



# TAL Group

Far East Garment Operations



## Sustainability Report 2010

# About this Report

The purpose of this Corporate Sustainability Report is to inform our key stakeholders, including customers, employees, suppliers, governments, NGOs and the communities in which we operate, about TAL's activities in three aspects of sustainability – economic, social and environmental.

This is TAL Group - Far East Garment Operations' (hereafter known as TAL, TAL Group or the Group) first sustainability report, which we plan to publish on a biennial basis going forward.

## Report Scope

This report covers TAL's economic, social and environmental performance for the period of January 2010 to December 2010. The reporting scope focuses on TAL Group's garment operations in the Far East.

## Measurements and Limitations

A reporting team was developed specifically for data collection and internal verification. For the first report, we have aligned data availability and consistency across all sites. We recognize that the data presented are an impartial representation of performance. We have attempted to report on all core and additional indicators where applicable in order to provide a balanced coverage of TAL Group's current strengths and targets that require continuous improvement.

## Application Level and Assurance

This report was designed and written to meet the standards of the Global Reporting Initiative (GRI) G3 framework which TAL has achieved up to level 'B'. The GRI Index is shown on [pages 45-49](#) in this report.



## Feedback

We are proud of all that we have achieved so far and value your suggestions. If you would like to request further information or to let us know about your views, please contact:

Dr. Delman Lee  
President & Chief Technology Officer  
Email: [delmanlee@hk.talgroup.com](mailto:delmanlee@hk.talgroup.com)

## Editorial Team

The editorial team of this report consists of Loletta Chan, Mandy Lam and Molly Fu.

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# CEO Statement

From our modest beginnings over 60 years ago, we have grown from being the first spinning mill in Hong Kong to one of the largest manufacturers of dress shirts worldwide and have built a reputation for providing premium products and top-notch service along the way. Today, we are proud of the substantial growth of our products and people, all of which are attributed to the strong sense of values and ethics that we have instilled in our employees.

Being in the garment business, we are fully aware of our impact on the society and environment. TAL believes social and environmental sustainability is an integral part of our success. As a forerunner in our industry, we have proactively incorporated a variety of measures and implemented programs to improve working conditions and reduce harmful effects on the environment. Since we embarked on the path of sustainability, we have done our best to implement innovative and effective ideas internally and promote them within the industry.

This is TAL's first sustainability report and it is a major step towards communicating to our stakeholders about our efforts and plans for operating a sustainable business in an economically demanding, multi-cultural setting.

Throughout the 60 years of our organization's growth, we have always cared for the environment and our associates. I am delighted to have this opportunity to share our efforts and ideas for sustainable growth and I hope that you will also benefit from knowing more about the economic, social and environmental pillars of development that our organization upholds.

Dr. Harry Lee  
Chief Executive Officer

# About TAL

TAL Group was founded in 1947 by Mr. C. C. Lee, a pioneer in Hong Kong's textile industry. Since the beginning, TAL has produced innovative clothes that embodies style, comfort and functionality.

It is a privately-held business with operations in Hong Kong, China, Indonesia, Malaysia, Taiwan, Thailand and Vietnam. We strictly adhere to a winning formula which combines the production of quality garments, on-time delivery and premium services. TAL Group has become one of the largest garment manufacturers in Asia today. Currently, we estimate that one out of every six men's dress shirts sold in the U.S. market is produced by us.



Country/Region	Operational Units
Hong Kong	TAL Apparel Limited (Headquarter) Cheong Shun Garments Company Limited (OPA <sup>1</sup> operation only)
China	Textile Alliance Apparel (Dongguan) Limited Pacific Apparel (Dongguan) Limited
Indonesia	PT Katexindo Citramandiri
Malaysia	Pen Apparel Sdn Bhd Penang Textile Sdn Bhd Imperial Garments Sdn Bhd
Taiwan	Di An Trading Co., Ltd
Thailand	Thai Garment Export Company Limited (3 facilities) Mandarin Clothing Company Limited
Vietnam	TAV Limited

1. Outward Processing Arrangement

# An Innofactor® in the Garment Industry

TAL is confident about the future of the garment manufacturing industry and continuously invests in extensive research and development to expand its range of products and services.

## TAL's Mission Statement

We will be the supplier that customers rely on.

We will understand customers' needs and satisfy them.

We will realize customers' expectations and improve on them.

We will join our skills and creativity to our customers'.

Above all, we will make clothes for customers that people like to own and wear.

With our seamless processes and significant achievements, TAL has become an Innofactor®. This means that every TAL garment reflects our ongoing commitment to product innovation and quality excellence. Our product range includes convenient, washable and non-iron wool or cotton pants, high quality dress shirts and polo shirts, functional outerwear, and tailored suits with traditional hand stitching. In addition, we have a reputation among our customers for producing world-renowned and unsurpassed, wrinkle-free shirts and blouses that set industry standards.

## Innovative Product Highlights



***TAL provides a one-stop service from design conception to garment production.***

***This includes:***

- Product innovation by R&D
- Product design initiatives by our Product Development Team
- Fabric and trim sourcing
- Sample development
- Garment production
- Supply chain services



### ***TAL's Supply Chain Services***

At TAL, we believe in adding value through advanced supply chain solutions. A properly managed supply chain provides our customers with the speed and efficiency that they need to stay ahead in a competitive market. Like other industries, the apparel business depends on short lead times, quick response to market trends, effective inventory and cost management and reduced costs. We work in close partnership with our customers to develop innovative and highly responsive supply chain solutions, tailoring our technologies and processes to meet their individual needs and deliver products more effectively, anywhere in the world.



## TAL's Five Core Values

With over 60 years of experience, our five core values help us create long-lasting and favourable economic, environmental and social impacts.

Our five core values are based on:

Honesty and integrity	Equitable commitment to employees, society and shareholders	Outstanding service and quality products at a competitive price	Continuous innovation	Rewarding career and management development
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## TAL's Ethical Business Practices

TAL's self-initiated code of conduct, which we call Ethical Business Practices (EBP), is the guiding principle in running our business while taking into account our environmental and social responsibilities.

The first draft of the overall framework and content of EBP was completed at the end of 2010. The areas of aspiration in our EBP include:

- Business ethics and integrity
- Confidentiality and intellectual property
- Transparency on ethical business practices
- Management systems and continuous improvement
- Environment
- Health and safety
- Child labour
- Forced labour
- Wages and benefits
- Harassment and abuse
- Discrimination
- Freedom of association and the right to bargain collectively
- Working hours
- Community engagement

## Governance Structure

TAL's highest governance body is its Board of Directors which is comprised of 13 board members, four of which are non-executive members. Executive directors of the Board are responsible for different areas of the business including sales and marketing, operations and human capital management.

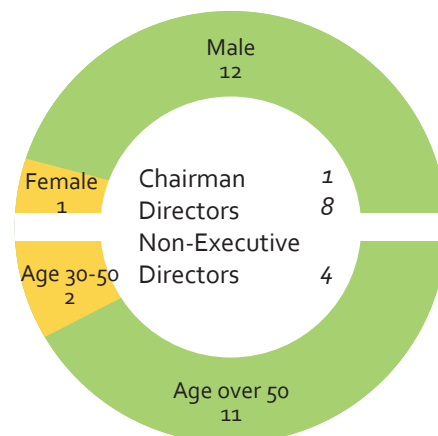
The Chairman of the Board oversees the direction of the company, while the CEO oversees the execution of the business in alignment with the direction and interests of the Board. The Board holds a monthly Executive Committee Meeting in which they make decisions on critical management matters including precautionary policies for suspected risks that may be harmful to the company, environment and the public.

The members of the Board of Directors are selected based on their expertise in the field and their ability to bring an objective and external perspective. Eighty-four percent of the executives on the senior management team are hired from the local community or promoted from within the company. The compensation of our senior management team is comprised of two components: a base salary and a performance-based incentive which is linked to the performance of the company.

All Directors are required to disclose their interests in other companies or organizations to the Board, as a director or otherwise, and such declarations are updated annually. The appointment of the four non-executive directors provides independent advice and insights for TAL's highest governance body.

The Group CSR Manager reports directly to the President & Chief Technology Officer, who is a member of the Board. The role of the Group CSR Manager is to ensure that TAL's sustainability commitments are upheld by making sure that sustainable management systems are in place. We strive to be a role model in areas of social, labour and environmental sustainability in an increasingly dynamic world. The Manager is supported by the respective heads of business units which report quarterly to the Executive Committee on operational performance for economic, social and environmental dimensions.

Board of Directors in 2010





# Stakeholder Engagement

In 2010, we have devised various channels to engage our stakeholders in cultivating long-lasting and cooperative relationships. We mainly focus on four important stakeholder groups which are as follows:

## Customers

Customers are one of our most important stakeholder groups. To facilitate better dialogue with our customers, we conducted a Customer Engagement Survey to identify key areas of improvement from both product and service perspectives (See [page 13](#)).

We also regularly exchange ideas and align our thinking with our customers' strategic direction through active participation in customer-run supplier summits. Whenever possible, we also run strategic workshops with our customers.

## Employees

For our staff, we encourage them to pursue a rewarding career and encourage management development within the company. Bi-annually, we conduct an Employee Engagement Survey to better understand our staff and improve our human capital management approach. (See [page 33](#)). For our line workers, unions and other worker-represented committees have been established at some of our manufacturing plants (See [page 27](#)) to provide an effective channel for them to voice their concerns.

TAL considers employee welfare to be of utmost importance to its success and therefore, we actively support transparent and open communication with employees. Employees are encouraged to put forth ideas and suggestions to management during counselling sessions with their managers or through suggestion boxes.

## Supply Chain Partners

Every year, we conduct a Fabric Suppliers Review with our top ten suppliers. The aim of the review is to recognize our suppliers' annual achievements and to exchange ideas for future business development. One of the main focuses in the 2010 review was on cost control and raw material conservation.

To ensure a high standard of product quality in our supply chain, we have cultivated an ethic of quality excellence with our suppliers through interchange visits as well as technical skills and knowledge transfer. We have also developed the TAL Fabric Vendor Manual which provides clear and strict guidelines of TAL Group's inspection scoring system and fabric quality requirements, including physical performance, chemical use and fabric appearance.

