Guidance of the Chinese Textile and Apparel Industry for Responsible Overseas Investment

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Contents

Foreword

Since the Chinese government proposed the "Belt and Road" Initiative, Chinese enterprises have been faced with new landscapes and opportunities in their endeavor to "go global". While Chinese textile and apparel enterprises seek global presence, their social and environmental impacts are attracting increasing attention from international stakeholders. Successful overseas investment relies not only on successful business valuation, decisions and practices, but also on social license that builds on due diligence and localization. The philosophy and rule system of responsible investment provide cross-cultural but common action and language framework, and responsible business conduct (RBC) can deepen the relationship between enterprises and stakeholders, better manage the social responsibility impacts of overseas investment, and enhance enterprises' reputation and responsible competitiveness.

To put into effect the development ideas of "innovation, coordination, green development, opening-up and sharing", promote the Principles for Responsible Investment, strengthen Chinese textile and apparel enterprises' RBC in the stages of overseas investment assessment, implementation, and exit, enhance the industry's competitive edge, better integrate into the global value chain, and contribute to achieving the UN Sustainable Development Goals (SDGs), China National Textile and Apparel Council (CNTAC), based on "CSC9000T Corporate Sustainability Compact for Textile and Apparel Industry" (2018), has developed the "Guidance of the Chinese Textile and Apparel Industry for Responsible Overseas Investment" (hereinafter referred to as "this Guidance"). This Guidance takes SDGs as the framework, and has been developed in the light of the characteristics of overseas investment by the Chinese textile and apparel industry, with reference to the United Nations Principles for Responsible Investment, ISO26000 Guidance on Social Responsibility, relevant laws and regulations, international conventions, social responsibility standards, principles, initiatives, and instruments.

This Guidance and the CSC9000T management system will be used in support of each other. The CSC9000T management system mainly provides a social responsibility code of conduct and a working path for textile and apparel enterprises to adopt in their production and operations. This Guidance is designed mainly for RBC of textile and apparel enterprises at the stages of overseas investment assessment, implementation and exit, to realize responsible investment and contribute to achieving SDGs by identifying and addressing the social responsibility risks at various stages of an investment cycle.

I. Scope

1. Applicable Entities

This Guidance is applicable to the investment entities within and the enterprises outside China's borders that engage in outbound investment of the textile and apparel industry, including textile and apparel enterprises, assets owners and investment managers that invest in the textile and apparel industry.

Regulatory authorities, financial institutions, local communities and other relevant stakeholders may refer to and use this Guidance in the relevant decision-making on investment, financing and regulation in the textile and apparel industry.

2. Applicable Issues

This Guidance is applicable mainly to overseas investment assessment, implementation and exit before and after enterprises are constructed and put into production and operation abroad, and is used to develop, implement, maintain and improve the responsible investment management system, control and reduce the environmental and social costs of investment, lower or address investment-related social responsibility risks.

2.1 Investment Assessment

Enterprises may identify and assess the responsible investment risks and sustainable development opportunities in line with this Guidance in early-phase study and investment decision-making of overseas investment projects, and feed the assessment results into investment decision-making and implementation preparation. In practice, enterprises may, in investment planning, feasibility study, due diligence, environmental and social impact assessment, project implementation design and planning, and partner selection, identify, assess and manage the risks and opportunities of responsible investment and sustainable development in line with this Guidance, including establishing policies and guidelines, communicating and collaborating with stakeholders on identifying and responding to risks and opportunities.

2.2 Investment Implementation

Enterprises may keep identifying and assessing the risks and opportunities of responsible operation and sustainability according to this Guidance in the implementation stage of overseas investment projects, and include the assessment results in project implementation plans and management processes, achieve compliance in social responsibility and sustainable development, better and consistently manage global operations across counties and regions, showcase to stakeholders their effects in implementing the Principles for Responsible Investment and contributions to SDGs which enhance the reputation and responsible competitiveness of enterprises and the industry. Meanwhile, enterprises may also promote stakeholders in the investment chain to accept and implement the Principles for Responsible Investment.

2.3 Investment Exit

At the investment exit stage, enterprises may also design exit mechanisms in the early stages of investment in line with this Guidance, and develop social responsibility due diligence plans in response to various exit scenarios, to meet enterprises' due diligence requirements at the exit stage.

Enterprises may also assess the performance in preventing and responding to responsible investment risks and opportunities of overseas investment projects according to this Guidance. They may conduct comprehensive summary, analysis and evaluation by assessing the environmental and social impacts of investment projects, draw lessons from successes and failures, gradually improve due diligence, and increase the returns of investment for sustainable development.

Enterprises shall comply all applicable laws and regulations, and respect relevant international norms of behavior, in particular the international conventions and international customary laws accepted by both China and investment destination countries. Where the requirements of national laws and regulations or applicable international conventions are inconsistent with those of this Guidance, enterprises shall comply with more stringent requirements on the top of legal compliance.

