



**K T C**

K N O W L E D G E  
T E C H N O L O G Y  
C R A F T

# Social Report

FINANCIAL YEAR 2014

## OUR COMPANY

KTC LIMITED - THE BEST MADE BETTER

**KTC** Limited was incorporated in Hong Kong, in June of 1971. The idea was to supply garments of the highest quality to brands in Europe, USA and Japan.

In 1975 we were able to start business with adidas. Based on our excellent performance, KTC for many years became the exclusive supplier to adidas, at that time still a family business, for garments made in Hong Kong, Thailand and China. In 1981 we established Rondor Enterprises, a garment factory in Heshan, China, producing rainwear for adidas. KTC then expanded into the manufacture of skiwear, outerwear and premium functional garments. In 1996 another garment factory, called Trio, was founded in Vientiane, Laos, for the production of knitted and woven sportswear. Trio is now specialized in making work wear exclusively for a leading German work wear brand, again a family business.

It has now been a more than 40-year adventure, where KTC has always invested in knowledge, technology and craft. We constantly strive to lead in the 'Art of Performance Manufacture'. At KTC we know that we are only as good as the people who work for us. We will only be the best if we employ the finest talent. Our people make us what we are. That is why KTC is a member of the Fair Wear Foundation and the Fair Labor Association, and the reason why we support their mission to improve labour conditions across our industry. To this end, KTC invests in the education of our workforce and their children.

Our aims are simple: to invest in knowledge, technology and craft, and define the 'Art of Performance Manufacture'.

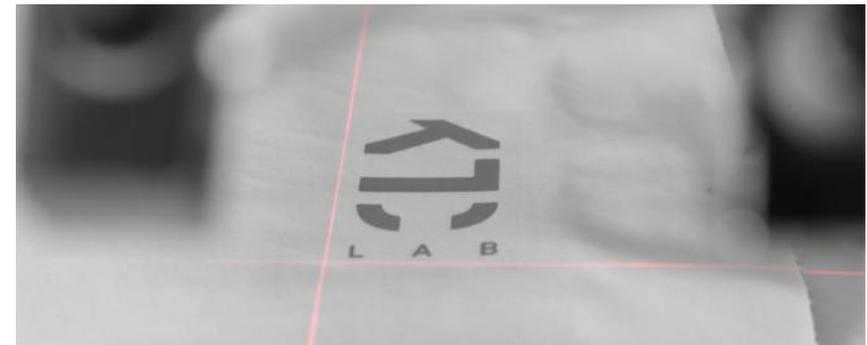
**K**nowledge of the people working in our company, combined with the expertise of our clients and suppliers, is the basis of achieving highest functionality of the products we manufacture.

**T**echnology and advanced equipment are the tools for achieving the ultimate performance of our garments. State of the art materials and machinery are applied to ensure highest performance for our customers.

**C**raftsmanship based on the vast history of our company and our long serving staff enables us to utilize extraordinary skills and experience. Finest workmanship in every detail is what makes our garments special.

The aim at KTC is to closely cooperate with those brands which also strive for excellence in performance manufacture. These are brands that share our philosophy of 'business is people' and 'only the best will do'.

We hope that you enjoy reading this report as much as we enjoy our passion for what we do.



Planning and craftsmanship in our factory in China.



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## OUR COMMITMENT

KTC LIMITED - BUSINESS IS PEOPLE

**Business is People** is already the incorporated motto of KTC since the foundation of our company. Until today, at KTC we still commit to this simple but comprehensive principle as one of our guiding credos. We firmly believe that only the fair and respectful relationship between workforce and company motivates and enables our workers to provide the very best performance and quality we seek to offer our customers in every product.

**Safe Working Conditions** are one of our most basic, but at the same time most important obligations that we as an employer need to provide in order to protect the health and safety of our workers. We only use chemical products and solutions to the most limited extent and make use of machinery that poses low risk of serious injury or accidents. This approach is as well partly supported by the nature of our operation and industry and related machinery in use.