## Local Communities

We strive to engage in close communication with local communities and other local stakeholders. When the community we operate in communicates matters of concern to us, we respond through various social and environmental initiatives. (See [Environmental](#) and [Social](#) section)



Business  
Performance

# Business Performance

Similar to many businesses around the world, the financial crisis that started in 2008 affected TAL's performance in 2009. However, towards the end of 2009 and in 2010, we experienced a turnaround that enabled us to bounce back close to 2008 levels. Our overall business in 2009 and 2010 compared to 2008 was down by 19% and 7% respectively.

## 3 Year Plan

Despite the tough economic environment, we remained committed to investing in our business, infrastructure and people. Below are some highlights of our efforts from a business perspective.

In 2009, we introduced TAL's first 3 Year Plan which focused on ten value drivers with specific targets for each year. The ten value drivers include Quality, Cost, On-Time Delivery, Product Innovation, Sustainability, People Development, Variety Capability, Sales Volume, Lead Time and Supply Chain Excellence. We were able to engage all business units in the 3 year planning process by asking each business unit to come up with a comprehensive one year plan for 2010. The 3 year planning exercise aligned all business units in the direction of the Group and strengthened team work across different business units which is essential in achieving the 3 Year Plan.

## Raw Material Costs

Since the majority of TAL's raw material fabric is comprised of cotton, we were impacted by the surge in cotton prices in 2010. At the end of 2008 and the beginning of 2009, cotton was below USD0.50 per pound. However, by the end of 2010, cotton prices had soared to almost USD1.50 per pound. This dramatic increase translated to significantly higher fabric prices and since we did not transfer all the cost increases to our customers, our bottom line was severely affected.

The significant rise in cotton prices also drove some of our customers to seek alternative fabric and production options. This meant that a number of our customers chose to switch to a cotton / polyester blend fabric and ultimately, changed their production set-up to lower-cost, less skilled production facilities, resulting in a down-grading of their product quality. Fortunately, the losses incurred due to this switch were not very significant in the context of TAL's overall business.

## Production Network

TAL's Asia Pacific production network currently consists of 11 plants in five countries including Greater China, Thailand, Malaysia, Indonesia and Vietnam. Our costs in China continue to rise due to a local minimum wage increase and the national currency appreciation. The Foxconn suicide incidents impinged upon the industry as a whole.

Minimum wage continued to increase in Indonesia and in 2010, the country's minimum wage was 13% higher than in 2008, and 6% higher than in 2009. Minimum wage also rose in Vietnam, but it was offset by a small drop in the country's currency. In 2010, Vietnam's minimum wage was 28% higher than 2008, and 7% higher than in 2009. Wages in Thailand and Malaysia remained relatively constant.

We decided to expand our facility in Vietnam. When we initially purchased the land in Vietnam, it was designed for 3,000 - 4,000 people and Phase 1 of the facility was first built in 2004, consisting of 1,200 workers. In 2010, we made a decision to construct Phase 2 and 3, which will bring the entire Vietnam operation up to the originally designated capacity. In terms of products, we introduced 'cut & sew' knits to complement our existing dress shirt offering.

Mr. Roger Lee  
Chief Operating Officer

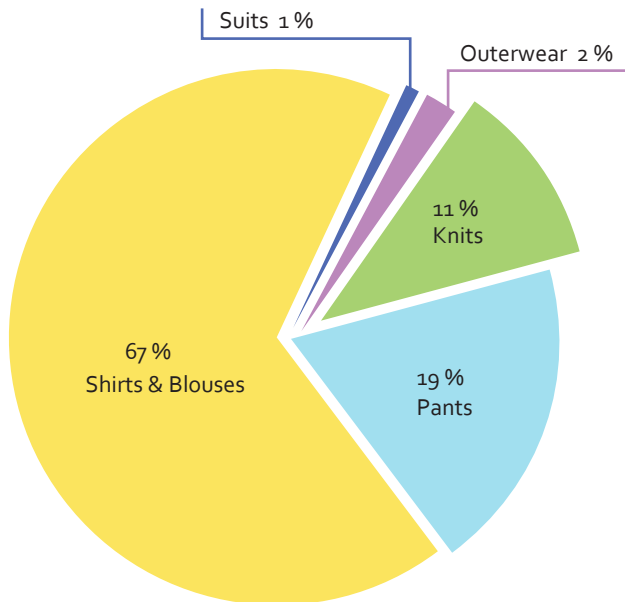
## Business - General Information

TAL Group – Far East Garment Operations employs a workforce of over 20,000 people with an annual production capacity of over 56 million pieces of apparel.

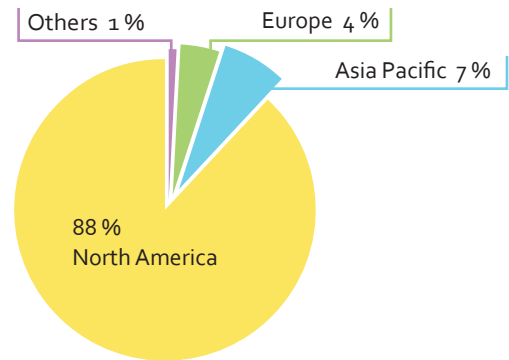
We are proud to partner with the world’s leading apparel brands and retailers, 80% of which stems from the U.S. market and the remaining 20% from Europe and Asia Pacific.

In 2010, two of our manufacturing plants in Vietnam and Indonesia underwent capacity expansions. Aside from this, there were no significant changes during the reporting period in terms of size, structure or ownership within the Group.

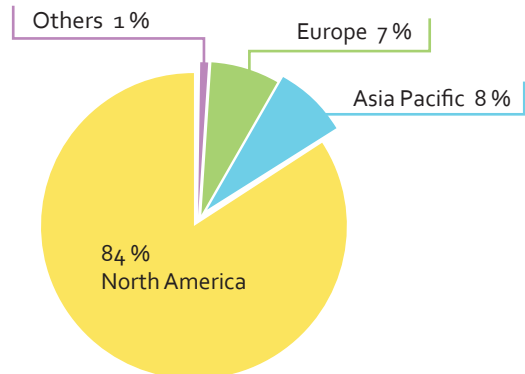
Annual Production Capacity % by Product Type in 2010



Sales Quantity % by Region in 2010



Sales Turnover % by Region in 2010





# Customer Engagement Survey

Our customers have been instrumental in making us the successful business we are today. We highly value their opinions which are vital in ensuring that we make improvements that meet and exceed their expectations.

In October 2010, we conducted a Customer Engagement Survey to collect customer comments on our general business performance and to better understand the engagement level of our customers. The survey included assessments on TAL's brand image and the quality of our products and services. We received valuable feedback from a total of 27 brands which revealed that the overall customer engagement level of TAL was 4.15 out of 5.

According to our findings, customers feel that our general services and product quality are competitive in the market. In terms of account management, more than 75% of the interviewees showed that they are satisfied. Seventy-five percent of our customers are either extremely satisfied or satisfied with our products and service, compared to a 59% satisfaction rate for our competitors. The findings also indicate that we need to improve in terms of value perception. Thirty-four percent of the interviewees seek more competitive pricing in our products and services.

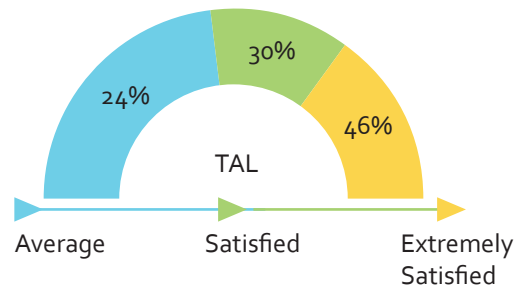
On the open-ended questions, we received a highly positive response on our supply chain management service. Customers consider our supply chain service as the absolute strength of our business which has resulted in increased efficiency and higher profits for their businesses.

In terms of technology and innovation, customers assert that TAL's technology leads the way and is one of the most advanced in the industry. Our technology has long been the core driver of our business success and is supported by a highly-skilled R&D team that continuously innovates and produces cutting-edge products and services. To complement our technology, we need to keep current with market and fashion trends and be able to offer product ideas that are in line with the brand image of our customers.

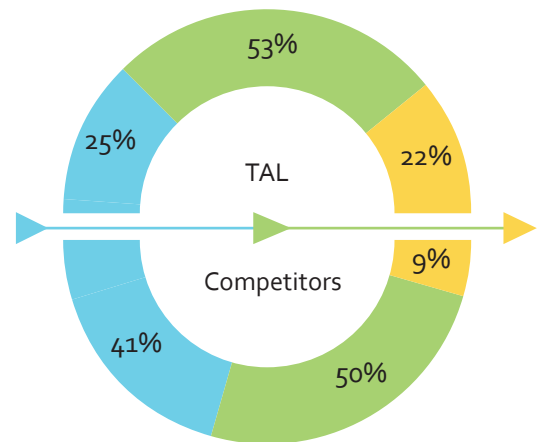
"Through this survey, we received valuable feedback on areas of improvement that helped us prioritize our efforts in 2011. We plan to implement the survey again in 2012 to better understand our customers' engagement with TAL."

Mr. Roger Lee  
Chief Operating Officer

Customer Satisfaction on TAL Account Management

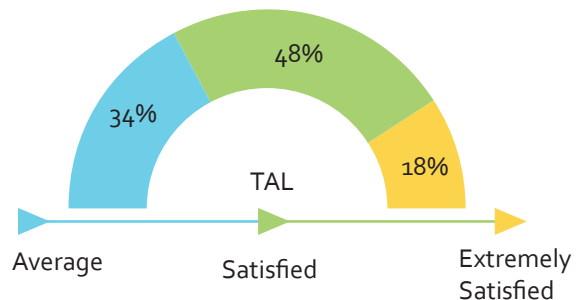


Competitiveness of product and service



▶ Average    ▶ Satisfied    ▶ Extremely satisfied

Competitiveness of price



## Business Awards



**Name of Award**

Golden Dragon Award on FDI Enterprise

**Awarder**

Vietnam Economic News in Cooperation with Ministry of Trade

**Awardee**

TAV Limited



**Name of Award**

Supplier of the Year - 2010 Quality Control Award

**Awarder**

JCPenney

**Awardee**

TAL Group

Name of Award	Awarder	Awardee
Burberry Vendor Award – Integrity	Burberry	TAL Group
Golden Dragon Award on FDI Enterprise	Vietnam Economic News in Cooperation with Ministry of Trade	TAV Limited
Innovation Award – Never Iron Shirts & Pants	Mark’s Work Wearhouse	TAL Group
Life Time Achievement Award	JCPenney	CEO
Productivity Improvement System Award	Ministry of Human Resource (Perak Branch)	Imperial Garments Sdn Bhd
Supplier of the Year – 2010 Quality Control Award	JCPenney	TAL Group





# Environmental Performance

# Environmental Performance

Climate change is undoubtedly one of the most pressing issues of our times. As a manufacturer supplying apparel for consumers worldwide, we must play our part in reducing our impacts on the environment.