This Guidance may also be applicable together with other standardized management systems, social responsibility and sustainability standards, guidelines or initiatives. Enterprises shall take measures to strengthen the coordination and alignment of this Guidance with other management systems, standards, guidelines or initiatives.

II. Terms and Definitions

1. **Overseas investment**: is equal to "outward investment" and "outbound investment", and refers to the behavior of an enterprise (domestic investment entity) established according to law within the territory of the People's Republic of China to own a non-financial enterprise or obtain the ownership, control right, operation and management right, and other rights and interests overseas by new establishment, merger and acquisition (M & A), and other means.

2. **Overseas enterprise**: refers to an enterprise in the final destination of overseas investment. The aforementioned final destination refers to the site finally used by a domestic investment entity for project construction or continuous production and operation.

Note: the above "domestic investment entity" and "overseas enterprise" are applicable for general summary, while "enterprise" is a term for generic purpose.

3. **Responsible investment**: as defined by the UN Principles for Responsible Investment, is an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns.[1]

4. **Social responsibility impacts**: refers to both positive and negative impacts on economy, society, environment, and governance, generated from the investment and operation behaviors of enterprises and investors.

5. **Stakeholder**: includes individual or group that is or may be directly or indirectly impacted by the activities of an enterprise and the party that it has a dialogue with. In investment, an enterprise must consider the

[1] "Responsible Investment" is defined in PRI as: an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns.

following key stakeholders: project operators and users; community of the project location and its residents; employees required by the project and employees in the project’s supply chain; suppliers, distributors, retailers and other economic entities in the supply chain; governmental departments, legislative and judicial bodies; NGOs and media; other investors; counterparts in the same industry and industry organizations.

6. **Value chain**: with reference to the definition of value chain in ISO26000, means the sequence of activities or parties that provide or receive value in the form of products or services.

7. **Supply chain**: refers to the supply process for production, including all business relations that directly or indirectly provide products or services for an enterprise.

8. **Project lifecycle**: refers to the whole process of an investment project, including feasibility study, decision-making, construction and implementation, operation and maintenance, tracking and post evaluation. It consists of four main stages: investment assessment and decision-making, investment cooperation and implementation, investment operation and maintenance, investment exit and post evaluation.

9. **Due diligence**: refers to the process through which an enterprise identifies, prevents, mitigates and accounts for how it addresses its actual and potential adverse impacts as an integral part of business decision-making and risk management systems.

10. **Core business**: refers to corporate activities aimed principally at generating profits. This includes operations located at the company’s own premises, its branches, subsidiaries, and/or joint ventures, as well as trading and procurement links with suppliers.

11. **Government relations**: refers to interactions between the company and government officials, agencies and organizations. Companies interact with governments at multiple levels, from the local to

the central government apparatus. At issue may be the granting of licenses, the payment of taxes, the use of public services and other contractual relationships. For companies that operate across borders, this includes dealings with both home and host governments.

12. **Investment exit mechanism**: means that an investment institution transforms the invested capital from equity to capital when the enterprise that it invests in reaches a certain development stage or a particular period, i.e. the realization mechanism and the relevant supporting institutional arrangements.

13. **Post project evaluation**: means a type of technical and economic activity that, after an investment project has been constructed, put into production and operation for some time, the whole execution process of a project, from project approval, decision-making, design, implementation to production and operation, the benefits, functions and impacts are systematically and objectively analyzed and summarized, to judge to which extent the expected objectives are realized. The basic contents of post project evaluation include: project objectives, implementation process, benefits, impacts, and sustainability.

III. Principles for Responsible Overseas Investment

Guided by the development ideas of "innovation, coordination, green development, opening-up and sharing", oriented towards contributing to achieving the UN SDGs, and with reference to CSC9000T Corporate Sustainability Compact for Textile and Apparel Industry (2018), the UN Principles for Responsible Investment[2] and the Business Values of Chinese Multinationals[3]: realizing sustainable profit through ethical principles, strengthening good practices for sustainable profit, and embedding ethical principles into good practices, the principles of the Chinese textile and apparel industry for responsible overseas investment have been proposed. The following principles are the principle framework of the detailed contents and requirements in this Guidance, which provide principle guidelines for enterprises to deal with the social responsibility impacts in their overseas investment in the textile and apparel industry.

1. Principle for Global Operation

The overseas investment of textile and apparel industry shall build on enterprises' strategic positioning and development layout in the global industry chain and value chain, define the roles and regional distribution of the global industry chain, fully consider the relationship between overseas enterprises and their headquarters in China, and the relationship between

[2] Six Principles for Responsible Investment (PRI) are: we will incorporate ESG issues into investment analysis and decision-making processes; we will be active owners and incorporate ESG issues into our ownership policies and practices; we will seek appropriate disclosure on ESG issues by the entities in which we invest; we will promote acceptance and implementation of the Principles within the investment industry; we will work together to enhance our effectiveness in implementing the Principles; and we will each report on our activities and progress towards implementing the Principles.

