Our wastewater treatment plant is designed as a total-solutions treatment center.

“We have installed one of China’s textile industry’s largest wastewater treatment plants, capable of processing up to 38,000 tons per day.”

WATER

Clean water is a scarce resource in China. As an early mover in sustaining natural resources and the environment, Esquel has taken aggressive action in applying technologies and investing in infrastructure to protect our water resources and mitigate the impact on the local water environment.

In Guangdong Province, where our water use is concentrated, water is sourced from and returned to municipal supply, potentially exposing us to shared community-use issues in future. At our main complex there, we have installed one of China’s textile industry’s largest wastewater treatment plants, capable of processing up to 38,000 tons per day. Designed as a total-solutions treatment center, the quality of water returned to source ranks well above required standards. It significantly reduces processing odors and completes treatment with a separate process for efficient sludge dewatering and drying, ready for disposal by approved waste operators. Treatments are monitored and tracked in real time to enhance transparency and benchmark activities for future improvements.

The utilization of wastewater is seen as a viable solution to existing clean water shortages. Wastewater recycling is an important step in the textile industry’s future operations, in which water use will be regulated by permits for volume and wastewater quality. In 2011, with supplier collaboration, we developed and installed a reverse-osmosis recycling system capable of processing 5,000 tons of wastewater per day into potable quality that we subsequently reuse in production. During 2014, this recycled water replaced 10% of the total water consumed at the main complex in Guangdong Province.

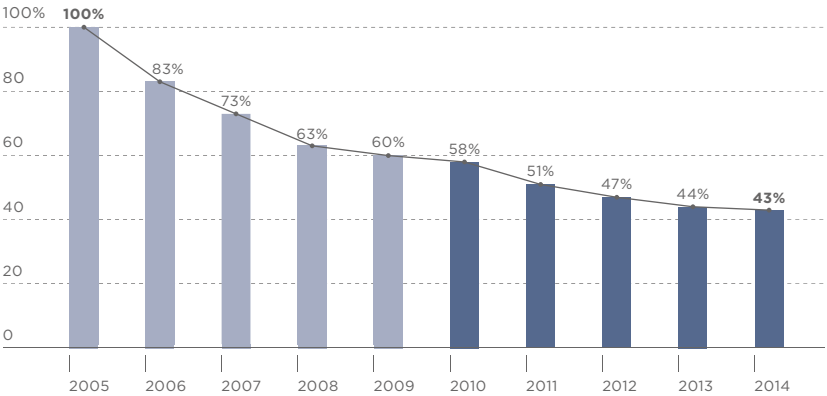
Reducing water consumption within our manufacturing processes is also a challenging goal. We achieved a 26% water consumption reduction per unit of production from 2010–2014 on a global basis. On a ten-year measurement basis, we reduced water consumption by a strong 57% per unit of production. Similar to energy management, water management is a continuous effort involving identification and use of water saving technologies, next-generation equipment, process improvements and research and development.

Our water management solutions extend beyond textile and garment production. Better farming and crop practices, including drip irrigation, that are now widely adopted in Xinjiang Uygur Autonomous Region, safeguard scarce groundwater supplies. Internationally, equipment upgrades and a planned new water treatment plant are in progress at our Sri Lanka factory. In Malaysia, we replaced underground water pipes, improved washroom facilities and implemented other solutions, achieving more than 50% savings in 2014.

Group water consumption continues to decrease, albeit at a slower pace. Maturing efficiencies coupled with the increased water demand needed for fast fashion production challenges our way forward

Confident in our continued innovation and advanced processes, we have committed to an internal global target of a 20% reduction over the next three years, from our 2013 baseline. All facilities are closely monitored for savings opportunities and managed for better efficiencies, with appropriate programs progressively enacted.

GROUP WATER CONSUMPTION REDUCED PER UNIT OF PRODUCTION



Water consumption per unit of production reduced globally (2010-2014)

26%

ECO-WASH INNOVATION

When seeking improved water and energy efficiencies on the factory floor, Esquel realized a better-than-market alternative was possible when working with the light washing process. Tasked with the eco-wash challenge, the Green Machine was internally developed to not only reduce resource use, but also to enhance lean production through the reduction of manual handling at this stage of the garment manufacturing process.

This revolutionary light washing process is used for approximately 50% of the wash programs at Esquel involving a basic wash cycle. The

Green Machine uses no more than 40 liters of water per load, against a conventional wash that uses 1,000 liters. There is zero wastewater discharge and the process time is shortened by an average of approximately 39%, thus capturing lean production advantages. The process is structured to reduce both manual handling and garment movement, supporting a worker-friendly environment.

The machine was piloted at our main production facility in China in 2011. With its proven savings in costs, resources and time, Green Machines are now at work in all our washing plants globally.

Zero wastewater discharge

Approximately
960
liters of water saved per load

US\$3.50
saved per load

“Globally, rooftop solar panels are being planned for selected factories, while natural lighting and LED light sources are already common fixtures at all facilities.”

EMISSIONS

Air quality is beyond crisis point in urban China. The 12th Five Year Plan sets rigorous targets to control emissions that impact all industries, with the textile industry among the top 13 industries cited by the Chinese Government.

The robust energy management systems across our global facilities are the main control mechanisms for carbon and other greenhouse gas (GHG) emissions. The GHG Protocol and ISO 14064 are used to track and measure emissions from all our China operations and keep us abreast of global standards.

At our thermal power plant in Guangdong Province, we use low-sulfur coal, desulfurize waste lye onsite and use electrostatic precipitation to reduce air pollutants. For ongoing energy needs, we are increasing our use of alternative energy technologies. A pilot 1-megawatt solar energy project is scheduled to commence service in late 2015. Globally, rooftop solar panels are being planned for selected factories, while natural lighting and LED light sources are already common fixtures at all facilities.