We start by reducing the impacts directly under our control first and to have an emphasis on Greenhouse Gases (GHG). To this end, environmental sustainability is part of the 3 Year Plan of TAL Group with a target of 15% reduction in GHG emission intensity over 3 years. We are actively building up our internal capabilities and management systems to achieve the target.

At the same time, we recognize that the reduction of environmental impacts is a multi-party endeavour involving upstream and downstream partners in our supply chain. Therefore, in addition to initiatives within "our four walls", we have participated in a variety of projects beyond our business. We believe a substantial change can only be achieved when all supply chain partners work collectively to address environmental sustainability issues.

Dr. Delman Lee  
President & Chief Technology Officer

## 3 Year Plan Target – Environmental Sustainability

In 2009, TAL Group's 3 year target for environmental sustainability was established as follows:

**"Reduce TAL GHG footprint intensity by 15% by the end of 2012, with the same or lower on other environmental impacts."**

In order to achieve the Group target, we have been implementing various initiatives in the areas of:

Climate Change and Energy	Water Use and Pollution Control	Air Pollution Control	Environmental Awareness	Green Initiatives by R&D
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We have developed a set of standard procedures and requirements for different business activities. The basic management approach mainly revolves around four principles of a cycle that consists of 'Plan, Do, Check, Act'. Within our operations, the environmental management process is well entrenched amongst our employees and the mindset of shared responsibility has become part of our daily work lives.

Two of TAL Group's facilities have achieved ISO 14001 Certification. We look forward to maintaining compliance with the international standard through annual audits and the continuous promotion of environmental awareness and improvement.

Factories with ISO 14001 Certification	Year first achieved
Pacific Apparel (Dongguan) Limited	2008
Textile Alliance Apparel (Dongguan) Limited	2008

# Climate Change and Energy

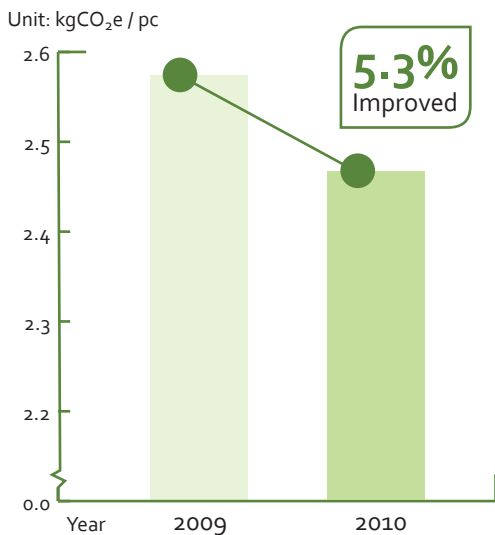
Being in the garment manufacturing industry, we are fully conscious of the impacts that such a business has on the environment.

The fashion industry is one that constantly dictates fast-moving and ever-changing trends in the market, which leads to a tremendous consumption of energy and natural resources and its consequent emissions of Greenhouse Gases (GHG). Respect for the environment is an integral part of TAL's philosophy and our supply chain practices. Through responsible actions and innovative approaches, we contribute to a sustainable society through the reduction of GHG emissions across all operations.

## Within Our Four Walls

At the end of 2010, TAL reduced its GHG emissions per piece by 5.3%<sup>2</sup> of GHG footprint intensity, compared to the 2009 baseline. The annual GHG emissions are 106,670 ton CO<sub>2</sub>e, which is equivalent to a forest of approximately 640,000 trees<sup>3</sup> for carbon offset. The annual target of 5% reduction is achieved through meticulous energy saving practices in our manufacturing facilities.

GHG Footprint Intensity



## Energy Use by Source in 2010

Mobile Combustion	Consumption	Unit
Compressed Natural Gas	50,067	kg
Diesel Oil	107,942	Litre
Petrol	5,109	Litre
Unleaded Petrol	161,779	Litre
Stationary Combustion	Consumption	Unit
Diesel Oil	1,784,920	Litre
LPG	357,784	kg
Light Fuel Oil	2,088,893	Litre
Heavy Fuel Oil	6,891,080	Litre
Electricity	Consumption	Unit
Electricity	100,791	MWh

2. In May 2011, the operational scoping of TAL Group - Far East Garment Operations is re-defined to become more comprehensive and includes more significant operational offices into the 2009 baseline for benchmarking. The percentage change of TAL Group's GHG footprint intensity (2009-2010) is updated from - 7.7% (publicly announced in Jan - Apr, 2011) to -5.3% (Valid from May, 2011).

3. Six of twenty-five year old pine trees absorb one ton of CO<sub>2</sub>. (Source: "Forests and Global Change, Vol. 2, Forest Management Opportunities for Mitigation of Carbon Emissions" by Neil Sampson and Dwight Hair, 1996)



## Low Carbon Manufacturing Program (LCMP)

In 2010, one of our China plants was awarded a Silver Label from the Low Carbon Manufacturing Program (LCMP) by World Wild Fund for Nature – Hong Kong (WWF). The plant had joined the pilot testing of this program based on their 2007-2008 environmental performance. The assessment components included actual GHG emissions, management system and best practices of the facility.



## Lessons Learned from LCMP

Despite achieving excellent scores in the management system and best practices of the facility, we did not score in the actual GHG emissions section of LCMP. Even though the actual electricity consumption per piece has decreased by 7.8% from 2007, the actual GHG intensity increased by 7.4%. The overall increase in GHG intensity is due to two reasons – business environment and emission factor.

In 2008, the challenging economic environment significantly impacted the production output. This meant that our facilities were not fully utilized and therefore, it affected the “energy efficiency” of the factory. This outcome revealed that business performance is tightly intertwined with the progress of GHG intensity reduction.

The second reason relates to a decision that the factory made in 2008. The factory decided to purchase public electricity from the grid instead of generating electricity from diesel oil at the factory. This was intended to reduce cost and air pollution (e.g. SOx). However, this switch of electricity source has resulted in a 22% rise in the emission factor. That is to say, for the same amount of electricity consumption, using grid electricity in southern China produces more GHG than self-generated electricity from diesel. It was a valuable learning experience which helps to illustrate that there are sometimes conflicting environmental goals and finding the right balance is essential.

## The Way Forward – LCMP

LCMP is a program that aims to provide manufacturers with a tool to assess performance in the reduction of GHG emissions and to check whether facilities are operating at optimal levels. TAL has adopted the principles and assessment approach of this program and will apply it across all the operations in the Group. This program helps us standardize the Group’s low carbon management system and motivate the plants to gain recognition from WWF.

## Low Carbon Practices in our Factories

Starting in 2008, TAL Group launched a number of energy saving practices in our facilities. We would like to outline some examples of best practices that have been implemented of which we intend to roll-out across all our operations in the near future.

### Variable Speed Drive (VSD)

By installing the VSD in the air compressors, more than 40% of energy is conserved through the automatic control of the motor speed - i.e. the power input, depending on the load. In one of our China factories, the estimated electricity savings is 147,312 kWh per year which is the equivalent of about 14.7 tonnes of CO<sub>2</sub>e.

### Waste Heat Recovery

By applying heat insulation and roofing works to heat generation and transfer systems, such as boilers, tanks, steam traps and machines, we can reduce heat loss to the surrounding environment, which increases the energy efficiency of the system. The amount of energy savings varies from different systems and seasons, however, some machine types can reach 40-60% of energy savings per day based on our testing.



### Sewing Machine Improvement

More than 70% of the single-needle sewing machines are equipped with energy saving servo-motors across the Group. Compared with a traditional motor, this innovative motor can reduce 20% of energy consumed by allowing the motor to switch to idle mode when the machine is not in use.

### Efficient Lighting System

From 2008, we started introducing T5 fluorescent tubes and LED lights to replace the existing T8 fluorescent tubes. According to our internal study, T5 and LED are respectively 36% and 48% more energy efficient than T8 tubes in terms of lumens per watt. By 2010, four factories in the TAL Group have already replaced a total of 69% of their lighting with T5 and 19% with LED. At our Hong Kong headquarter, about 30% of the lighting has been replaced by LED. Our goal is to replace all T8 with T5 tubes or LED lights across all the facilities and offices in the future.



### Continuous Monitoring System

We installed energy metering systems in each facility to capture energy consumption levels for specific floor areas and manufacturing processes. This encourages self-monitoring and analysis which enables further opportunities for environmental improvement.



## Beyond Our Four Walls

We believe that the work we do within our company impacts the larger environment around us and can extend beyond our own walls. In 2007, we undertook a Life Cycle Analysis of our products to assess their full environmental impacts and on which we determined the priorities for improving their environmental performance.

### Product Life Cycle Analysis (LCA)

In 2007, we engaged a third-party consultant to conduct a LCA comparison between a regular cotton shirt and a non-iron cotton shirt as well as a non-iron pant.

In 2010, out of more than 60 international companies from 17 countries, TAL Group was one of the pilot users that participated in the Greenhouse Gas Protocol Initiative – Product Life Cycle Accounting and Reporting Standard, which was developed by the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD). A cradle-to-grave approach was taken to measure the GHG emission levels from the cultivation of cotton to the end of the product's life cycle. This was supported by primary data from suppliers and our own facility as well as extensive industry data. Feedback was compiled at the end of the project and sent to WRI and WBCSD to further develop the standard.

The results of both LCA analyses showed that the use and application phase was the largest contributor to GHG emission throughout the product life cycle. The second largest contributor was the materials and retail, followed by garment manufacturers. The final part was attributed to the product disposal stage and transportation. In garment manufacturing production, the wet process contributed to the highest carbon emissions.