[3] In May 2017, the Belt and Road Forum for International Cooperation was held in Beijing. Chinese Academy of International Trade and Economic Cooperation, Ministry of Commerce of the People's Republic of China, Research Center of the State-owned Assets Supervision and Administration Commission of the State Council of the People's Republic of China, and United Nations Development Programme China jointly released the "2017 Report on the Sustainable Development of Chinese Enterprises Overseas". The Report put forward the Business Values of Chinese Multinationals: strengthening good practices for sustainable profit, embedding ethical principles into good practices, and realizing sustainable profit through ethical principles. This principle included three dimensions: Principle, Practice and Profit. It inherited from the traditional Confucian teaching on ethics and profits for businessmen still stands as a key reference for modern businesses in their long-term development. To translate the principle into modern business language, an enterprise must obtain the social license to operate in the market through a sound corporate governance mechanism and strict self-management; at the same time, it needs to follow social rules to utilize market opportunities to obtain sustainable benefits.

current investment benefits and long-term sustainable development, so as to build a multinational enterprise strategy for global operation.

2. Principle for Sustainable Development

Enterprises shall include economy, environment, society, governance, and other relevant social responsibility factors in investment decision-making, to better manage risks and generate long-term sustainable financial returns. Meanwhile, enterprises shall address relevant social problems through innovations in business and technology and contribute to achieving the UN SDGs.

3. Principle for Balancing Ethics and Profit

Enterprises must balance their social impact and demand for profit. Responsible investment shall be committed to sustainability and long-term impact, be strategically aligned with core business activities, and ensure the social license required by enterprises' operation in market through good governance systems and strict self-management. Meanwhile, enterprises shall also leverage market opportunities to gain sustainable benefits according to social rules, to ensure that mid- and long-term investment returns will be the boundary for feasibility so that the costs will not exceed investment benefits.

4. Principle for Inclusive Development

Enterprises shall take into full account the social environment of investment host countries, regions and communities, including the politics, economy, legislation, culture, religion and customs, respect and consider the interests of stakeholders, including local governments, communities, employees, upstream and downstream partners in the supply chain, respond to stakeholders' concerns and requirements in a differentiated and targeted manner, for investment in line with local conditions and inclusive growth, to create shared value.

5. Principle for Integration into Governance

Enterprises shall integrate the responsible and sustainable investment principles into their core business and corporate governance. This specifically includes commitment from top management, consensus-based proactive responsibility fulfillment, due diligence and process integration that are combined with core business strategy, and sustainable social investment, so that responsible investment management can be the driving force but not barrier to enterprises' development and profit-making.

6. Principle for Openness and Transparency

Enterprises shall openly and transparently conduct information disclosure and responsible investment reporting, more consistently and efficiently communicate with stakeholders the investment impact and performance, fully consider and disclose significant economic, social, and environmental impacts caused by investment decisions and activities, report the progress and accomplishment of implementing the responsible investment principle by "comply or explain" means. In addition, enterprises may also actively join or participate in relevant international organizations, standardization organizations and international initiatives, to create a good external environment for overseas operations.

IV. Investment Assessment

Due to the doubt about the investment value of responsible investment, lack of ability for social responsibility impact analysis and decision-making, and the worries about the costs of responsible investment management and due diligence practices, the traditional investment market and enterprise operations conveyed the message that responsible investment is not the optimal or priority option. In some cases, between the optimal long-term sustainable investment and suboptimal investment, more investors and operators might choose the option that is suboptimal in the long term but more profitable in the short term.

Enterprises shall include social responsibility issues in the investment analysis and decision-making process, prudently identify and comprehensively assess in feasibility study and due diligence the social and environmental impacts of investment projects, develop targeted due diligence measures in investment implementation schemes, promote projects' positive impacts, prevent, avoid and mitigate negative impacts. In project decision-making, enterprises shall choose the investment schemes acceptable to stakeholders, in which positive impacts can be expected, negative impacts controlled, due diligence measures implemented, economic costs afforded, partners trusted, and more comprehensively manage investment risks, to increase long-term investment returns.

(I) Identifying Investment Directions

In the initial stage of overseas investment, enterprises study the industry and choose locations, look for investment directions, select investment destination countries, develop responsible investment standards, and compile project proposals, to provide basis for feasibility study.

1. 【Headquarters' strategy】Enterprises shall, based on their own size

and development vision, develop core business strategy, and define the roles and regional distribution of the global industry chain. Meanwhile, they shall include responsible investment policy in their headquarters' strategy, and actively implement the high-level statements and action plans on social responsibility issues and sustainable development in investment decision-making and implementation.