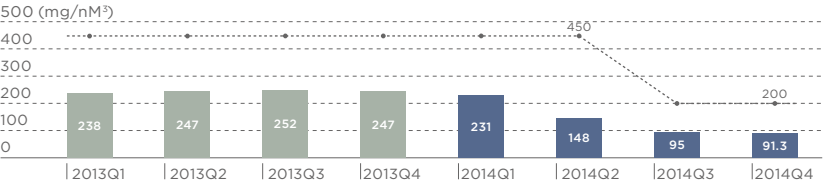
Carbon emissions cap and trade—now coming of age in Southern China—offers a timely avenue for further managing our CO₂ emissions. The textile manufacturing sector of Guangdong is in preparation for inclusion in future trading, with no date of commencement so far announced. We are following developments closely and are internally preparing for participation.

CO₂ EQUIVALENT EMISSION DATA BASED ON ISO 14064:

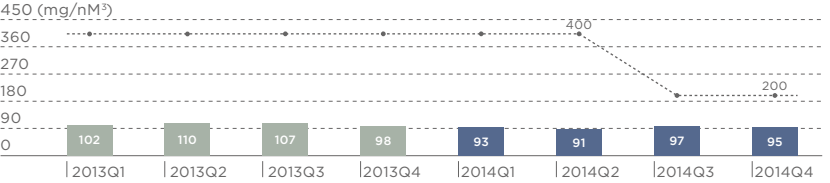
| Year | CO ₂ Emissions (Tons) |
|------|----------------------------------|
| 2010 | 696,668 |
| 2011 | 666,794 |
| 2012 | 645,003 |
| 2013 | 631,285 |
| 2014 | 628,671 |

Includes all operating plants in Guangdong Province. Includes internal transportation but excludes transportation by external companies.

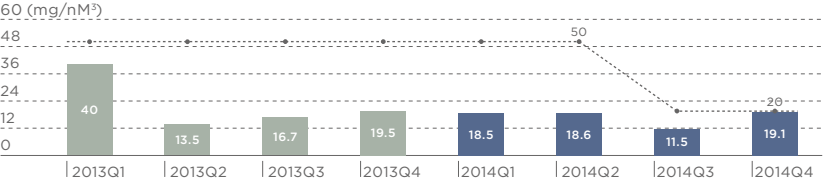
AVERAGE CONCENTRATION OF NO_x



AVERAGE CONCENTRATION OF SO₂



AVERAGE CONCENTRATION OF FLUE GAS & DUST



Includes all operating plants in Guangdong Province.

CHEMICALS MANAGEMENT

With chemicals, our goal is not just to eliminate pollutants and toxins at the end of the production process, but also to reduce, substitute and eliminate chemical additives from the outset. Our challenge is to keep pace with the continuous variety of chemicals and new formulas available and to understand their potential impact.

Our two research centers are strategically located, one at our Xinjiang operations and the other at the Guangdong production complex. Each center undertakes rigorous research and testing in the actual operating arena to develop eco-efficient solutions. We formulate new mixes from chemicals for better eco-performance, reengineer wet processing to reduce chemical use, study new enzymes and develop natural and organic dyes. We recently introduced a garment pretreatment and finishing that uses only biological and biodegradable products.

We cooperate with international suppliers, university research centers and standards organizations to develop and set more stringent guidelines for chemicals use. We operate our own Restricted Substance List (RSL) that is monitored and enforced through a rigorous system of testing and verification. All suppliers must comply with the list's requirements.

We take a preventive approach to the people-chemical interface. Strict protocols in labeling, use, transport and storage are in place at all facilities where chemicals are used. Protective clothing is provided and specialist training for staff is undertaken. Those handling chemicals undergo annual health checkups. In Guangdong, we stage an ammonia-gas-explosion emergency drill annually involving 30 staff members, as well as local emergency services such as fire departments and hospitals. The drill prepares staff for the rapid and correct response should an accident occur.

TEXTILE WASTE

Prevention drives our textile waste management. We employ a high degree of automation and computerization to reduce errors and improve precision across our fabric and garment manufacturing processes. In parallel, we work with customers to plan and manage their orders for a better supply-and-demand match. Recent initiatives engage our customers for upcycled solutions. Some 2,000–3,000 tons of left-over cotton and fabric have been recycled into blankets, sports shirt lines for retailers and fiber content for a project partner's staff uniforms. We also continue the useful life of leftover garments in cooperation with World Vision, through which 30,000–40,000 shirts are distributed annually to needy users globally.

Challenges remain. Recycling fibers is technically demanding, while imports of left-over materials into China are restricted. We continue to address these issues and attempt to find solutions going forward.

STANDARDS / AFFILIATIONS



IPE
Institute of Public & Environmental Affairs
公众环境研究中心

UP TO
3,000

tons of textile waste are now upcycled into blankets, sports shirt collections and staff uniforms for our customers and recycling partners.

BALANCE



PEOPLE

We foster a culture and working environment that respect each of our colleagues and offer a future in skills and career advancement. We practise a work-life balance that is essential to today’s social aspirations at the workplace.



of vacant management positions were filled internally in 2014

Locally hired individuals filled



of management positions in global operations in 2014

WORKFORCE DEMOGRAPHICS 2014

| Gender | Total | New Hires |
|--------|--------|-----------|
| Male | 16,080 | 5,887 |
| Female | 40,961 | 14,261 |

“Recruitment prioritizes internal candidacy. We offer career pathways to promising talent and ensure well-rounded exposure to both company and industry through job rotation and personal mentoring.”

HUMAN RESOURCES STRATEGY

Esquel employs over 57,000 staff globally, with close to 100% on a full-time basis. The health and safety, job satisfaction and quality of life of each of our Esquel colleagues are priorities. To this end, we foster a culture and working environment that respect the individual and offer a future in skills and career advancement. We also actively promote a healthy work-life balance approach to employment.