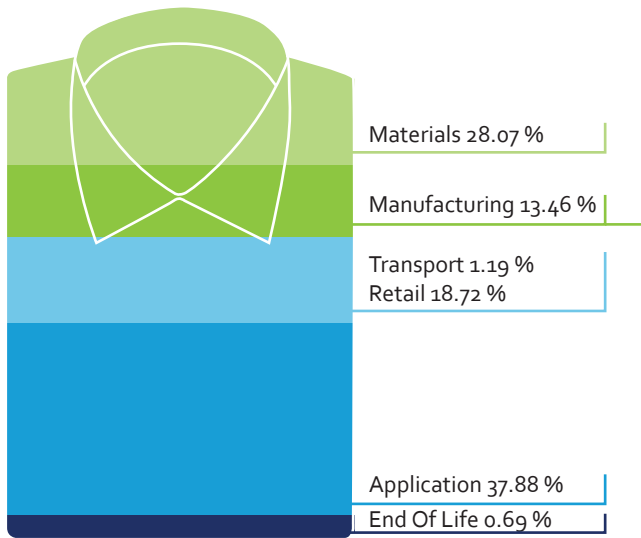


WORLD  
RESOURCES  
INSTITUTE



World Business Council for  
Sustainable Development

## Embedded CO<sub>2</sub> in TAL Non-Iron Cotton Shirt



### Breakdown of Carbon Emissions in Manufacturing Process

25.43%	20.95%	37.70%	15.92%
Cutting	Sewing	Wet process	Packing

## The Way Forward - LCA

### Enhance Internal Capacity

Today, LCA is in the development stage and still needs to make significant strides to gain credibility and recognition that allows comparisons to be widely recognized by the industry. Throughout all our efforts in the LCA studies, we have continuously enhanced our internal capability to assess the environmental performance of our products. We have placed a priority on data accuracy, boundary and scope setting, and most importantly, the opportunity to reduce GHG emissions. We will continue to adopt the product life cycle approach in the application of green practices and self assessment of our products. We believe that if successful green management of our products is to be realized, credible and standardized measurement must be available. Also, we are committed to helping develop industry methodology and benchmarks in this area.

### Cooperate with Supply Chain Partners

The results of the analysis have demonstrated that effective carbon reduction for a product cannot be achieved in isolation but only through the collective cooperation of all supply chain partners. Therefore, we believe it is our duty to influence and motivate our customers and suppliers to address the issues and follow through with the necessary actions.



# Water Use and Quality Control

Our survival depends heavily on water, however, reckless and inappropriate use of water in the last few decades has caused the emergence of a global water depletion problem.

The water depletion problem is escalating due to the interconnection of environmental issues such as power generation, which relies heavily on water as a resource. The era of abundant energy and plentiful water is ending and companies worldwide must work together to find a new way to better manage and minimize our water footprint.

## Water Use

In the garment manufacturing business, water is an indispensable element of our garment finishing process. In addition, air conditioning systems, domestic use, ironing, spot cleaning, and lab testing all require the continuous and constant use of a significant amount of water. In 2010, we consumed a total of 1,931 million litres of water across all our operational units which is the equivalent of 44 litres per piece of clothing.

## Water Use by Source

Water Source	Consumption
Municipal water	85%
Rainwater	15%



## Water Pollution Control

All of the industrial water, which refers to water used to finish or launder garments in the manufacturing process in TAL's factories must be directly treated by the in-house wastewater treatment plant (WWTP) prior to discharge. We have employed Aerobic, Anaerobic and Bio-Carbon (AABC) technology in all our WWTPs. Domestic wastewater is either treated by the in-house WWTP or transferred to septic tanks before discharge from the factory if government treatment facilities are not available in the region. In 2010, about 1,166 million litres of wastewater was treated by our in-house WWTP in which an estimated 25% was recycled for landscape irrigation and for flushing within the factory.

All treated water is compliant with local regulations in 2010. In addition, to promote self-monitoring, all facilities must undertake weekly internal testing against the TAL Group standard which meets or exceeds local and international regulations. Monthly reporting is also required from each factory to evaluate any non-compliance and to devise plans for corrective actions.

Testing Parameter	TAL Standard
pH value	6.0-9.0
Biochemical Oxygen Demand (BOD)	≤ 20 mg/l
Chemical Oxygen Demand (COD)	≤ 100 mg/l
Total Suspended Solid (TSS)	≤ 50 mg/l
Color	≤ 20 mg/l
Oil	≤ 5 mg/l

Throughout the year, TAL Group's two China factories excelled in wastewater quality control with zero non-compliance based on TAL standards. Our Thailand and Malaysia factories maintained a wastewater quality with a consistency of 2-6 sigma's of TAL standards. Except for the Chemical Oxygen Demand (COD) level in one Malaysia plant, all Thailand and Malaysia factories met local regulations.

In the case of our Malaysia plant, the root cause for non-compliance was the consequence of excess sludge in the treatment tank. The facility management of the plant carried out corrective actions to remove the sludge using a portable suction pump which, according to the COD testing results, showed that the offensive substance was reduced to 114 mg per litre by the end of January, 2011.

## Continuous Improvement

In the future, we plan to undertake a more detailed analysis of different aspects of our water usage and will continue increasing the proportion of treated water for recycling. Also, the discharge volume at each destination will be further reduced to minimize the effects on the natural environment.

## Air Quality Control

Air emission from TAL's facilities originates mainly from stationary, direct fuel combustion including steam and electricity generation, and cooking fumes within the facility.

To minimize the effect of negative emissions on the local community, all facilities within the TAL Group have complied with local compliance standards including air pollutants such as sulphur dioxide, nitric oxides and total suspended solids.

Environmentally friendly solutions for exhaust emission management were introduced to our facilities in the China region. A water scrubber system was installed for reducing air pollutants in the exhaust, including sulphur dioxide, nitrogen oxides, dust, and carbon monoxide. In addition, the application of an electrostatic precipitator enables stringent control of kitchen exhaust emissions from employees' canteen.

## Continuous Improvement

To promote a self-monitoring system, we plan to standardize the testing procedures for our facilities so that each plant may undertake their own regular checks in the future.



# Environmental Awareness

We believe that each of our employees can make a difference in our business and for the planet in which we live.

In 2010, TAL Group embarked on a company-wide campaign to encourage operational units in each region to initiate activities that raised eco-awareness within their working environment and their surrounding communities. The following are some brief snapshots of the initiatives that were introduced and implemented.



**C4o Cities Workshop:** In November 2010, TAL Group President & CTO, Dr. Delman Lee, shared his insights in a panel discussion about environmentally sustainable business at the 'C4o Cities' workshop in Hong Kong.



**Green Ambassadors Campaign:** The China factory organized a 'Green Ambassador' campaign, which was sponsored by Pepsi, to promote green culture.



**Local Green Committees:** Some of the regional facilities have set up their own Green Committees to better promote environmental awareness in their local communities. (In photo: Green Committee in the China factory)



**Recycling Facility:** Waste segregation facilities were installed in each region in accordance with the local waste management systems.



**'TALusMore' Newsletter:** This communication channel enables employees to regularly share green initiatives and updates with colleagues in other regions.



**'Low Carbon Office' Poster Design Competition:** To advocate low carbon living, our China IT office held a poster design competition for their employees.



**Tree Planting at Thailand Factory:** In order to increase the green area within the factory site and raise awareness of global warming, the Thailand office organized a tree planting event for their staff in 2010.



**Switch-off Practice:** We continuously encourage employees to switch off computers and lights when they are not needed.

## Green Initiatives by R&D

Continuous innovation and environmental awareness is at the heart of TAL Group's business. We believe that our progressive R&D team has the know-how and skills to steer the company in fresh directions.

While we constantly strive to create new products to enhance and upgrade our existing ones, we remain continuously aware of our responsibility to our planet and make every effort to improve our technology to be as environmentally friendly as possible.

### *Chemical Recipe Enhancement*

SofTAL Process® has been one of our signature technology products since 1996 and over the years, we have strived to perfect and refine our SofTAL® products. Through rigorous research, in 2010, our R&D department developed and applied more efficient and environmentally friendly methods to our garment finishing process. It resulted in a saving of 50% water and 10% chemicals of total chemical weight per garment during the finishing process.

### *Machine Modification*

In terms of quality improvement and energy savings in the garment finishing process, our R&D department has modified our machinery design. In 2010, we made cutting-edge changes to our in-house machinery which resulted in increased energy efficiency. We have estimated a saving of 385,000 litres of oil in one of our Malaysia factories in 2010.

## Environmental Awards

Name of Award	Awarder	Awardee
Low Carbon Manufacturing Program – Silver Label Award	World Wild Fund for Nature – Hong Kong	Textile Alliance Apparel (Dongguan) Limited
Pakkred Environmental Preservation Award	Pakkred Municipality	Mandarin Clothing Company Limited



*in Sukses*

Social  
Performance



# Social Performance

On the social front of corporate social responsibility, we are taking a two-pronged approach.

On the one hand, we are standardizing the practices in our 11 plants by creating our own code of conduct called 'Ethical Business Practices' (EBP). On the other hand, we are actively collaborating with brands and retailers to collectively share the audits that they conduct.

I envision that the paths of this two-pronged approach will arrive at the same destination. EBP aims to create consistent practices across our plants, allowing TAL to own its code of conduct, manage and improve on it. The aim of the audit sharing initiative is to facilitate a convergence of code standards amongst brands and retailers thereby eliminating audit duplication.

What we ultimately strive for is a joining of the two initiatives where our own EBP-based audit will be of equal standing to audits conducted by apparel brands or retailers. We also aspire to reach a point where issues are discussed and addressed collaboratively and in constant dialogue, allowing everyone to focus on making a real and meaningful impact in our workplace and communities.

Last but not least, for our EBP to come alive and be sustained through the years, we need to go beyond guidelines and procedures. For the EBP to become the "Way of Life" at TAL, we need to develop the DNA of our people from supervisors, middle management and top management. For the past several years, we have increased our Human Capital Management efforts to develop and engage talent in the Group. We believe this is the way to sustain our culture and growth in the future.

Dr. Delman Lee  
President & Chief Technology Officer



## Human Rights

Human rights are basic rights and freedoms that all people are entitled to and need to be universally respected. At TAL, we strictly uphold this belief and operate our business accordingly with a company-wide mentality of zero tolerance for human rights infringement. In 2010, there were no incidents of discrimination.