2. 【Location selection】Enterprises shall consider in an all-round manner the development trends of the global textile and apparel industry, understand through multiple channels the existing industry policies and foreign investment policies in relevant investment destination countries, comprehensively analyze the impact of investment destination countries' factors on social responsibility, including political stability, effectiveness of government administration, completeness of law, foreign trade reliance of the economy, development level of textile industry and market competition, infrastructure and production support, business convenience, population size and labor force quality, and public security, and select investment locations after thorough comparison.

3. 【Responsibility standards development】Enterprises shall, in line with the international norms of behavior for responsible investment, and the relevant laws and policies of selected investment destination countries on foreign investment and social responsibility, identify and study the countries' social responsibility impact factors and risk points, and based on their own sustainable development strategy, develop responsible investment standards, implementation and assessment mechanisms that shall be implemented during the whole lifecycle of overseas investment.

(II) Studying Feasibility

In the feasibility study stage, enterprises mainly conduct technical and economic appraisal and benefit analysis, investigate and study in details projects' environmental and social impacts in line with responsible overseas investment standards, develop feasibility reports and due diligence reports on environmental and social impacts, to provide basis for decision-making.

1. 【Environmental and social impact assessment】Enterprises shall include social responsibility issues in feasibility study reports, due diligence reports and other relevant investment documents, and conduct thorough, accurate and objective overall assessment of all the relevant direct, indirect and accumulative environmental and social impacts and risks.

2. 【Key responsibility issues】Feasibility study shall focus on analyzing and assessing the impact of social responsibility factors on investment feasibility, such as labor resources and labor laws and policies, land, energy supply and environmental laws and policies, the support of textile and apparel industry chain, export markets and competition environment of investment destination countries. Enterprises shall also study the investment risks caused by foreign exchange, tax agreements, bilateral and multilateral trade agreements, national security review, the investment risks caused by laws and policies on anti-monopoly and anti-dumping review, and accurately identify the bottom line of responsible investment that is legally compliant.

3. 【Ability to consider responsibility】Enterprises may, when appropriate, assess the ability of internal investment decision-makers and management to include social responsibility issues in investment assessment and decision-making, and organize responsible investment training for internal management.

4. 【Requirements for investment service providers】Enterprises shall communicate the expectations for responsible investment to investment service providers, require them to apply tools, indicators and analysis methods related to responsible investment in feasibility study and due diligence, and develop specialized environmental impact assessment reports and social impact assessment reports of investment projects.

(III) Designing Implementation Schemes

1. 【Responsibility management systems】Enterprises' overseas investment implementation schemes shall include responsible investment commitments and the corresponding implementation and assessment mechanisms, to ensure that the environmental and social impacts and risks of investment projects are assessed, managed and monitored during the whole cycle of investment, and put into practice environmental and social protection standards and responsibility norms.

2. 【Land】Where investment implementation schemes involve land acquisition and use, enterprises shall get an all-round understanding of the customary rights for land planning and use of project locations, investigate and verify in details the land tenure of the project sites as well as the relevant credit and debt situation, assess and confirm whether project construction will involve relocation, resettlement and compensation.

3. 【Plant building】Where investment implementation schemes involve the construction of dyeing and printing, cotton weaving and leather-making plants that are characterized by high energy consumption, high water consumption, and high pollution, enterprises shall identify geological, hydrological, meteorological and other relevant natural conditions of the sites for plant building, identify whether the sites meet

the requirements of laws and regulations on their distance from neighboring residential areas, water conservation areas and natural reserves. In particular, enterprises shall assess the impact of plant construction and production on water supply and drainage systems, and make compliant plans and designs for waste air and wastewater discharge.

4. 【Technology export】Investment implementation schemes shall include some technology and management export strategy, apply enterprises' advantageous technologies, market and management to overseas investment projects, and promote local technological progress and industry upgrading, to obtain support from local governments and stakeholders for investment projects.

5. 【Partners】Where investment implementation schemes involve joint investment, cooperation and entry into industry parks, enterprises shall develop relevant measures to conduct social responsibility due diligence and risk assessment of foreign and domestic project partners, to ensure that partners' credibility and operations comply with the social responsibility norms and codes in investment destination countries.

6. 【M & A】When investment implementation schemes involve overseas M & A, enterprises shall focus on identifying social responsibility impacts and risk points on labor, environment, IPR, and cross-cultural management, thoroughly carry out social responsibility due diligence and risk assessment in M & A target selection and valuation, and post-investment integration scheme appraising and planning, to reduce the risks and costs of cross-border M & A.

7. 【Framework agreements on investment cooperation】In the course of reaching framework agreements on investment cooperation, enterprises shall thoroughly communicate to partners investment projects' positive and

negative impacts on the environment and society, reach consensuses on the boundaries of responsibility and due diligence priorities, and include environmental protection, community development, employment promotion and other relevant social responsibility strategies and action plans in investment cooperation framework at the scheme development stage.