We believe in building local operating strengths, workforce skills and mutual trust among workers, managers and the community. Fundamental to our business is the decision not to chase cheaper labor locations as wages rise. Rather, we commit to improving competencies in the countries where we have an established presence. This is supported by our policy of progressive localization of management and staff, augmented by training and mentoring of talent so that our people can confidently assume greater job responsibilities as we grow in each country.

This is challenging as worker demographics and social expectations rapidly change. We balance the impact through productivity-enhancing automation, lean practices and competencies enhancement. Through these steps, we open employment opportunities to the growing strata of the technically-skilled younger generation and to qualified professionals. Our strategy of progressive localization of management and staff promotes in-country job creation and, importantly, development and training in international management skills.

Recruitment prioritizes internal candidacy. We offer career pathways to promising talent and ensure well-rounded exposure to both company and industry through job rotation and personal mentoring. In 2014, to fill the 47 corporate management vacancies, we promoted 37 internal employees.

Planning for our future company leaders is guided by a formal succession system. Potential candidates are nominated by their department heads and related gaps in position requirements are identified. Candidates are mentored and agreed targets are set under the GAIPE (Global Annual Incentive Plan at Esquel) program. A parallel process is in place for additional internal manager nomination, while alternative consideration is given outside our industry to find the right fit with our shared values and broader market experience. Complementing this is our GOAL (Growth Opportunity for Accelerated Leaders) program, tailored to middle-management career advancement. GOAL uses tiered training and cross-functional exposure to prepare managers for their future roles and responsibilities.

Annual performance reviews and bonus assessments are conducted for all staff using a set of agreed personal and corporate targets, as well as core and functional competencies specific to the position. With the expansion of managerial planning, we are now strengthening our performance-assessment methodologies to achieve more standardized and systematized metrics.

WORKPLACE CODE OF CONDUCT

Our Workplace Code of Conduct*, established in 2005, sets out our commitment to providing good working conditions and fair wages for all employees. It confirms our position on international human rights and ethical behavior. While specific to Esquel, the Code aligns with the Fair Labor Association's (FLA) Code of Conduct and international standards. Esquel's Code is posted prominently at all our operating sites and is translated into the languages of all employees at each location.

*<http://www.esquel.com/CodeOfConduct.pdf>

HEALTH AND SAFETY

Providing a healthy and safe environment for our employees is fundamental to how we operate. Following a stringent management framework, operational heads track all accidents and incidents, conduct safety reviews and provide training. Significantly, safety performance is linked to annual bonus assessments.

All Esquel factories have an Environmental Health and Safety (EHS) committee chaired by the director of operations at that site. A safety officer is assigned to monitor and report on performance against internal targets and works with the corporate EHS team and all key managers at the facility. All factories are monitored regularly and undergo stringent safety systems inspections biannually. Audits related to EHS are conducted by internal teams and external organizations, as well as by customer representatives. Areas of importance include fire and building safety, emergency preparedness, dust and noise control, indoor air quality and chemicals management. The majority of workplace accidents are minor, usually involving interface with machine moving parts, such as in sewing machines, and are addressed systematically.



Our standards are aligned with international labor, health and safety and environmental standards.





NUMBER OF EXTERNAL AUDITS

159 → 110

(2006) (2014)

“In cooperation with customers and industry stakeholders, we seek better auditing efficiencies to reduce non-value-added audits and build consensus on a common industry standard for auditing.”

LABOR PRACTICES AND HUMAN RIGHTS

In 2005, Esquel established an internal oversight system to monitor compliance with local labor and environmental regulations and international standards and practices. Managed by the Corporate Social Responsibility (CSR) team, at least one person is allocated to each site to monitor and support system implementation. Under the system, operations managers are trained in labor and environmental compliance and in understanding external stakeholder perspectives related to these areas.

The CSR department's primary role is to work with operations to align with corporate culture, identify real and potential gaps and drive continuous improvement. This is facilitated through internal audits conducted jointly with the Internal Audit Department. Esquel also hosts numerous customer audits and participates in various projects with customers and other stakeholders. In cooperation with customers and industry stakeholders, we seek better auditing efficiencies to reduce non-value-added audits and build consensus on a common industry standard for auditing. External audits have been reduced from 159 in 2006 to 110 in 2014, during which time Esquel also added several new factory sites.

The impact of our efforts to ensure better labor practices is most visible when addressing material workforce issues on the factory floor:

WORKER AND MANAGEMENT COMMUNICATIONS

We encourage a proactive and open environment in which employees can directly communicate with their supervisors, while also having a clear alternative choice, if needed. In Mauritius and Malaysia, for example, where contracted foreign labor is a workforce necessity, translators are employed to serve as conduits for communications in all areas, including training in employment rights, living environments, wage calculations and performance expectations.

Open workplace communications allow workers to raise issues without fear of retribution and with the confidence that their concerns will be properly addressed. As a top priority for how we manage grievances, we continue to use the rights-based grievance mechanism defined in the United Nations Guiding Principles on Business and Human Rights (UNGPs), which was developed by Dr. John Ruggie. While effective, we continue to work with and refine each mechanism to fit cultural sensitivities and challenges at each work site. In 2014, we tracked and addressed 734 grievances raised throughout our 20 garment factory sites, which employ a total of 42,000 people. No violations of indigenous rights were reported.

OVERTIME AND WAGES

In line with trends in worker lifestyle aspirations and competition from growing service sector employment opportunities, Esquel closely tracks all employee wage levels to ensure we are competitive and that work hours at the factory level are appropriate. This is balanced by creating efficiencies in customer order planning and management, productivity at our factories and better quality controls. The inherent business issues of seasonal product demands and pressure for shorter lead times continue to create challenges in managing work hours at certain times throughout the year. Other challenges are related to both internal and external supply-chain performance and unavoidable events such as power outages, which sometimes trigger the need for overtime to meet schedules. A well-established system is in place to track and monitor instances that may require overtime requests. In our review process we make every effort to avoid any negative impact on our employees. We continue to study root causes and to work with our business partners along the supply chain to deal with these needs and to reduce their occurrence.