### Customer Audit Results

The 2010 customer audit findings revealed that human rights was the third most important (11%) issue to address. (See page 43.) These findings alerted us to the fact that there were potential human rights violations in our factories.

As immediate recourse, the factories undertook some actions to mitigate potential detrimental situations from arising. For example, our job application form was updated to avoid sensitive questions which might potentially imply discrimination. TAL abides by the Ethical Business Practices (EBP) as its key guideline for code of conduct and it is a long-term strategy for managing human rights situations.

Apart from policy review and establishment, we decided to allocate further resources to employee education and training to raise awareness and deepen understanding on the basic rights of all human beings. Currently, the orientation training in some factories includes topics such as non-discrimination, rules and regulations and fundamental freedoms. Newcomers to those particular factories will receive the human rights training material from the orientation session. In 2010, it is estimated that approximately 17,000 employees, averaging 1.8 hours each, received the training.

### Freedom of Association and Collective Bargaining

Our employees are free to associate and the following is a list of associations in our plants.

Region	Form of Association	Collective Bargaining Agreement Coverage
Thailand	Labour Union / JCC	98 %
Indonesia	Labour Union	97 %
Vietnam	Labour Union	97 %
Malaysia	Labour Union	94 %
China	Affiliated Clubs	NA

TAL has established the Joint Consultative Committee (JCC) which consists of a group of employees who provide advisory services in areas of employment opportunities and conflict resolution with the aim of creating better working conditions. The JCC's other primary function is to facilitate in bargaining with the employer on behalf of union members. One out of four factories in Thailand currently has a JCC.

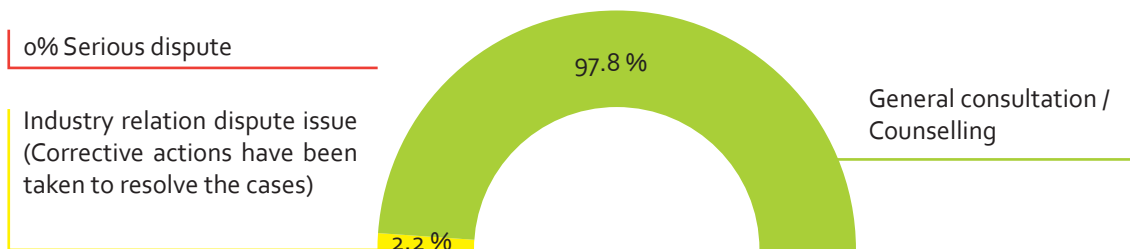
For the China region, there are currently 15 affiliated clubs which organize recreational activities enabling employees to relax and pursue post-work hobbies and pastimes. Employees may select the clubs in which they have an interest and we have discovered that these associations have been good vehicles to foster fulfillment and well-being. Following the success of current JCCs, we have plans to form more in the future.

TAL's current collective bargaining agreements mainly cover issues within the field of industrial relations; it focuses on terms and conditions of employment such as employee benefits, employee contractual matters and collective aspects of labour relations. It does not include minimum notice period regarding significant operational changes. The collective agreements will be renewed regularly at one to three year intervals.

## Case Study - Hotline at China Plant

One of our China factories was selected as a pilot site to operate a hotline service to determine whether the concept would be beneficial company-wide for the management of employee grievances. The service has been handled by an NGO called 'Handshake' since March 2010 and it not only provides a channel for employees to air their grievances, but also offers counselling and consulting services if necessary. This is a project in collaboration with our customer, Burberry. In 2010, 93 calls were received. The issues are mainly related to emotional and health-related entitlement issues.

All calls were categorized by 3 colour levels: Green, Yellow and Red as below chart.



A monthly report with call summaries was provided to plant management which would review and take relevant action if needed.

## Case Study - Work Stoppage at Indonesia Plant

In 2010, our employees at the Indonesia plant exercised their rights of freedom of association and collective bargaining. A strike occurred in April 2010 which lasted for two days.

The initial reason for the strike was the union leaders' dissatisfaction with our annual salary increase procedure. Our annual staff salary increase takes place in April every year and sometimes a mid-year adjustment occurs in October. In April 2010, we offered increases to 85% of our staff which ranged from 5% to 20%. The remaining 15% of our staff received minimal increases due to poor performance. For the staff (approximately 300), the average increase that we gave exceeded the local inflation rate. Our workers were not affected by this adjustment, as we follow regulation to adjust worker salary regularly.

Unfortunately, the union communicated that the majority of staff received minimal increases which was not reflective of the facts. They requested that both staff and workers stop working. Most of our staff and workers decided on their own to return to work during the two days, however, they were blocked at the gate by the union leaders.

Factory management began the first round of negotiations on the second day and was presented with a list of demands by the union. In response, management agreed to further negotiations only if all staff and workers were allowed to return to work. After two days, all staff and workers were back at work. Management continued discussions with the union leaders on all new issues raised and a series of actions have been taken to avoid any miscommunication of our salary increase procedure in the future.

As a follow-up, additional actions were taken to re-build trust between the unions and management and to continuously stay abreast with the needs of our staff and workers. A few members of the labour unions expressed their gratitude to management for adopting a non-antagonistic and approachable attitude during the negotiations. We ourselves have learned a lesson – to be in constant and close communication with our staff and workers.

*Post strike follow up 1: Offsite session at Cipanas in May*



The objective was to share views from factory management, unions and the labour department to build harmonious industrial relations which resulted in both union and management signing a commitment to strengthen relationships.

*Post strike follow up 2: A series of activities to gain a better understanding*



Sport event for an Independent Day celebration

Entering The Moslem Fasting Month: Spiritual Session from famous priest



# Health and Safety

One of our top priorities is to ensure the health and safety of our employees. To facilitate a safe work environment and prevent work related injuries, we have developed three approaches to drive for continuous improvement.

## *Approach 1: Health and Safety Committee/ Department*

Our goal to provide an accident-free workplace is paramount and involves participation from all levels, including worker and management representatives. A joint worker and management committee is formed in most regions in accordance with regional, legal regulations to pursue a positive health and safety-conscious culture. Some factories have also hired an externally certified safety officer to join the committee to ensure all measures are conducted on a professional and expert level. The committees meet monthly or quarterly and provide a platform for employees to collectively evaluate work accident status, identify potential accident or illness-causing areas and set up precautionary measures, review employee suggestions to improve workplace safety and keep all parties updated on the latest regulations and compliance requirements.

## *Approach 2: Internal Audit*

Internal audits were regularly conducted in some factories to monitor the workplace conditions and corrective measures were taken to preempt any potentially harmful or unsafe work situations.

## *Approach 3: Accident Reporting / Recording Mechanism*

We maintain a stringent system to record all accidents at our plants. Even if the accident requires only first-aid level attention, employees treat all matters seriously and follow standard procedures of reporting, investigation, corrective action and recording to prevent recurrences.

**Report:** Employees report the accident to their supervisors or in-house nurses.

**Investigation:** The reported accident is investigated immediately and information is gathered for further discussion in regular health and safety committee / department meetings.

**Corrective Action Plan (CAP):** The CAP is implemented to prevent recurrence of occupational accidents.

**Record:** All accident records, including the root cause and corrective action plan, will be kept and maintained by the safety committee / department.

## Work Related Injuries

We are proud of the fact that we have had no work-related fatalities or occupational diseases reported in 2010. There were 523 work-related injuries in which 407 injuries were first-aid and 116 injuries were non first-aid related. It resulted in 10.5 lost hours for each one million hours worked. If only counting non first-aid level injuries, it was 2.4 lost hours for each one million hours worked.

The number of finger needle-pricking injuries consisted of 34.8% of the total number of injuries (182 cases reported) in 2010. To address this, we encouraged ideas from our people to create safer working conditions. Under our in-house Innovation Award 2010 and Technical Award 2010, there were two applications from factories in Malaysia and Vietnam respectively. They conceived a clever idea to install auxiliary equipment in sewing machines to ensure the needle guard was in the right place prior to sewing. The ideas were piloted in the two factories and the results are yet to be evaluated.

## Customer Audit Results

The results of our 2010 customer audit show that occupational health and safety issues were most frequently found (70%). (See page 43). In order to create more optimal workplace conditions, management decided to reinforce each facility's maintenance procedures to ensure a safe workplace in accordance with the building's original condition or up to the latest standards. Also, we will review education and training schemes to refresh employees' knowledge of occupational health and safety matters and to encourage the use of personal protective equipment to protect employees from occupational workplace hazards. Furthermore, there are plans to strengthen control and monitoring procedures to ensure all factories will abide by the three previously mentioned approaches.

## Occupational Health and Safety Training & Initiatives

In response to regionally specific needs in 2010, our plants conducted different occupational health and safety related training and activities. All factories arranged fire drills for employees and first-aid training courses for their first aid team. Some factories provided training to educate employees on the cause and prevention of diseases such as rubella and HIV/AIDS. We organized two types of activities including precautionary measures for disease transmission and an awareness campaign.

### Precautionary Measures for Disease Transmission

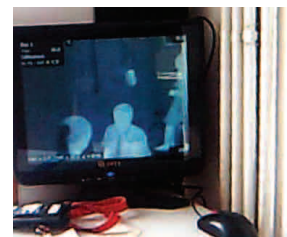
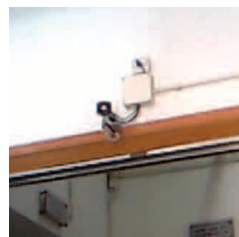


#### *Blood Testing for Malaria and Elephant Leg Disease*

Coordinated in conjunction with the Ministry of Health in Perak in August 2010, blood testing was done on the two particular diseases affecting foreign workers living in our dormitory in Malaysia.

#### *Installation of Body Temperature Measuring Devices*

By February 2010, high sensitivity infrared cameras were installed in the factories. The purpose is to identify people with a fever entering the factory. With the recent cases of avian influenza, swine influenza and SARs, this precautionary measure is essential.



#### *Vaccinations against Influenza*

To prevent the spread of flu in peak season, and with support from the Thailand local government, all employees in one of the Thailand plants were provided with influenza vaccinations in September.



## Awareness Campaign



### *Big Cleaning Day*

The event was organized in one of the Thailand factories to promote the fundamental importance of maintaining a clean work place.