**Upholding Rights** of our employees was and is a major factor in writing our company's success story in the past and future. The skills and knowledge of the people making our products are part of the fundamentals of our operation. Naturally, we are committed to upholding each worker's rights and treating our people with the respect every human being deserves. This responsibility only starts at the level of complying with the laws and regulations defined by the state and interna-



tional institutions. Providing a livable place and environment to work in means to exceed the required minimum and allow people to achieve professional and personal fulfillment to the highest degree possible. This opportunity has to be provided for each individual, regardless of position, gender, beliefs or other characteristics and attributes.

**Fair Compensation** for the work performed is a human right and has to be achievable for every person. The wage we earn for our work and performance is an important element in employment. We believe that everybody should be compensated adequately and fair. Our workers shall feel to be able to support their own and their families' lives by working with us, regardless of position and job. For this reason it is imperative for KTC to compensate at a level that enables a decent life.

**Environmental Awareness** is a topic that requires an equal level of attention. We strive to produce in a responsible manner and reduce our impact on the environment. Sustainable production and sustainable products are core values of our philosophy. We do not look for manufacturing of products with short lifecycles that use excessive amounts of our planet's limited resources. In our understanding, a garment of highest quality is built to last and used to an extend as efficient as

possible. This attitude also applies to the material and sources we use. Wherever possible we cooperate with long-term suppliers with which we can work closely together to have mutual understanding and leverage to promote use of resources that are sustainable and, where applicable, animal products which originate from respectful and humanely treatment.

**Highest Standards** and requirements in each of these areas are the only acceptable way to ultimately enable us to produce garments of finest quality. Products we manufacture have to satisfy our expectations in supreme social, environmental and functional quality.



Manual fabric cutting and manufacturing in our factories in China and Laos.



## OUR PRACTICE

KTC LIMITED - ONLY THE BEST  
IS GOOD ENOUGH

**Social Commitment** underlies the same principles that we strive for in our production: working towards the best performance possible. Although this approach in many cases requires a lot of effort and may not always be achieved right away, it is of great essence for KTC to always follow this path.

Social Participation is an important responsibility for each and every member of the society - that naturally includes companies. An employer has direct impact on the daily lives of people working at and with this employer. Major companies may affect thousands of individuals and families, leaving those companies with essential leverage for shaping and improving an important part of many peoples' lives. Regarding social participation of a company, we firmly believe that the first thought and step of each employer always needs to be directly related to the impact their operation and daily business has. We seek to act according to this belief and to first think of the people and families we affect directly and how we can provide care and quality of life to these people.

By no means we claim to be a perfect company; given the constant development of the frame conditions we work in, may it be new or amended legal framework, development in society or change in business and production, one will never achieve perfection as a lasting state. Our work and environment continuously provides us with new challenges and opportunities. This is also true in regard of our social performance, which is why we uphold our motto of 'only the best is good enough' for all our practices.



**NGOs** play an important role in investigating and improving working conditions and social standards throughout supply chains all over the world. KTC is a member of the Fair Wear Foundation (FWF) and the Fair Labor Association (FLA). We support these two organizations because we are committed to similar goals and have similar beliefs: that workers worldwide have the right to enjoy fair and good working and living conditions in every country and industry.

In regard of both partners, the FWF and the FLA, we focus on being an active member by providing constructive feedback and participation in development and contributing to the organizations' programs as much as possible. In light of this approach we presently work together with the Fair Wear Foundation in shaping and piloting their Factory Partnership Program. We believe this program has a lot of potential in evolving from the mere auditing approach and promote actual work and cooperation at the root of many problems. By bringing brands and factories together with the Fair Wear Foundation serving as an intermediary between both parties, this approach provides the basis to address some of the garment industry's complex major problems with the urgently needed cooperation between at least two of the major parties, manufacturers and buyers.

We are happy to have one of the two organizations visit our factories each year for a social compliance audit. KTC sees these audits as a beneficial service for the company which helps us to look into our processes and conditions in detail, identify points

for improvement and consult with external experts in many specialized areas.