DIGNITY AT THE WORKPLACE

All employees are trained in their workplace rights and expected ethical behavior. This includes awareness of and appropriate response to discrimination, corruption, harassment and abuse of employees. In collaboration with the HR and CSR departments, managers cascade this training throughout the organization and monitor and report any breaches to the respective teams. All remedial actions are tracked and reported.

“All employees are trained in their workplace rights and expected ethical behavior.”

ALIGNMENT WITH MAJOR LABOR ORGANIZATIONS AND RELEVANT ASSOCIATIONS



FAIR LABOR
ASSOCIATION



Sustainable
Apparel Coalition

| TOTAL GROUP TRAINING HOURS 2014 | | |
|---------------------------------|---------|----------------------------|
| Category | Total | Average Hours per Employee |
| Staff | 161,795 | 21 |
| Workers | 212,061 | 4.2 |

Excludes on-the-job training and direct hands-on training for workers on the factory floor.

“We offer training in financial literacy, as well as health and hygiene, and we provide maternity and paternity leave that allows ample time for adjustment for the family.”

SKILLS TRAINING AND ENHANCEMENT

All employees undergo mentored training for their job-specific functions. Further training in general safety and health, first aid and safe road-travel practices is conducted regularly. Specialist or hazardous occupations require specific training to manage exposure to chemical use or for work in high-risk environments. All workers in hazardous occupations are issued appropriate equipment and undergo a mandatory annual physical examination. Facility managers, in addition to job-specific responsibilities, are trained to manage advanced technical processes within their portfolio. They are also expected to enhance their leadership skills through further training in worker communications, managing the younger generation and mentoring workers under their supervision. Through these added proficiencies, we are transitioning our management teams to lead our next-generation workforce.

WORK-LIFE BALANCE

The diversity of cultures and generational aspirations among our workforce keep us young and innovative. We encourage a well-rounded lifestyle by offering a broad spectrum of activities that cater to local cultures and tastes. As a strong supporter of exercise and team sports, at most of our factories we have built facilities for activities such as soccer, table tennis, basketball and badminton. We sponsor inter-factory league competitions and host the annual Esquel Sports Weekend at our main Guangdong facility. In daily work life, our canteens offer healthy and balanced food,



Family days at our offices and factories celebrate families and friends aim to foster a sense of community among our employees.

mindful of ethnic preferences and choice. We regularly stage family and community fun days and celebrate local festivals.

A significant portion of our workforce is women. We offer training in financial literacy, as well as health and hygiene, and we provide maternity and paternity leave that allows ample time for adjustment for the family. In factories where we track such rates, we achieve a high rate of return (84% in 2014). We also encourage new parents to share their family joy with fellow workers on Yammer.

Augmenting these programs, we offer self-improvement and lifelong learning opportunities. The Esquel University offers a structured curriculum for the training and development of our staff, which is conducted through traditional classroom settings, on-the-job training and online formats. The EsquelPass is a mobile app developed to give every employee, including workers, access to company-wide content. We also encourage staff to volunteer in community activities organized by the Esquel-Y.L. Yang Education Foundation and thereby to extend our “family” beyond the factory sites.

84%

maternity leave return rates in 2014

CREATIVITY 2000

Creativity 2000 was established in 2000 as an annual competition open to our global operations that selects creative projects best illustrating how our 5E-Culture influences and improves organizational behavior.

Approximately 60–80 projects are submitted each year under one of the five categories that represent our 5E-culture (Ethics, Environment, Exploration, Excellence and Education). After two rounds of preliminary review and judging by senior management, a winner is selected for each category. The 2014 winners hailed from Vietnam, Sri Lanka and China and covered such areas as staff empowerment,

better water management and process improvements.

The winning team from Sri Lanka chose Education, with their “Express Yourself to Fly” submission, which explored the promotion of social innovation through industrial harmony. Four factories participated in a group competition to encourage direct communication and build trust. Participants submitted their personal stories and experiences that demonstrated how trust and mutual commitment build harmony. A six-step program was developed, with results measuring substantial growth in the personal choice for direct worker communications.

Telling stories
and sharing
experiences
create empathy

Approximately

60–80

projects are submitted each year



PRODUCT

The luxury, comfort and durability of our cotton shirts are the hallmark of customer satisfaction. Technology enables us to streamline production processes, yet maintain the personal identity that each shirt offers.

STREAMLINING



20 YEARS

operating in Xinjiang

Having a reliable supply of Extra-Long-Staple (ELS) cotton is a core competency of Esquel. Our two ginning mills in Xinjiang have an annual supply capacity of over 10,000 tons, which meets over 60% of our demand for this premium grade of cotton. Our presence there has given us a unique market insight into seasonal supply and demand, as well as an understanding of the fluctuations caused by market and regulatory conditions. To address these supply risks, Esquel has developed long-term relationships with pima cotton growers and suppliers in the United States and in other countries.

Our 20-year presence in Xinjiang has also given us direct experience in farming constraints and risks. Esquel's investments have modernized local farming practices for better crop yield and quality. We share expertise on water conservation and responsible use of chemicals, plastics and pesticides. We are careful to ensure that communities benefit economically to continue a thriving regional farming culture. Since 1998, we have been buying directly from farmers at open market prices. We also employ internal tracking systems with farmers to ensure traceability of procured cotton.

Recent efforts have expanded the capacity to grow premium cotton and improve the robustness of our ELS seed stock. Through our research in genome sequencing, we have engineered seed varieties for pest resistance and cultivation in arid conditions, anticipating severe weather disruptions as well as the emerging global issue of crop competition. We pay for manual picking to ensure better raw cotton quality and have introduced technologies into our ginning factories to improve fiber quality. We practice a no-waste culture, selling by-products for oil and non-garment use, as well as recycling waste from harvesting and ginning to subcontractors for their own use.