(IV) Reviewing Decisions

At the decision review stage, enterprises shall review feasibility study reports and investment implementation schemes in an all-round manner, comprehensively analyze the risks, benefits, liquidity of investment projects, and make decisions in the principle of balancing economic, environmental and social benefits, and maximizing the overall benefits.

1. 【Responsibility review】In investment projects' decision-making, enterprises may approve and make the decision to implement the projects that concurrently meet the following conditions:

(1) Investment projects have visible positive impacts on employment promotion, infrastructure improvement and technology export;

(2) Investment projects' negative impacts on land, water source, pollution discharge and community environment are controlled within the legally compliant limits;

(3) Investment projects' due diligence measures to promote positive environmental and social impacts, prevent, avoid and alleviate negative impacts are feasible and economically affordable;

(4) Project partners are credible in social responsibility; and

(5) Main stakeholders' responsible investment policies and due diligence measures for investment projects are acceptable.

2. 【Implementation suspension】In decision-making of investment

projects, enterprises may make the decision to suspend implementation under any of the following circumstances:

(1) Any change in investment destination countries' relevant laws and policies has significant impacts on projects;

(2) Projects' feasibility study reports, due diligence reports and implementation schemes are apparently divided in opinion;

(3) The economic costs and management costs of the due diligence measures of investment project schemes are apparently excessively high; or

(4) Main stakeholders have significant disputes over projects' environmental and social impacts.

3. 【Remediation measures】After project implementation is suspended, enterprises may take the following measures: conduct additional due diligence on relevant issues; reassess the feasibility of investment projects; adjust and improve the responsible investment policies and due diligence measures involved in projects' implementation schemes; thoroughly and effectively communicate in depth with projects' major stakeholders.

4. 【No implementation】In decision-making of investment projects, enterprises shall make the decision that the projects are not to be implemented under any of the following circumstances:

(1) Investment destination countries undergo political turmoils, major economic or social events, and become conflict-affected and high-risk areas;

(2) The labor force, raw materials, technologies, market and other relevant operation resources undergo major changes in investment destination countries, and as a result, social responsibility risks are disproportionately high, and due diligence costs exceed investment income;

(3) Investment projects are strongly boycotted by enterprises' shareholders, employees of the enterprises merged and acquired, community residents, and other relevant stakeholders, and the boycott exerts fundamental impact on projects' feasibility.

5. 【Stakeholder communication】In the decision review process, enterprises shall fully consider stakeholders' opinions and impacts. In particular, regarding the investment projects that utilize land or water resource and have significant impacts on local communities, enterprises shall thoroughly and effectively communicate with governments, communities, general public, project partners, and other relevant stakeholders in advance, and targetedly increase the measures and solutions to prevent, avoid or alleviate projects' negative environmental and social impacts.

6. 【Third-party assessment】In the decision review process, enterprises may introduce the third-party social responsibility assessment, by inviting relevant experts and professional organizations to review and verify in an all-round way feasibility study reports, due diligence reports, and project implementation schemes, and issue independent assessment reports on projects' social responsibility impacts as reference for decision-making.

V. Investment Implementation

Enterprises shall start to put in place the mechanisms for responsible investment implementation and evaluation while preparing for investment implementation, and incorporate respect for human rights, environmental protection, legally compliant tax payment, fair competition, community development promotion in enterprise establishment, fixed assets allocation and raw materials procurement, personnel recruitment and use, establishment of cooperative relations, management system and culture development. This specifically includes: incorporating CSR contents in enterprises' organizational management systems and daily management systems, establishing CSR indicator systems and performance assessment systems, and developing CSR information disclosure systems. The focus at this stage is to fully and effectively communicate with stakeholders, reach consensuses on social responsibility issues, and promote partners to jointly accept and implement the Principles for Responsible Investment.

(I) Organization Establishment

1. 【Administrative licenses】Enterprises shall identify competent governmental departments, laws, regulations and procedures for administrative licenses, including those for review and approval, land use, environmental assessment, labor use of foreign investment established by organizations, and comply with host countries' legal procedures and compliance requirements.

2. 【Enterprise registration and tax declaration】Enterprises shall identify host countries' access regulations on the organizational forms, investment ratio, means of contributing investment of foreign investment, comprehensively consider the impacts of tax, financing, foreign exchange, and other compliance issues, select appropriate organizational forms for

investment, and go through the formalities for enterprise registration and tax declaration according to law. In particular, enterprises shall pay attention to the strict distinctions between the tax types that correspond to organizational forms.

3. 【Contract signing】Enterprises, in construction contracting, procurement and service purchase during preparations for investment implementation, shall strictly implement the ethical sourcing policy, and the procedures for selecting local contractors, suppliers and service providers shall be transparent. Social responsibility requirements shall be included in contracts, which cover pollution prevention, labor protection, management of potential negative environmental and social impacts, and other rights and obligations related to social responsibility.