In the term of 2014 we had an audit carried out by the Fair Labor Association in both our factories, with the official assessment report of the audit of our factory in Laos presently being finalized by the Fair Labor Association. These have been our first audits with the Fair Labor Association. The approach and focus was slightly different from our past audits in several details; this new experience gave us the chance to get some other impressions and also brought up some different findings. In an extensive review of documents and policies we found several opportunities to work on standardized procedures.



**Internal Audits** can be a very useful tool to complement external audits. Progress on remediation can be monitored and major problems can be identified and addressed timely. During the past year we started working on setting up a system for internal audits and improved monitoring. We use the experience we gathered during external audits to define guidelines and procedures to establish internal audits and refine our internal monitoring.



Through this approach we will be able to identify and rectify more of the daily in-compliances, keep better track of the remediation of different findings and identify urgent non-compliances or potential risks in a timely manner. We finished our first internal audit in the China factory at time of writing this report and are working on respective findings, mainly in regard of procedures and handling and storage of different chemicals like lubrication oils, cleaning detergents and adhesives.

Based on the experience we could make during this internal audit, we will review the process to refine procedures and standardization to develop a stable internal auditing system during the following months.

**Compensation** is not only a form of appreciation for the work we perform, but first of all the foundation of supporting the life of ourselves and our families. As stated in our commitment, we are striving to provide our workers with a fair and reasonable living wage. The topic of compensation is getting a lot of public attention and it hopefully will persist to be a highly visible topic to remain in people's awareness and to impact companies' and consumers' behavior and habits in a reasonable manner.

Paying a living wage is not as simple as asking the buying brand or end-consumer to pay an extra upcharge to cover a fair wage.

Neither is the responsibility to guarantee a living wage throughout a product's supply chain on a single actor or party. Still, it is an essential precondition that we, in our role as consumers, value what we buy and are willing to pay a reasonable price for the material and work that has been used in the manufacturing of any product. Buying in the medium or high price category does by no means ensure that wages in the supply chain of this product are fair. However, an 'as cheap and as much as possible'-mentality encourages calculations and products that make fair and sustainable production challenging. By the same token, we see it as the duty of buying, manufacturing and selling companies to work together and find reasonable ways and practices that enable fair business.

For KTC's side, we monitor the wages we pay in comparison to the Asia Floor Wage, which is being updated on a regular basis. Although very different conditions in different places make it impossible to define one single wage level that applies to all regions even within only a single production country equally, using a defined wage level is still a valuable tool and guideline to make comparisons on the basis of a common standard. We expect our factory's average wage to meet the new Asia Floor Wage level within the year of 2015.

A detailed overview of wages in our factories and the respective local wage levels can be found at the end of this document on pages 12 and following.



**Health and Safety** have to be guaranteed and protected for all workers and employees. In early 2015 we hired an external service provider to examine our China factory in regard of potential health and safety risks. The testing included monitoring of chemical materials, odors and emissions as well as mechanical risks and noise levels. During the testing two departments with potential noise hazard have been identified, namely the embroidery and die cutting departments, and one department with potential chemical hazard, which is the spot removal using cleaning detergent. As the exceeded noise level in the die cutting department was a new finding for us, we implemented the required safety measures, which include wearing ear protection and arranging annual health examinations for the related workers.

As our last audit identified some weaknesses in regard of chemical management and related documentation for our daily use chemicals like cleaning detergents, adhesives and lubricants, we reviewed and reworked some of the general aspects. This includes establishment of centralized procedures and record keeping for all chemicals to improve control and monitoring of potential sources for health risks of the respective workers. In this process we also reworked the hazardous waste separation and hazardous waste storage in both our factories.

Our staff and workers are educated on safe usage and handling of machinery and chemicals that are used, like spot removal cleaner or adhesives utilized in the production.

Fire safety is one of the major risks in a garment factory, which is why we overhauled our fire safety procedures in the years of 2013 and 2014 to provide efficient and up to date standards for our employees and conduct fire drills on a regular basis during which critical factors are monitored. Amongst the high priority factors are the time the evacuation and reporting of all employees at the gathering points take and the reliability of number and workplaces reported to the fire response team for potential rescue missions in case of missing workers.