INTELLIGENT INNOVATION

Fabric science is a key focus of innovation at Esquel. We explore new functions, construction and material aspects of fabric to engineer best performance. This also applies to ELS 700-yarn-count development to produce the finest cotton yarn. We also produce specialty blends using cotton and other natural fibers, as well as developing environmentally-friendly dyes, treatments and finishes for value-added textile products.

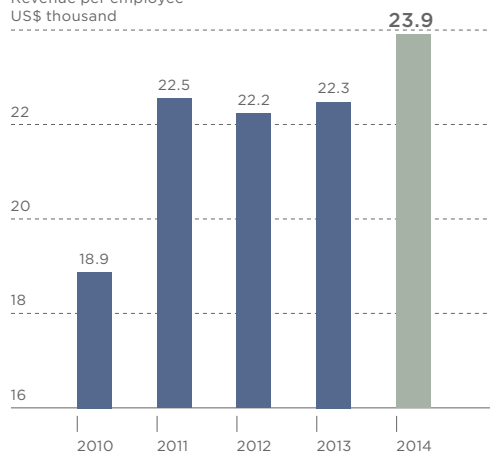
Collaboration is a strategic component of our focus on innovations. With our partners, we explore new ways to operate and develop better product and machinery. In recent years, our work with international partners such as Novozymes and Chemical Dynamics, Inc., has developed dyeing technologies and processes that save water, energy and chemicals use. We also cooperate with our industry colleagues in China. Together with Shanghai Weishi Machinery Co., Ltd., we designed eight new types of presser machines over two years, which have been in operation since 2009.

Our product line extends to accessories and packaging materials designed to keep pace with market and consumer trends. Our recycled yarns and fabrics find new life as garment tags, while our teams have engineered production of organic cotton trims and upcycled woven fabric waste to labels and bags. We also recycle buttons and use 3D printing for new ones. In 2014, eco-friendly products contributed to approximately 9.3% of total sales revenue from the accessories division.

“Having a reliable supply of Extra-Long-Staple (ELS) cotton is a core competency of Esquel.”



“Our recycled yarns and fabrics find new life as garment tags, while our teams have engineered production of organic cotton trims and upcycled woven fabric waste to labels and bags.”

WORKER PRODUCTIVITY 2010-2014Revenue per employee
US\$ thousand**WHOLE SYSTEM MANUFACTURING**

Today's efficient textile and garment production is about managing the disruption that fast fashion brings to the traditional manufacturing process. The challenge is to redesign for efficiency and productivity, while responsibly managing resources and assets.

We devote substantial efforts to research and development. In addition to fabric performance, we focus on opportunities in process automation and lean manufacturing. Esquel holds over 100 patents in automation, many of which are for machine adaptations and materials handling. The Technical Development Center conducts cross-functional analysis of the production path to achieve best practices. Our integrated supply chain encourages process-interface control for optimal efficiencies and, significantly, for notable error and waste reduction across the manufacturing process.

Training of workers for multi-skilling and technical proficiency go hand-in-hand with productivity-enhancing automation and the upgrading of plants and equipment. Aided by our Management of Change procedures, we ensure safe human-to-machine interface, while training for optimal productivity. This people-plus-technology approach has significantly improved productivity.

VALUE-ADDED SERVICES

We maintain close relations with our customers to exchange ideas on market intelligence. This close engagement catalyzes competency improvement, stimulates new working processes and, importantly, fuels the redesign within the supply chain for better environmental performance.



Our vertically-integrated supply chain brings the value of sustainable manufacturing to the customers.

Sharing their fashion experience inspires learning. We codevelop product designs that consider the most efficient construction processes. Guided by our quality growth strategy, we optimize asset utilization and long-term capacity planning with customers to ensure timely delivery and better cost management.

In 2014, we introduced the online portal for the 24/7 Collection program. By creating an interactive platform for this product offering introduced in 2007, our customers can select their chosen design and color of shirt from our extensive range of in-house fabrics on a more timely basis. The option of a never-out-of-stock fabric, combined with in-house garment production, provides the quick production response and one-stop shopping valued by our customers.

Our own retail brand, PYE, does more than educate us on customer expectations. While we stand by our reputation for quality, traceability, cost and delivery, we choose to move beyond expectations and cultivate a retail culture that values quality materials and craftsmanship. Through PYE, we demonstrate that sustainable design and manufacturing are viable and profitable. The PYE shirt is about the future of fashion itself.

“We choose to move beyond expectations and cultivate a retail culture that values quality materials and craftsmanship.”

THE ECOLOGICAL SHIRT

Our ECOLOGICAL shirt, a concept product in our retail brand, PYE, boasts an impressive environmental footprint. Its manufacturing process uses 85% less chemicals, 84% less water and 17% less energy than for comparable products. These quantum leaps in garment manufacturing have been achieved by reengineering the entire shirt-production process to be more ecological. It begins with choosing only the whitest raw cotton that requires less chemical additives to achieve the shirt's brilliant hue.

Thinking about how we produce the luxury, hand feel and durability of premium cotton shirts does not stop with a single shirt concept. We continuously pursue new horizons in fabric science, developing eco-enzymes and chemicals, reducing

water consumption—even at the crop-growing phase—and in better managing each shirt's carbon footprint. We believe that style, quality and responsible manufacturing go hand-in-hand in the clothing industry.

As a pioneer in the art of shirt making, Esquel has reengineered the production pipeline to reduce water and energy consumption per shirt by an average of 57% and 43%, respectively, over the past 10 years. Innovation continues with our ECOLOGICAL shirt leading the way.

In crafting our PYE shirts, we have the discerning customer in mind—one who appreciates high quality along with an eye for style. With each shirt purchased, the customer makes a conscious step forward in caring for our planet, without compromising his or her individual fashion identity.

Manufacturing of the ECOLOGICAL shirt consumes

84% less water,

85%

less chemicals and

17% less

energy than for comparable products.



BOND ING

COMMUNITY

When a community thrives, we thrive. From early days, Esquel has understood this intimate link between business and society and has established channels through which to cultivate this bond.