4. 【Government relations】Enterprises shall properly manage government relations, formulate clear policies and robust management procedures, fully communicate and positively interact with relevant government agencies and competent authorities, enhance the transparency of government relations within the legal and commercial limits, prevent and control the occurrence of corruption in their relations with government officials.

5. 【Fund transfer】Enterprises shall establish the mechanism for monitoring fund transfer and the procedures for managing specific bribery issues, such as risk assessment, compliance training and internal employee reporting mechanism, monitor enterprises' transactions as well as resource and cash operation, prevent and control the business corruption risks of bribery, kickback, facilitation payment, protection fee, blackmail, fraud, and money laundry in the business process.

(II) Fixed Assets Allocation and Raw Materials Procurement

1. 【Environmental protection compliance】Enterprises shall strengthen the training and publicity on environmental protection laws and policies for projects' early-stage management, highly value the environmental protection assessment procedures and environmental protection compliance review of investment projects, obtain formal approval documents from environmental protection authorities according to law, and shall never start construction without permission.

2. 【Construction】Where investment involves land development and building construction, enterprises shall comply with relevant laws, regulations and construction plans, strictly follow legal procedures in signing contracts on land use, lease, transfer or ownership-based benefits distribution. In project construction, enterprises shall pursue orderly construction and work safety, increase energy utilization rate, prevent and reduce pollution, and meanwhile, pay attention to the impacts of transportation, construction, warehousing, and material stacking on neighboring communities, and keep at appropriate distance from residents' living areas.

3. 【Relocation and resettlement】Where land development and building construction involve community relocation, enterprises shall consult with communities and relevant stakeholders on fair, just and reasonable compensation, and resettlement, to reach agreements. Involuntary relocation shall be avoided under any circumstance to the extent possible. Relocation shall not lead to homelessness, or make human rights vulnerable to be violated.

4. 【Existing plants】The enterprises that purchase or use existing plants shall confirm the effectiveness of the existing equipment and facilities, identify environmental problems faced by the existing plants, put

forward practical and feasible solutions, and assess enabling conditions and improvement measures, to reduce environmental impact and satisfy construction needs.

5. 【Ethical sourcing】Enterprises shall develop guidelines for ethical sourcing, encourage and guide the production equipment and raw material suppliers selected at the preparation stage of investment implementation to meet social responsibility requirements, and take social responsibility fulfillment as an indicator for supplier assessment. Where procurement from home countries or a third country is involved, enterprises shall strictly comply with host countries' regulations and policies on customs inspection and quarantine, duty-free import of production equipment, raw materials, and construction materials.

(III) Personnel Recruitment and Use

1. 【Labor system】Enterprises shall comply with the requirements of local laws and regulations, establish the labor contract management system that is in line with local national conditions and industry characteristics for employee recruitment, contract signing, job responsibilities, labor remuneration, legal working hours and leaves, labor security, work accident compensation, disciplinary penalty, and contract termination, keep procedures as detailed as possible, to ensure that the management covers all the links and the whole process is traceable.

2. 【Chinese employees】In applying for overseas work permits for Chinese employees, enterprises shall strictly comply with relevant laws, regulations and procedures, encourage Chinese employees to learn local languages, and be able to communicate on work in local languages, provide Chinese employees with training on cross-cultural communication and conflict handling capability, gain basic understandings of local ethnic

groups, religions, cultures, and customs, and enhance cultural sensitivity and adaptation.

3. 【Local recruitment】Enterprises shall recruit employees in line with the requirements of local laws and regulations, go through the necessary formalities for filing or registration at labor authorities, explicitly announce in job advertisements and interviews the responsibility commitments for anti-discrimination, equal employment and child labor prohibition, to avoid the sensitive issues related to race and religion. It would be best if the teams in charge of employee recruitment have experienced local members. Enterprises may also select the local employment agencies to recruit employees that are familiar labor laws and policies, and have close connections with local labor authorities.

4. 【No child labor】Enterprises shall establish policies and mechanisms on child labor. Recruitment policies shall explicitly state the working age limits, prevent and avoid employing any child worker who falsifies or falsely reports age by strictly reviewing applicants' birth and identity certificates, requiring applicants to provide the official documents issued by the governmental departments at their hometowns, and visiting employees' homes and communities for verification.

5. 【Employees' rights and interests】Enterprises shall sign labor contracts pursuant to laws and regulations, respect and safeguard the rights and benefits that employees are entitled to according to labor contracts or laws, support the establishment of trade unions according to law, provide employees with fair remuneration and decent working conditions, provide employees with training on occupational skills and CSR, and pay special attention to female employees' equal employment, labor protection and career development.

(IV) Cooperative Relations Construction

1. 【Stakeholder consultation mechanisms】Enterprises shall establish rigorous, inclusive and participatory stakeholder consultation mechanisms, identify stakeholders' requests concerning social responsibility, understand stakeholders' expectations in a timely manner via regular communication, topic-specific communication or other relevant forms, give feedbacks in time, and keep improving work performance, to have positive interactions between stakeholders.