In our factory in Laos, we organized basic education on health and hygiene for the food sellers around our factory where many workers take their meals. Most of the food sellers implemented measures to keep their ingredients and prepared dishes clean and safe from dust and insects, which is a major point for the popular local open air shops and food carts.



Fire safety and first fire response training at our factories in China and Laos.

**Social Responsibility** is not only a moral thing to consider. There are clear economic incentives to achieve high worker satisfaction and good moral amongst the workforce as well. Attract and retain skillful employees and motivate them to outperform themselves every day is a major competitive advantage and an essential necessity to manufacture products of highest functionality and finest quality.

Academic cooperation serves the aim of KTC for the continuous improvement of our social performance. We are convinced that fulfilling our social responsibility is not only a normative obligation but also a foundation for our long-term success. It is therefore essential to us to further develop our competencies and skills that allow us to improve ourselves every day. To this



Prof. Dr. Lin-Hi exchanging with a worker in our China factory.

end, we work together with Prof. Dr. Nick Lin-Hi who holds the Junior Professorship of Corporate Social Responsibility at the University of Mannheim (Germany) and is an expert in the strategic management of Corporate Social Responsibility in emerging and developing countries. Together with Prof. Lin-Hi, we investigate new approaches to strengthen our social responsibility. A lighthouse project in this respect is our scientifically sound program to enhance the well-being of our employees in order to become an employer of choice in the garment manufacturing industry. Employee surveys and field studies thereby show that we are on the right track. Accordingly, we strongly believe in the value added of this cooperation and will continue and deepen our partnership with Prof. Lin-Hi.



KTC's directors presenting a transparent thanking the workforce for their efforts at the Annual Dinner Party 2014.

**Angels for Children** is a respectable charitable foundation in Laos that was founded upon the initiative of a former employee of KTC Limited, Misses Gerlinde Engel, and her family. The goal of the foundation is to improve the education and opportunities of local children. Angels for Children established and runs now three schools in Vientiane, currently offering education for about 1,500 children. The schools are open to all Lao-tian children and no school fees are charged. Many of Trio's employees' children are visiting the schools. As the schools are located close to the area of our factory, the parents working at our factory often visit their children in the lunch break and take their meals with them together. KTC continuously engages with the foundation since many years and provided financial support in 2014 again to help operating and renovating the foundation's schools.

As Misses Engel retells her experience: When I first started working for Trio I was shocked that most of our workers were illiterate even though they had been to school throughout their childhood. I decided to visit the nearest primary school to get an understanding of how this could happen. The premises were run down and there were no toilets. Cows and dogs were left to roam freely amongst the children who were 60 to a class. The school had no structure or order, an impossible situation for education of any kind. My sister-in-law Ingrid Engel was a headmistress in Germany. On a trip to Laos she visited the school and decided to immediately initiate a trust to restructure the primary school. I was asked to take over the management upon my retirement.



Children attending classes at one of the foundations schools.



Children at the school collectively brushing their teeth.

## OUR DATA & FACTS

KTC LIMITED - BUILD ON TRANSPARENCY

**Transparency** is a fundamental value at KTC. While we are by no means perfect in regard of compliance, we truly believe that only by being honest and transparent about efforts and accomplishments, but also about challenges and problems all parties can benefit the most. In case of persistent difficulties, mutual understanding is the most efficient way to find workable solutions. As we put great effort in improving and keeping a high social standard, we are not shy to accept external journalists and auditors visiting our factories and publicizing about our standards and procedures.

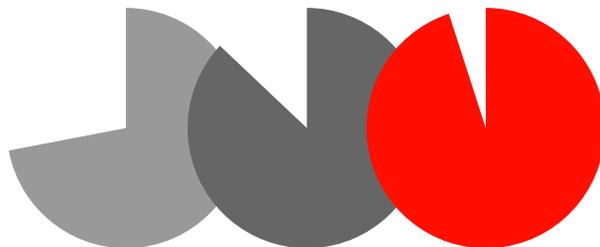
**Social Security** has become mandatory for all workers and all employers in China and Laos. Especially in China this presently is still a problematic topic in many cases. Not only do many employers try to avoid participating in the social security schemes, but also some employees are refusing to participate in the social insurance scheme for various reasons, posing a common challenge on a national scale.