The Esquel-Y.L. Yang Education Foundation was established in 2003 and is guided by its mission to “Encourage the Spirit of Learning.”

INVESTING IN COMMUNITIES

Esquel creates a strong local relationship between factory employees and their community. From the farming communities that grow premium cotton in Xinjiang, to local women employed as our sewers in Southeast Asia, Esquel's economic and social benefits extend to the immediate communities in the form of jobs, education, skills enhancement and the many small-business support services that enable our factories and facilities to function smoothly. We have also invested in local infrastructure projects such as roads and schools to aid local community development.

THE ESQUEL-Y.L. YANG EDUCATION FOUNDATION

The Esquel-Y.L. Yang Education Foundation was established in 2003 and is guided by its mission to “Encourage the Spirit of Learning”. The Foundation aims to provide a caring response to those in need in the area of education, as well as to facilitate and enhance learning for children and teenagers. The Foundation started its first projects in the rural areas of Xinjiang. Since then, efforts have expanded to other locations where the Esquel Group has operating presence, including Guangdong and Guilin in China, Sri Lanka, Vietnam and Mauritius.

The Foundation believes it is important to address the needs of the local community while developing projects with sustainability in mind. The needs of communities have changed over time, in response to local development—from school refurbishments and the donation of library books to over 1,100 schools, to a current focus on facilitating and enhancing student life and learning. The Vision Screening program, undertaken in collaboration with the Hong Kong Polytechnic University's School of Optometry, for example, has provided free screening and prescription of lenses to over 2,000 students in Xinjiang and Guangxi since 2012.

In addition to financial support, the Foundation encourages Esquel's staff to participate in charitable causes. Through sponsorship from staff, the Hongzhi Students program currently provides subsidies to over 160 high school students in Xinjiang, Guangdong and Guilin to cover their tuition fees and living expenses. The Foundation also partners with businesses and brings in outside expertise and resources to improve project effectiveness. The Esquel-CLP Green Studio, a collaborative effort with CLP Power Hong Kong Limited, is a classroom-on-wheels that promotes environmental education. Over 12,000 students in the greater Foshan area have benefited from this project since its launch in 2012. Another initiative is the Esquel-Novartis Jian Kang Kuai Che (Health Express), which has worked with schools to develop the health-education curriculum that is often lacking in rural areas of China. To date, it has reached a total of 161 schools and 110,000 students.

The Foundation marked its 10th anniversary in 2013. Based on what we have learned from our first decade of activities, as well as the obvious benefits, we remain aligned with our mission and will continue to dedicate efforts that make a genuine difference in the area of education.

“The Foundation marked its 10th anniversary in 2013.”



Over 2,000 students in China benefited from the Vision Screening program.

MICRO-FINANCING IN XINJIANG

Farming conditions were less than encouraging when Esquel was looking to secure its cotton supply in Xinjiang to meet demand from its two ginning mills located there. The need to improve farmers' livelihoods and production capabilities were at the center of the supply issue. To address this directly, Esquel, initially in partnership with Standard Chartered Bank, established a micro-financing program for the cotton farming communities close to its operations. The program focused on low-income farmers who encountered difficulty with their loan applications. The framework for the program requested no mortgage and relied on the local credit cooperatives to distribute funding, once Esquel had screened an applicant's request.

Through this program, each farmer received an average of RMB 15,000 to purchase the needed seed and planting materials early in the season. Along with the lending facilities, Esquel introduced training programs for financing and income management, as well as for sustainable farming practices that saved water, reduced pesticides and fertilizers, while improving crop yield and cotton quality.

Since its launch in 2007, some 1,487 households have benefited from the project with zero bad debt incurred since inception. Today, with farming incomes rising across the region, our work moves further afield to identify others in need of financial assistance. In 2014, approximately 250 households in the Awati area of Xinjiang received financing through the project.

Some 1,500 households have benefited from the project

ZERO

bad debt since launch

RMB 15,000

average loan amount

“New thinking for development and business behavior is needed, underpinned by a mind-set that values fashion and respects the resources used to produce it.”

SHIFTING THE PARADIGM

Our industry is at a critical juncture. Compliance-driven improvements, while helpful, do not bring the structural changes needed to address the core issues of pollution, waste, resources mismanagement and social injustice. New thinking for development and business behavior is needed, underpinned by a mind-set that values fashion and respects the resources used to produce it. At Esquel, we have developed a blueprint that demonstrates that such thinking is both achievable and profitable.

FACTORY OF THE FUTURE

Our blueprint for the future starts on the factory floor. Observing the use of disruptive technologies in other industries inspires us to rethink our manufacturing. We envision a facility where technology transforms the factory into a knowledge-intensive and integrated manufacturing hub. The use of artificial intelligence and robotics coupled with computational thinking enhance our production capabilities.

Workers with experience and technicians with expertise manage our operations. We provide staff training to help develop technical versatility, knowledge and skill-sets. We also recruit from the growing population of tech-savvy and critical-thinking graduates and diploma holders. The outcome is the shift from being traditionally labor intensive to being leaner and more automated. We are currently piloting such practices in factories in China, Vietnam and Malaysia.

We developed our people strategy to accommodate rising social expectations, market dynamics and the changes incurred from being more automated. Employment encompasses a broad range of age groups and considers their generational needs to achieve a healthy work-life balance and, for us, an engaged workforce. Job arrangements include flexible hours and pay incentives, as well as an open working environment.



The Integral Conversation serves to inspire new thinking for the textile and manufacturing industries.

A NEW DEVELOPMENT MODEL

Complementing innovation on the factory floor, we advocate computational thinking across the organization. By refocusing our collective goals through better resource allocation, the shift toward positive industry development can become a reality.

THE INTEGRAL CONCEPT

Integral is a concept that brings together the aspirations and practicalities of doing business as a sustainable organization operating within a global context. It inspires a new thinking on how China's textile industry and the wider manufacturing sector can develop. Integral values and respects social and environmental resources as inherent drivers to organizational development. It positions business as an agent for positive change for society and the planet.