2. 【Grievance mechanisms】Enterprises may refer to the free, prior and informed consent principle, develop community grievance mechanisms, establish formal and transparent communication and grievance procedures, to ensure that enterprises' operation policies fully consider the impacts on local stakeholders, as well as local community environment and social development.

3. 【Supply chain partners】Enterprises shall actively develop supply chain partnerships, establish cooperation mechanisms to jointly and strictly implement the ethical sourcing policy. Enterprises shall strictly comply with the supplier code of conduct in line with requirements from brands and buyers. In addition, they shall also supervise their own suppliers in raw materials procurement and outsourcing services, and work with stakeholders to jointly promote the acceptance and implementation of the Principles for Responsible Investment in both upstream and downstream of the supply chain by including social responsibility requirements in procurement contracts, developing supplier code of conduct, conducting third-party audits and compliance audits, organizing training on employees' rights and interests, and working with public welfare organizations and industry associations on CSR projects.

4. 【Industry associations】Enterprises shall recognize the importance of industry associations in host countries, strengthen contacts with industry's competent authorities, actively participate in the projects initiated by industry associations, actively seek support from them when encountering problems related to social responsibility, leverage their connections in the society and industry, flexible operating systems, and experienced expert teams, to respond to local complex political relations, meet relevant CSR requirements, and enhance enterprises' competitiveness.

5. 【Chambers of commerce, embassies and consulates】Overseas chambers of commerce are platforms for enterprises to have dialogues with local chambers of commerce and governments. To participate in these chambers of commerce can promote information sharing among enterprises, strengthen the alliance between enterprises, optimize the allocation, scale and centralized development of resources, actively handle the relations with local governments and societies, and lay a foundation for promoting the reciprocity and mutual trust between enterprises and local societies. Meanwhile, chambers of commerce are also the bridges and bonds between Chinese-invested enterprises and local consulates and embassies. Enterprises shall communicate and coordinate with local competent authorities via embassies and consulates, so as to protect their legitimate rights and interests to the maximum extent, and create a good macro-environment for them to fulfill social responsibility.

(V) Management System and Culture Development

1.【Social responsibility information disclosure】Enterprises shall establish dedicated social responsibility management departments, and establish social responsibility information disclosure channels early in project implementation, completely, accurately and promptly communicate their commitments, policies and actions for fulfilling social responsibility, reach consensuses with stakeholders, win their confidence, and establish good images for enterprises in local communities.

2.【Cross-cultural communication】Enterprises shall understand host countries' cultural traditions as well as cultural taboos and sensitive issues, and hire honest, reliable local translators with a high level of translation expertise and good communication skills. Managers shall learn some daily expressions in local languages and behavior etiquettes, integrate into local cultures, and respect local customs and religious beliefs, to avoid disputes caused by differences in culture and folk customs, and the local boycott for being considered as invading foreign enterprises.

3.【Community engagement】Enterprises shall identify the impacts of investment projects on local community residents' life quality, understand local communities' reasonable expectations for improvement in education, healthcare and health, participate in the public welfare projects and activities for community development by supporting local infrastructure construction and upgrading, invest in public welfare and philanthropy, including education, healthcare, environment, culture, sport and art, to create enabling conditions for enterprises' harmonious integration into local community projects and smooth progress in investment implementation.

4.【Law enforcement departments】Enterprises shall learn to interact positively with local police, industry and commerce, tax, customs, labor and other law enforcement departments, and actively support their performance of public duties. Enterprises shall not violate laws while protecting their legitimate rights and interests, but respond rationally, and behave on just grounds, to their advantage and with restraint.

5.【Media】Enterprises shall establish and maintain good relations with local media, proactively contact media, invite media to visit them, regularly organize media activities, disclose relevant information, publicize their efforts and outcomes in addressing employment, protecting employees' rights and interests, engaging in public welfare activities and actively fulfilling CSR.

VI. Investment Exit and Post Evaluation

Enterprises shall consider the arrangements after the current investments are due in the early stages of investment projects, and pre-design the options of continuing to invest, exiting markets or adopting the strategy of waiting, taking into account investment implementation schemes, and the expectations for foreign investment policy adjustments, and changes in operation resources and markets in investment destination countries. Meanwhile, enterprises shall establish and improve the post evaluation system for investment projects, keep adjusting and optimizing follow-up investment directions and improve enterprises' investment decision-making and benefits through environmental impact assessment and social evaluation.

(I) Pre-design of Exit Mechanism

1. 【Exit mechanisms】Enterprises shall stress on the design of investment exit mechanisms in the early stage of overseas investment projects, so as to properly address the economic, social and environmental impacts at the investment exit stage in future, avoid or alleviate the negative impacts on employees, local communities, governments and other stakeholders caused by the exit.