### *Daily Employee Exercise Routine*

In one of the Thailand factories, an 'Employee Exercise Everyday' programme was launched to instill a habit of regular exercise and enable employees to share the activity together and build team spirit.



## Beyond Compliance

TAL has been a member of the Fair Factories Clearinghouse (FFC) since March 2009 and we administered the first TAL pilot with eight FFC members in Thailand in November 2009.

The piloting brands and retailers were: adidas, Burberry, J Crew, Levi Strauss, LL Bean, Mark's Work Wearhouse, Patagonia and VF Corp. We ran another pilot in Malaysia in September 2010 and a pilot in China is in the works for 2011. We have seen the immediate tangible benefits of reduced audits and auditing fees. However, our goal is the more intangible and longer term benefits of a more focused effort of the plant in addressing issues and harmonization of code standards.

TAL believes that continuous improvement in the workplace can be achieved most efficiently and effectively through transparency and dialogue with brands. We chose the FFC platform for sharing compliance audit reports, proposing remedial actions and exchanging mutual experiences related to social and labour issues in the workplace. Internally, we use the FFC platform to keep track of all audit reports of all our customers.

By the end of 2010, we had drafted our very first Ethical Business Practices (EBP). There are 14 sections (See [page 7](#)) with over 40 procedure and guideline documents. We will continue to refine the EBP and begin implementation throughout the Group in 2011. We aim to have our own self-audits and cross-plant audits based on our EBP. These audits and the remedial actions will be posted on the same FFC platform for sharing amongst ourselves and with our customers.



# Human Capital Management

TAL has a substantial program for investing in our people. The goal of our Human Capital Management (HCM) function is to support our executives and managerial leadership teams in creating a company where people can flourish and want to contribute to their full potential.

We have categorized our employees into three areas of job nature and career development: managerial, professional/supervisory and individual contributor. Our workers fall under the category of individual contributor. We recognize that different categories of employees require different types of development and engagement programs.

## 3 Year Plan: People Competency & People Engagement

Our 3 year plan was developed with a value driver dedicated to People, which is comprised of People Competency and People Engagement.

We realize that the more we understand the needs of our employees, the better we can maximize their talents and organize our resources to suit their needs. From 2008 to 2009, we conducted an Employee Engagement Survey across all our operational units in order to identify opportunities to raise the level of employee engagement within the company. The results showed that employees were mainly concerned with seeking career opportunities and aspirations which are defined as follows.

- Career Opportunities — employees' perceptions about traditional training, advancement and development within an organization that leads to increased advancement or progress
- Career Aspirations — employees' perceptions about the individual desire to accomplish something that is either personally rewarding or acknowledged by others as a major achievement

With the People value driver in mind, together with the findings of the Engagement Survey, we have embarked on several initiatives throughout the Group. Below we have highlighted our activities in three areas: Organization Design, TALent Development and Organization Culture.

"We believe that fully engaged employees have more opportunities to reach their maximum potential than non-engaged staff. It is in the interest of the Group and for the enrichment and fulfillment of each individual that TAL continues to work on improving the engagement levels of our staff. TAL is currently investigating the critical factors required to keep our people motivated and we believe that with continuous learning and practice, we will have one of the most engaged workforces in the industry."

Mr. Roger Lee  
Chief Operating Officer

## Organization Design: Structures and Roles

In 2010, we restructured our sales and merchandising function and revised our plant organization structures. In the process, we strengthened our organizational structure by clearly defining role profiles which resulted in the clarity needed for employees to understand how their roles make an impact in the bigger picture and how they could benefit from applying themselves in their roles. Role clarity and accountability turned out to be of great importance.

"From the quota era until recently, our organization has always been more focused on merchandising. In 2010, we decided to separate the areas of Sales and Merchandising to enable more specialization in each function."

Mr. Roger Lee  
Chief Operating Officer

## TALent Development

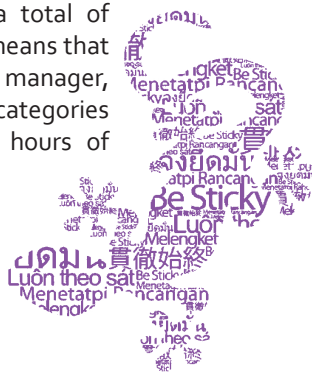
We have always believed in the philosophy of investing in our employees to provide them with the opportunity to apply their talents, develop their capabilities and reach success. We offer continuous internal training programs which cover a diverse range of topics for their personal career development.

### Learning and Development Centre (LDC)

The Learning and Development Centre (LDC) was established in 2006 to provide regular classroom training on soft skills to TAL employees at manager, professional and supervisory categories and by 2010, 12 learning modules had been organized by the centre. The topics include: Goal Setting, Two Way Communication – Listening Skills, Develop Great Managers, Coaching and Facilitate Interactive Meetings. We also initiated the Train The Facilitator Program (TTF Program) in which managers were trained and licensed as in-house facilitators to pass on the learned skills from LDC to colleagues. We believe that this strategy will enable sustainable skills transfer through all ranks in our company.

In 2010, LDC has provided a total of 17,916 hours of training. This means that a total of 1,187 employees in manager, professional and supervisory categories received an average of 15.1 hours of training.

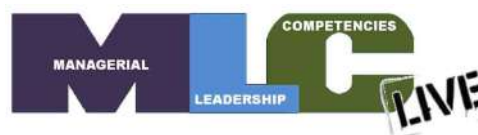
In 2010, we launched a company-wide, internal campaign called the '7 Habits of Stickiness' which serves as a guide on adhering to the company's strategies and goals. The '7 Habits' campaign has assisted in instilling an attitude of determination and perseverance amongst our employees that will lead to a rewarding future.



"Many new initiatives will take place as we execute our 3 Year Plan, therefore, to help our employees remain completely focused and fulfil the goals to which they aspire, we launched an internal campaign entitled '7 Habits of Stickiness'. The concept behind this campaign is to help our employees remember tips and guidelines that can help them sustain the projects in their plan and achieve the set goals. "

Mr. Roger Lee  
Chief Operating Officer

## Managerial Leadership Competency (MLCs)



In 2010, we defined and started our T A L Managerial

Leadership Competencies program which aims to strengthen our managerial leadership development. The MLCs were developed with a clear methodology by interviewing employees from different parts of the company to find out what specific behaviours distinguish high performers from others in our organization. The resulting competencies now provide a clear guideline advising employees on behaviours that are appropriate in a variety of situations. We use plain language to explain these concepts and develop six levels for each competency, each of which conveys our expectations clearly.

For instance, level 1 of the "Sticking Together" competency requires our staff to be positive team members, demonstrating integrity and seeking to learn from others. Level 5 expects staff to share resources with other business units and support decisions that will benefit the company as a whole.

We are rolling out MLCs throughout the Group and expect long-term benefits from this initiative. It will help to uncover the managerial leaders amongst us.

### Advanced Analytical Method Training (AAMT)

Each of our factories has an AAMT department which is responsible for providing training to individual contributors in production lines according to their roles. Every new sewer will receive two to four weeks of training prior to starting their role to ensure that they are well-equipped with the proper technical skills. Being able to train our sewers in an efficient manner is critical in an environment where there is high sewer turnover.

### Education Allowance and Scholarship

To promote lifelong learning, we grant educational allowances to employees who attend job-related seminars and courses at external organizations. We have also established scholarship schemes to provide financial support to employees who have completed at least five years of service and have children pursuing overseas tertiary education.

## Organization Culture: People-Oriented Environment (POE)

Since 2007, we have been continuously promoting this culture within our company. We defined three key aspects to strengthen the bond between colleagues and interaction with the company including two-way communication, personal development and recognition. To specifically address local employee needs, we developed programs or activities at both the corporate and regional levels.

### Local POE Activities

We believe that a good work-life balance for our employees results in more content people. In the corporate office and each factory, we provide opportunities for employees to relax and enjoy activities in a non-work environment which also fosters team-building among colleagues.



**Fun Fairs:** Each factory organizes Fun Fairs at their local festivals. Employees always enjoy the entertaining events and sharing the fun with their colleagues.



**Interest Groups:** Employees who share the same interests and hobbies have the opportunity to form interest groups within the company. (Cooking class at Hong Kong office and yoga class at a China factory)



**Sport Activities:** We encourage our employees to enrich their lives through leisure and sport to maintain a healthy body and mind.

**Family Day:** Some operational units, such as the Vietnam factory, have organized Family Day in 2010 to invite employees' families to visit our factory. The purpose of the activity is to enable family members to understand more about the employee's job and see the factory environment first-hand.



## Appreciation and Praise

Throughout 2010, we have taken all opportunities to promote employee recognition across the Group. At the corporate level, we post individual and team recognition from our colleagues and we interview and highlight long-service staff to share their personal life in our company newsletter.

At the end of the year, we send a personal note of gratitude to employees who have made a significant personal behavioural change that has made a difference to themselves and to the company. They have received the most votes from their factory or corporate office. Their commitment towards excellence is highly recognized by the top management.

We also present well-deserved recognition to colleagues in factories who have contributed noteworthy efforts in their roles which improve the cooperation between the Account Management Team and our customers.



## Case Study – Big Sister Program at China Plants

Manufacturers in China's southern coastal regions are facing increasingly acute labour shortages in current times. Every year, this issue becomes more apparent at the end of Chinese New Year as many migrant workers seek jobs closer to home and the rapid economic development in other regions offer more employment opportunities. In 2010, our factories in the China region showed the highest turnover rate compared to other regions. The consequences of high turnover include setbacks in efficiency, extra cost for recruitment and training and a decrease in employee motivation.

In 2008, the Big Sister Team was formed in our two China factories to build positive relationships between the new migrant workers and current colleagues. The Big Sister Team attempts to help newcomers better adapt to the new working environment, understand their difficulties at work and provide counselling if needed.



The Big Sister Team is currently under the Human Capital Management and Administration Department and serves to enhance two-way

communication between the workers and line managers by offering a communication channel for opinions from the operation teams to management. In addition, the big sisters assist in organizing activities that build a sense of belonging in the company.

Region	2010 Turnover Rate*
Greater China	11.9%
Thailand	5.2%
Vietnam	3.7%
Malaysia	2.1%
Indonesia	1.6%
Hong Kong	1.3%
Taiwan	0%
<b>TAL Group</b>	<b>5.6%</b>

\* Rate is calculated using the average monthly number of leavers / total number of employees at 31<sup>st</sup> December 2010.