Applying this thinking internally resets the context of how we operate. How do we raise the bar in sustainable practices and maintain profitability? How do we move beyond the factory when managing our operating impacts and, importantly, how do we steward and share the increasingly scarce environmental resources?

CREATING THE PERFECT SHIRT

Our PYE luxury shirt brand puts this thinking into practice. It defines a new space within fashion for aspiration and action. PYE identifies with the growing global culture of consumer choice driven by ethics, environmental awareness and retail-brand social and environmental practices. It is the conduit for telling our story and communicating our beliefs regarding quality and sustainability directly to consumers. It embodies the business choices, corporate values and sustainable manufacturing processes needed to ensure our industry's future.

GUILIN: SUSTAINABILITY IN ACTION

Our investment in Guilin to build a new facility embodies the Integral concept. It is an education and learning center, an eco-tourist park, a regional industrial hub and our factory of the future. In one of China's most ecologically-sensitive and treasured areas, we are creating a destination where industry, the environment and local communities can thrive together.

For us, it is an exciting challenge and an opportunity to build a complex that reflects our strategy for harmonizing resources. While ambitious, our investment is grounded in practicalities with the aim of demonstrating to the global industry, governments and our peers how a traditional shirtmaker can initiate the paradigm shift to a clean, technology-driven enterprise that is competitive and profitable. Our goal is to be a positive participant in China's 21st-century economy.

Integral positions business as a positive force for society and the planet.



Consumer choice is increasingly driven by a retail-brand's social and environmental practices.

How can we live on earth while incorporating sustainability into our lives, so that we can make the world better than it is today?

INTEGRAL

With the public acknowledgment that China's traditional textile manufacturing practices are increasingly unsustainable, how do we move forward as an industry and reposition ourselves as a positive development force?

Esquel envisions this redesign through Integral, a visionary yet pragmatic development model for the future that extends beyond the textile industry to encompass a broad spectrum of traditional manufacturing industries. Integral starts with a dialogue to foster change. From supply-chain efficiencies to urban planning to public health, the dialogue deliberately disrupts the status quo to inspire alternative thinking in development.

The Integral Conversation, an annual sustainability conference established by Esquel in 2014, is the platform for like-minded people to discuss and exchange ideas. Staged largely for industry stakeholders, government bodies and non-governmental organizations, the conference explores new and viable social and environmental practices and behavior. Through collective thinking around national events and discussion of the latest global developments, a rich resource for innovation is shared. The Integral Conversation taps the expertise of leading Chinese and international experts to present the different thinking and practices that



are changing how industry operates. Our next meeting, to be held in the autumn of 2015, is themed "Sustainability and Living". It explores the question of how we can live on earth while incorporating sustainability into our personal lives, business operations and communities so that we can make the world a better place than it is today.

Esquel puts Integral into commercial reality. Set in the inspiring landscape of Guilin, the company is building an integrated factory complex that uses resource harmony as its core development principle. Early-stage planning has restored hectares of natural habitats and eco-systems. Structural design elements are guided by nature to preserve the landscape, while utilizing natural ventilation, light, water bodies and planted fields to create a model hub where industry complements the environment and the community. Spacious grounds accommodate an industrial complex, education and research facilities, gardens and public eco-tourism and cultural zones.

At the heart of this hub are Esquel's factories of the future. Structurally designed to take advantage of the contoured landscape, the state-of-the-art production facilities employ advanced automation managed by skilled technical teams. Use of water recycling, recyclable building materials and other green features create eco-friendly facilities that demonstrate how a traditional industry can transform, be sustainable and remain profitable.



GRI G4 INDEX

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| Report Profile | |
| G4-28 | Introduction |
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| G4-30 | First report |
| G4-31 | Introduction |
| G4-32 | This report contains Standard Disclosures from the GRI G4 Sustainability Reporting Guidelines |
| Governance | |
| G4-34 | Sustainability at Esquel |
| G4-35 | Sustainability at Esquel/ Prudent Commercial Principles |
| G4-36 | Sustainability at Esquel/ Prudent Commercial Principles |
| G4-37 | The Board's Finance and Internal Audit committees, the CSR oversight committee and the energy management committee report to the Board of Directors on topics and progress on a regular basis. |
| G4-39 | The positions of Chairman and CEO are held by two different people within the organisation. |
| G4-45 | Prudent Commercial Principles |
| G4-48 | Publication of a sustainability report is a KPI for the Sustainability Council. The report is reviewed and approved by the Council. |
| Ethics and Integrity | |
| G4-56 | Workplace Code of Conduct/ Corporate Culture |
| G4-57 | Labour Practices and Human Rights |
| G4-58 | Labour Practices and Human Rights |
| | The CSR oversight committee oversees the mechanisms for seeking advice on ethical and lawful behaviour. |
| | Mechanisms for reporting concerns include but are not limited to the internal grievance mechanisms, Internal Audit Committee and CSR oversight committee. |