2. 【Proactive exit】In designing proactive investment exit mechanisms, enterprises shall focus on investment structure design and legally compliant channels for capital exit.

3. 【Passive exit】In designing passive investment exit mechanisms, enterprises shall focus on the bankruptcy system frameworks for corporate governance and effective mechanisms for exercising creditors' rights.

4. 【Responsibility considerations in contracts】The articles of the

agreements for enterprises' overseas M & A, joint investment and cooperation shall make intentional provisions on investment exit time and means, pre-consider the social responsibility issues related to exit liquidation, and reserve exit channels.

(II) Responsibility Impact Management at Exit Stage

1. 【Responsible exit】In case of capital exit of overseas investment, enterprises shall fully identify the impact of exit means on stakeholders, including liquidation and deregistration, equity transfer and IPO, develop corresponding investment exit schemes, and strive to exit investment by legally compliant means, to ensure the legal rights and interests of shareholders, creditors and stakeholders are respected and protected, prevent, avoid and alleviate the negative environmental and social impacts caused by investment exit.

2. 【Liquidation according to law】At the liquidation stage, enterprises shall fully identify host countries' relevant laws and regulations on enterprise dissolution and bankruptcy liquidation, comply with host countries' procedural provisions on bankruptcy application or filing, court liquidation, enterprise deregistration, and exit investment after paying off wages, labor insurance, and taxes, settling claims and debts, and properly handling employee placement pursuant to laws and regulations, to avoid stopping operation without authorization, or direct withdrawal of investors or management.

3. 【Asset protection】In the process of liquidation, enterprises shall protect their assets and important documents. Liquidation team members shall be loyal to duties, fulfill liquidation obligations according to law, and shall not misappropriate companies' properties by taking advantage of their powers of office, or obtain other illegal income. After liquidation begins,

enterprises' assets shall be sorted and counted as soon as possible, and it would be best to hire security personnel to look after enterprises' assets and important documents, to prevent the loss of important documents, internal employees or external personnel from exploiting the opportunity to misappropriate or destroy enterprises' property.

4. 【Employee placement】Where investment exit involves collective dismissal or dissolution, enterprises shall undertake the due social responsibilities, safeguard employees' legal rights and interests, properly handle employee placement and compensation, identify employees' possible strong disapproval and overreactions, including making appeals to relevant authorities, misappropriating or destroying enterprises' property, and other behaviors to jeopardize enterprises' liquidation progress, effectively communicate in a timely manner and thoroughly consult with employee representatives, trade unions and the competent authorities of local governments, to reduce frictions and conflicts, and alleviate the adverse impacts on employees to the extent possible.

5. 【Community impact】Enterprises shall identify the impacts of investment exit on environment and local communities. Where the exit involves plant closure and land use exit, enterprises shall enforce the laws and regulations of local governments on land exit and rehabilitation, pollution control and bio-diversity protection, cooperate with local communities and their representatives, to ensure that the groups impacted by investment exit have fair and appropriate means to participate in communication and consultation, and provide fair compensation for the unavoidable negative impacts on communities.

(III) Post-investment Evaluation

1. 【Post evaluation systems】Enterprises shall establish post

evaluation systems for overseas investment projects, investigate and identify the causes for project successes or failures through managing project process, economic, technical and impact assessment, and social evaluation, and feed the experience and lessons into future investment projects, to provide first-hand experience and reliable data for future projects.

2. 【Traceable management】Enterprises shall try every means possible to refer to post project evaluation indicator systems, establish project management information systems, monitor and analyze project progress, improve daily project management, and implement traceable management during the whole course of operation, to accumulate materials for post evaluation.

3. 【Impact assessment and social evaluation】Enterprises shall comprehensively and objectively understand the information about various aspects of their projects, conduct post evaluations based on the above, and produce post evaluation reports. The impact assessment mainly analyzes projects' environmental and social impacts; and the social evaluation mainly evaluates social benefits and impacts, and analyzes projects' compatibility with societies.

4. 【Follow-up investment decision-making】Enterprises shall take the experience, lessons and policy recommendations from post evaluations as the reference and basis for follow-up investment decision-making. When decisions are made for existing projects to continue to invest or exit from markets, or when new investment projects are planned, the post evaluation conclusions, main experience and lessons of the past same-type projects shall be referred to.

Annex

1. United Nations Principles for Responsible Investment
2. Equator Principles
3. UN Global Compact
4. UN Guiding Principles on Business and Human Rights
5. ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy
6. OECD Guidelines for Multinational Enterprises
7. OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector
8. ISO26000 Guidance on Social Responsibility
9. Business Social Compliance Initiative (BSCI)
10. Social Accountability International (SAI) SA8000
11. Global Reporting Initiative (GRI) Sustainability Reporting Standards
12. CSC9000T Corporate Sustainability Compact for Textile and Apparel Industry (2018)