## Community Contribution

TAL is a company with well-established facilities in a variety of locations. In each of the communities where our people live and work, we seek opportunities to contribute. We share our resources with the communities through voluntary work, donations and support to the industry.

### Voluntary Work

We have organized a Social Responsibility Committee (SRC) in most of our locations. The committees are formed on a voluntary basis and aim to provide voluntary services to the community as well as raise awareness of sustainability in the factory. In 2010, the committees in different regions arranged a diverse range of activities.



#### Visit to Old Folks Home (February 2010)

We visited the Silver Jubilee Old Folks Home in Malaysia to bring cheer and happiness during Chinese New Year to 300 residents by presenting a donation collected from the employees (and topped up by company) and new clothing comprised of factory seconds.



#### Old Care Center Visit (July 2010)

We visited an Old Care Centre in China and assisted in cleaning the centre which brought much happiness to the elderly.

#### School Library (August 2010)

In Thailand, we renovated a school library and provided lunch for students as well as donating educational gifts.





## Community Donations

We support communities with cash donations which amounted to US \$310,347 in 2010. TAL Group also assisted in rallying our employees to donate money or supplies to support those in need.



### Sponsorship for illness (August 2010)

We contributed a donation to an employee whose child had developed a serious liver condition in Vietnam.

### Donation for disadvantaged people (July 2010)

We donated money and materials to disadvantaged people in Baan KruNoi Foster Home, Thailand.



### Handmade Bags (June 2010)

We produced and sold handmade bags in Thailand. All income was donated to support the local school library.



### Hadsong School Donation (May 2010)

We donated money to Watharnsung School in Thailand, which had been damaged by fire.



### Sermpanya School Donation (March 2010)

We donated books to the students at Sermpanya School, Ayudhaya Province, Thailand.



## The Lees Charitable Foundation

Our founder, C.C. Lee, has set up a charitable foundation in 2001 with the aim of supporting and fostering charities related to education with a regional focus on China and Hong Kong. Throughout the years, the Foundation has supported scholarships and projects in worldwide including Hong Kong Polytechnic University, Imperial College (London), Middlesex University and London School of Economics & Political Science. Since its establishment, the Foundation has donated over US\$ 6.5 million.

## Support to Industry

In terms of industry support, we focus on sharing our skills and knowledge to foster a vibrant apparel industry.



### Technical School Factory Visit (June 2010)

Students of a garment technical school visited one of our Malaysia plants and we shared first-hand garment-making skills with the students during the visit.

## Industry Endorsement

We also support the industry by endorsing and participating in the following organizations.

Hong Kong Organization	Position	By
Hong Kong General Chamber of Commerce	Member	CEO
The Chinese General Chamber of Commerce	Member	CEO
Hong Kong Management Association	Committee Member	CEO
The Chinese Manufacturers' Association of Hong Kong	Member	CEO
Hong Kong Trade Development Council	Member	CEO
Trade and Industry Department – Textile Advisory Board	Textile Member	COO
Hong Kong – Thailand Business Council	Member	CEO
China-United States Exchange Foundation	Member	CEO
Hong Kong – Vietnam Chamber of Commerce	Member	COO
Textile Council of Hong Kong Limited	Honorary Chairman, General Committee Member	CEO
Hong Kong Garment Manufacturers Association	Honorary Chairman	CEO
The Federation of Hong Kong Garment Manufacturers	Member	CEO
Sustainable Fashion Business Consortium	Founding Member	TAL Group

## Product Responsibility

We aim to ensure that all of our products sold in the market are safe and comfortable. To minimize any risks through direct contact with our products, we have implemented various precautionary practices. In 2010, we have had zero non-compliance cases, product recalls or fines related to product safety issues.

### Consumer Product Safety Committee

The Consumer Product Safety Committee (CPSC), led by our in-house R&D team and representatives from functions such as Sales and Merchandising, was established following the announcement of the Consumer Product Safety Improvement Act by the US Government. The scope of the Committee has expanded recently to cover other product safety aspects.

### Regular Inspection

We take random samples from each of our product batches and carry out internal chemical testing to ensure compliance prior to being sent to our customers. In addition, a variety of bulk products are selected regularly and sent to an external specialist for a comprehensive chemical testing to ensure chemical safety.

### Supply Chain Requirements

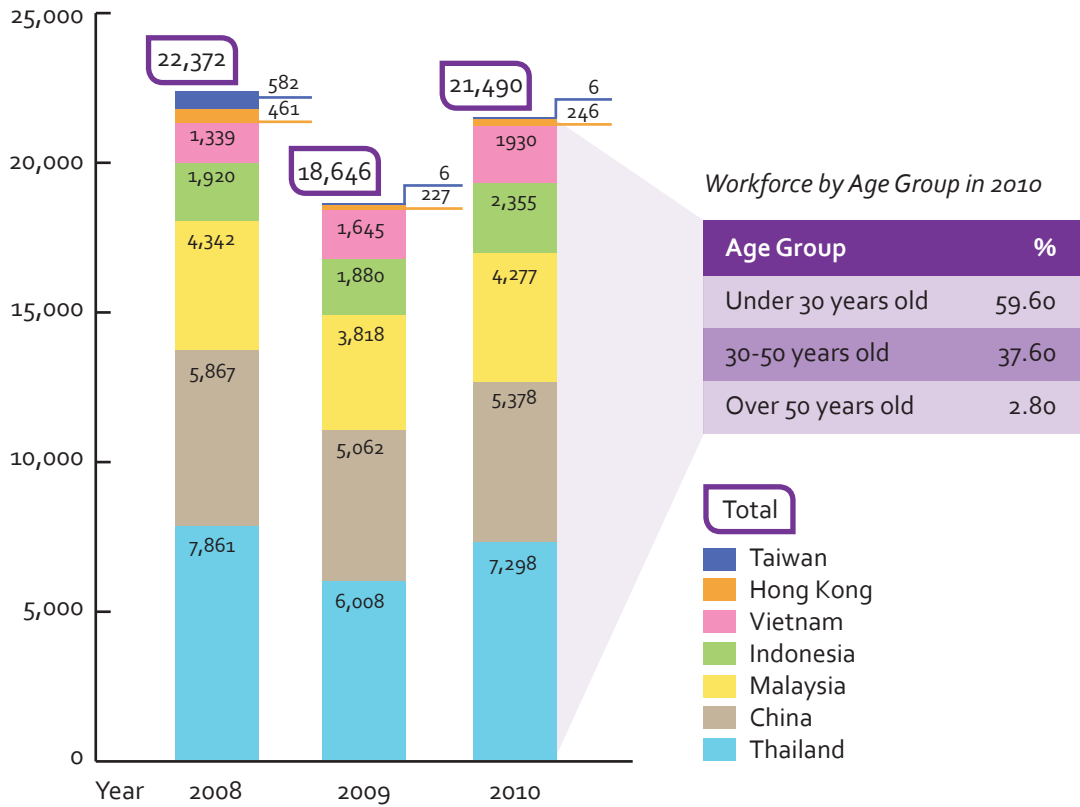
Each of our facilities conforms to the legal requirements, customers' code of conducts and industry guidelines, such as AAFA RSL<sup>4</sup> and REACH<sup>5</sup>, on health and safety requirements. To control the upstream aspect of the supply chain, we require all fabric suppliers to limit chemical use according to the AAFA RSL Release 7 (Sep, 2010).

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4. American Apparel and Footwear Association – Restricted Substances List
  5. Registration, Evaluation, Authorization and Restriction of Chemical

# Social - General Information

## Total Workforce in 2008 - 2010

Number of Workforce



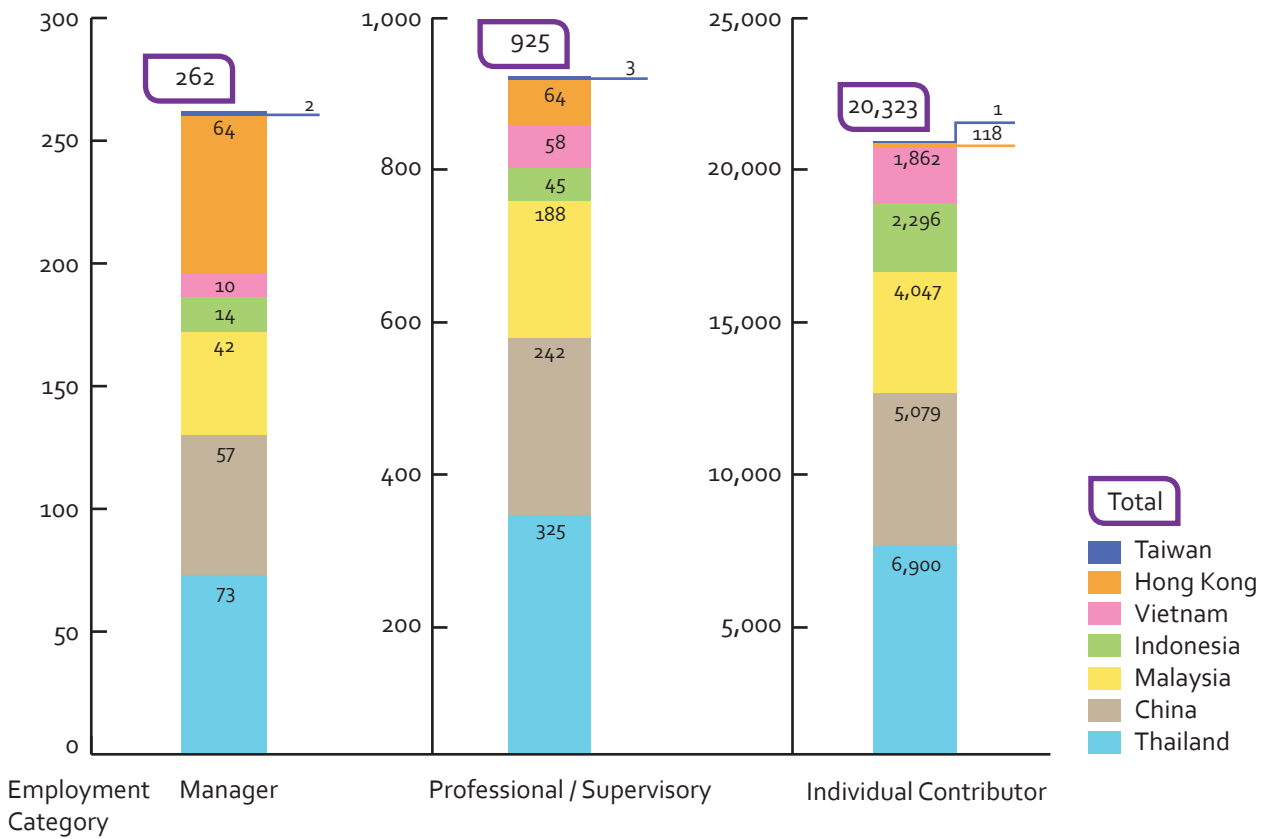
### Remarks:

- Compared to 2009, the workforce in Vietnam and Indonesia factories increased 17% and 25% respectively in 2010 due to the expansion of the factories.
- 87% of our employees were employed on a permanent contract and almost 100% were full time employment in 2010.