SPECIFIC STANDARD DISCLOSURES

| Section | Further Information |
|---|---|
| Economic | |
| G4-EC6 | Human Resources Strategy |
| G4-EC7 | Investing in Communities |
| G4-EC8 | The Esquel-Y.L. Yang Education Foundation |
| Environmental | |
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| G4-EN1 | Group Environmental Chart G4-EN1 |
| Energy | |
| G4-EN3 | Group Environmental Chart G4-EN3 |
| G4-EN6 | Energy Group Environmental Chart G4-EN6 |
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| G4-EN15 | Emissions Group Environmental Chart G4-EN15, EN16, EN19 |
| G4-EN16 | Emissions Group Environmental Chart G4-EN15, EN16, EN19 |
| G4-EN19 | Emissions Group Environmental Chart G4-EN15, EN16, EN19 |
| Effluents and Waste | |
| G4-EN22 | Water Group Environmental Chart G4-EN22 |
| G4-EN23 | Group Environmental Chart G4-EN23 |
| Compliance | |
| G4-EN29 | US\$6,462 Penalty fee for late filing of environmental aspects of production plants (China). |
| Social | |
| Labour Practices and Decent Work | |
| G4-LA1 | Skills Training and Enhancement |
| G4-LA2 | For Hong Kong employees, we provide full-time employees non-statutory leave (including marriage leave, compassionate leave, examination leave). |
| G4-LA3 | Work-Life Balance |
| G4-LA4 | At present, minimum notice periods are generally excluded from the existing collective agreements, however on average we provide two weeks' notice. |
| G4-LA5 | At least 50% of EHS committee members are at the worker level. |
| G4-LA6 | Health and Safety |
| G4-LA8 | Labour Practices and Human Rights |
| G4-LA9 | Skills Training and Enhancement |
| G4-LA10 | Work-Life Balance |
| G4-LA11 | Human Resources Strategy |
| G4-LA12 | Prudent Commercial Principles |
| G4-LA14 | 100% of new suppliers are screened using labour practices criteria. |
| G4-LA15 | Actual and potential negative impacts throughout our supply chain are reviewed regularly. |
| G4-LA16 | Labour Practices and Human Rights |
| Human Rights | |
| G4-HR2 | All employees are trained in the Workplace Code of Conduct and basic human rights relevant to their operations. |
| G4-HR3 | Labour Practices and Human Rights |
| G4-HR7 | No incidents of discrimination were reported in 2014. 100% of security personnel are trained in human rights policy and procedures relevant to operations. |
| G4-HR8 | Labour Practices and Human Rights |
| G4-HR9 | All Esquel factories undergo regular internal reviews related to our Workplace Code of Conduct, which includes basic human rights assessments. |
| G4-HR10 | 100% of new suppliers are screened using human rights criteria. |
| G4-HR12 | Labour Practices and Human Rights |
| Society | |
| G4-SO4 | Labour Practices and Human Rights |

GROUP ENVIRONMENTAL CHARTS

| (G4-EN1) Materials | | |
|--------------------|------|--------|
| Materials used | Unit | 2014 |
| Cotton | Tons | 27,944 |

| (G4-EN3) Energy Consumption within the Organisation | | |
|--|------|-----------|
| Energy consumption | Unit | 2014 |
| Total fuel consumption from non-renewable sources | | |
| Coal | GJ | 4,821,606 |
| Diesel | GJ | 93,128 |
| Natural gas | GJ | 198,498 |
| Gasoline | GJ | 1,290 |
| FO-R [fuel oil from rubber] | GJ | 39,371 |
| Total fuel consumption from renewable sources | | |
| Biomass firewood | GJ | 9,193 |
| Total electricity, heating, cooling and steam consumption | | |
| Electricity consumption | GJ | 1,196,513 |
| Heating consumption | GJ | 0 |
| Cooling consumption | GJ | 0 |
| Steam consumption | GJ | 47,065 |
| Total energy consumption | GJ | 6,406,664 |

| (G4-EN6) Reduction of Energy Consumption | | |
|--|----|---------|
| Amount of reduction in energy consumption achieved | GJ | 208,321 |
| [excluding EGV, TIL] | | |
| Types of energy included: electricity, steam, fuel, biomass firewood, coal and natural gas [excluding EGV, EHV, TIL] | | |

| (G4-EN15, EN16, EN19) Scope and Reduction of GHG Emissions | | |
|--|---------------------------------|---------|
| GHG emissions | Unit | 2014 |
| Energy direct greenhouse gas (GHG) emissions (Scope 1) | | |
| Scope 1 GHG emissions [excluding EAV, EGM, EHV, TIL] | Tons CO ₂ equivalent | 545,597 |
| Gases included in the calculation: CO ₂ , CH ₄ , N ₂ O, HFCs, PFCs, SF ₆ | | |
| Biogenic CO ₂ emissions [excluding EAV, EGM, EHV, NBO, PTX, TIL] | Tons CO ₂ equivalent | 2,091 |
| Energy indirect greenhouse gas (GHG) emissions (Scope 2) | | |
| Scope 2 GHG emissions [excluding EAV, EGM, EHV, TIL] | Tons CO ₂ equivalent | 213,913 |
| Gases included in the calculation: CO ₂ , CH ₄ , N ₂ O, HFCs, PFCs, SF ₆ | | |
| Reduction of greenhouse gas (GHG) emissions | | |
| GHG emissions reductions achieved [excluding EAV, EGM, EHV, NBO, TIL] | Tons CO ₂ equivalent | 28,732 |
| Gases included in the calculation: CO ₂ , CH ₄ , N ₂ O, HFCs, PFCs, SF ₆ | | |

| (G4-EN22) Total Water Withdrawn by Source | | |
|---|------|-----------|
| Total volume of water withdrawn | Unit | 2014 |
| Groundwater | Tons | 483,298 |
| Municipal water | Tons | 2,733,332 |
| Rainwater | Tons | 12,700 |
| Industrial water | Tons | 7,157,748 |

| (G4-EN23) Effluents and Waste | | |
|--|------|--------|
| Total weight of waste by type and disposal method | Unit | 2014 |
| Hazardous (landfill, incineration by locally certified third parties) | Tons | 26,145 |
| Non-hazardous (recycling by relevant internal departments or by locally certified third parties) | Tons | 74,178 |

| List of Facilities | | |
|---|--|--|
| China: AEA, AEC, WFC, XEA, CJE, GEK, GET, GES, GEW, GLE, GLS, TPE, XJE, CEG, CEK, FEG, GEG, GLG, NBO, TEG, YMG, EAP | | |
| Malaysia: EGM, EGM-KB, EPP Mauritius: TIL Sri Lanka: PTX Vietnam: EAV, EGV, EHV | | |
| ■ Cotton Group ■ Textiles Group ■ Apparel Group ■ Accessories Group | | |