### Workforce by Employment Category in 2010

Number of Workforce

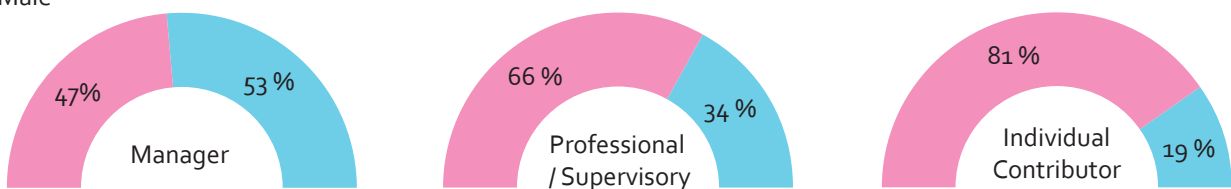


#### Remarks:

All managerial and professional/supervisory employees have received performance appraisals. Performance reviews are held quarterly.

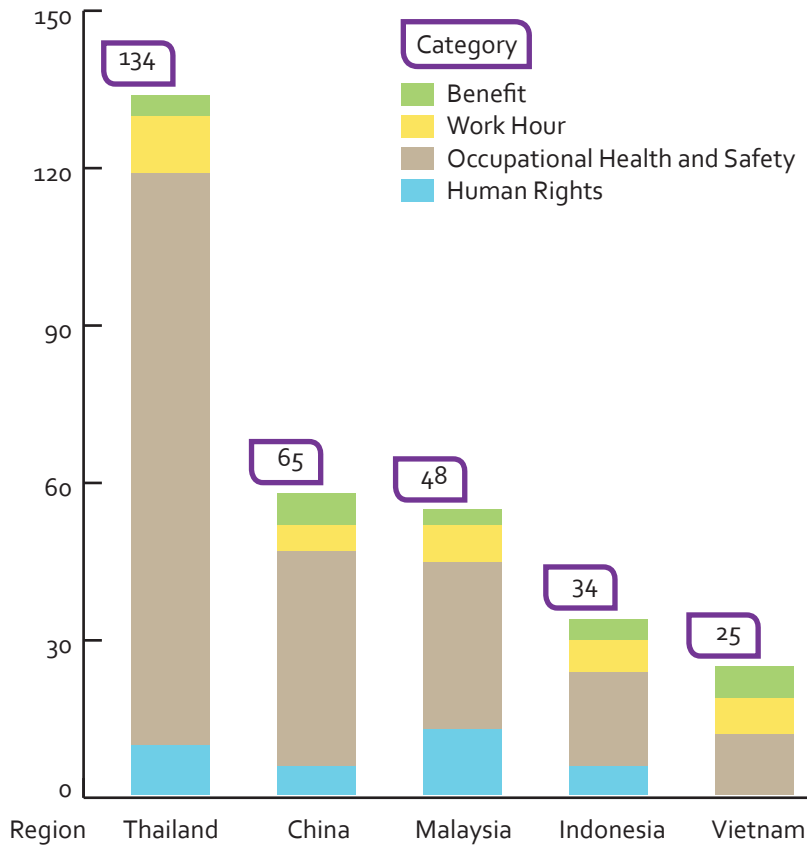
### Gender Ratio by Employment Category in 2010

Female  
Male



## Customer Audit Results in 2010

Number of Issues



### Remarks:

- There were 57 customer audits conducted in 2010 with 15 audit visits (26%) where no issues were found while 306 issues were found in the rest of the audits.
- Overtime work happens in peak season only. TAL has established a system to manage overtime matters to ensure working hours of each worker do not exceed 60 hours on a 6-month rolling average basis. The tactics that we use to level out peaks and valleys in demand include: load balancing between our facilities, strategic pre-production of orders and lean production principles.
- A clause pertaining to anti-corruption is stated in the Code of Conduct statement of our employee handbook in China, Malaysia, Thailand and Vietnam. Upon joining, all staff in Malaysia, China and Vietnam are given the Code of Conduct statement or handbook to read and understand. Only manager grade in Thailand is given the Code of Conduct upon joining. There is a plan to improve the procedure in Indonesia and Thailand.

## Social Awards

Name of Award	Awarder	Awardee
Appreciation for Employment of Handicap Workers	Ministry of Human Resource, Labour Office Perak Branch	Imperial Garments Sdn Bhd
Guangdong Province Labour Employment Compliance Outstanding Enterprise	Guangdong Provincial Labour Social Security Department, Guangdong Labour Institute, Federation of Modern Service Industry in Guangdong Province	Textile Alliance Apparel (Dongguan) Limited
Thai Labour Standard (TLS8001-2010) Award	Department of Labour Protection and Welfare - Ministry of Labour	Mandarin Clothing Company Limited

# Looking Forward

I would like to start by looking back on what we have achieved with this sustainability report. It is our very first public report on the performance and initiatives of the Group. It is our sincere effort to depict a comprehensive picture of the issues that we faced, the initiatives that we embarked on to be at the leading edge of the industry and our management thoughts on running a sustainable business in a tough economic environment.

Not only is this report a public statement of our efforts, it has also served as a self-reflection of what we have done so far, both positive and negative, and has allowed us to plan ahead more purposefully. We realize the need to advance some of our work in the Ethical Business Practices and there are a few areas in which our management systems need strengthening.

Looking forward, I am glad to see that the whole apparel and textile industry is forging ahead to address the issue of environmental sustainability. We are honoured and keen to participate in such an effort. We acknowledge that to make a positive meaningful impact on the environment requires us to go beyond our four walls and work closely with our suppliers and customers.

On the social and labour front, there are many multi-stakeholder initiatives in the industry with the intention of going beyond compliance. This aligns well with our approach of a self-governing CSR program. In the coming years, I expect to see our efforts becoming a reality and look forward to making real sustainable improvements to working conditions.

Our investment in people development is beginning to take hold. It is not a short term effort, and we are committed to seeing it through to the end where we have an engaged workforce and a culture that can grow with our business. Running an apparel business has never been harder, and at the same time more exciting and rewarding, than now!

Dr. Delman Lee  
President & Chief Technology Officer

# Global Reporting Initiative Index



● Reported    ○ Not Covered    N/A: Not Applicable

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1.2	Key impacts, risks, and opportunities	3, 11, 16, 26	●
<b>ORGANIZATIONAL PROFILE</b>			
2.1	Name of the organization	2	●
2.2	Primary brands, products, and/or services	5, 6	●
2.3	Operational structure	4	●
2.4	Headquarter location	4	●
2.5	Countries of operation	4	●
2.6	Nature of ownership and legal form	4	●
2.7	Markets served	12	●
2.8	Scale of the organization	12, 41	●
2.9	Significant changes during the reporting period	12, 41	●
2.10	Awards received during the reporting period	14, 24, 43	●
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3.2	Date of most recent previous report		N/A This is TAL's first report
3.3	Reporting cycle	2	●
3.4	Contact point for the report	2	●
3.5	Process for defining report content	2, 9	●
3.6	Boundary of the report	2, 4	●
3.7	Limitations on the scope or boundary of the report	2	●
3.8	Basis for reporting on joint ventures, subsidiaries and other entities	2, 4	●
3.9	Data measurement techniques	2	●
3.10	Explanation of re-statements	17	●
3.11	Significant changes from previous reporting periods		N/A This is TAL's first report
3.12	Table of standard disclosures	45-49	●
3.13	External assurance		N/A Self-declared information
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4.2	Chair of the highest governance body	8	●
4.3	Independent and/or non-executive board members	8	●
4.4	Mechanisms to provide recommendations or direction to the board	9	●
4.5	Compensation and the organization's performance	8	●
4.6	Avoidance of conflicts of interest	8	●
4.7	Board selection process	8	●
4.8	Mission statements, core values, codes of conduct and principles	5, 7	●
4.9	Management of performance	8	●



4.10	Processes for evaluating the board's own performance	8	●
4.11	Explanation of whether and how the precautionary principle is addressed	8	●
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4.17	Key stakeholder topics and concerns	9	●

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EC2	Financial implications, risks and opportunities due to climate change		○
EC3	The organization's defined benefit plan		○
EC4	Significant financial assistance received from government		○

### Market Presence

EC5	Standard entry level wage/ local minimum wage		○
EC6	Locally-based suppliers		○
EC7	Procedures for local hiring	8	●

### Indirect Economic Impacts

EC8	Development and impact of infrastructure investments and services		○
EC9	Understanding and describing indirect economic impacts		○

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EN1	Materials used by weight or volume		○
EN2	Percentage of materials used that are recycled input materials		○

### Energy

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EN4	Indirect energy consumption by primary source	17	●
EN5	Energy saved due to conservation and efficiency improvements	18, 19, 24	●
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EN9	Water sources affected by withdrawal of water		○
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EN12	Impacts on biodiversity rich areas		○
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SO7	Anticompetitive behavior, anti-trust, and monopoly practices			○
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SO8	Fines and sanctions for noncompliance with laws and regulations			○

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### Customer Health and Safety

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PR2	Non-compliance with regulations and voluntary codes on health and safety impacts of products and services	40	●

### Product and Service Labelling

PR3	Product and service information		○
PR4	Non-compliance with regulations and voluntary codes on product and service information		○
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PR7	Non-compliance with regulations and voluntary codes on marketing communications		○

### Customer Privacy

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