Our factory in China reached about 95 percent coverage of the eligible workforce this year, increasing from 87 percent and 72 percent compared to years 2013 and 2012. Our factory in Laos increases slightly with coverage of 86 percent, 88 percent and 89 percent for the same time period.

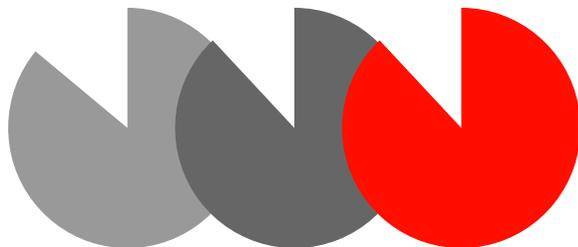
While some of our employees already passed the age at which



the social security system would accept them, a few workers strictly refuse participating as the system suffered from early flaws like non-local workers losing major parts of their contributions when moving back to their home provinces. As the Chinese government works on rectifying these flaws, we have been able to progressively increase the social security coverage for our workforce in the past years. For those workers who are not participating in the governmental social security program, KTC buys a commercial insurance plan as an alternative.



Increase in Social Insurance Coverage  
(Heshan Rondor Garments Limited)

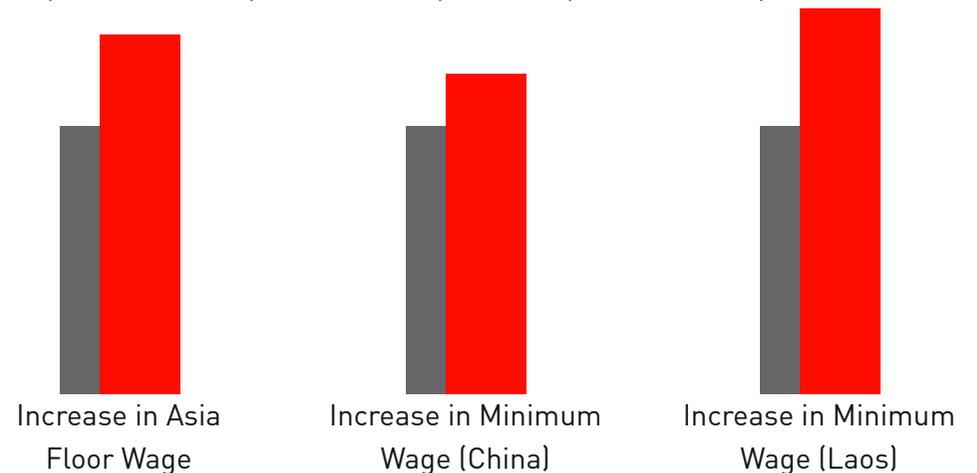


Increase in Social Insurance Coverage  
(Trio (Lao) Export Co., Limited)

## Wage Levels

are not only an important factor in attracting skillful workers, but also a major contributor to enable families to enjoy acceptable living standards. In course of working towards a living wage we started detailed analysis and sharing of all piece rate wages we pay. As we had some related inquiries from customers and organizations that showed interest in the related data, we decided to also make the overview of all piece rate wages in our factories available to the public and publish the related data on our website for any interested party or individual. The data summary of year 2014 can be found at the end of this document on pages 14 and 15.

A related benchmark we are using in regard of living wages, the Asia Floor Wage, was raised by about 34 percent from CNY 2,333 to CNY 3,132 for China. The legal minimum wage for the location of our China factory was increased by 19.5 percent from CNY 1,130 to CNY 1,350 per month in May 2015. The legal minimum wage for the location of our Laos factory was increased by 43.8 percent from Kip 626,000 to Kip 900,000 per month in April 2015.

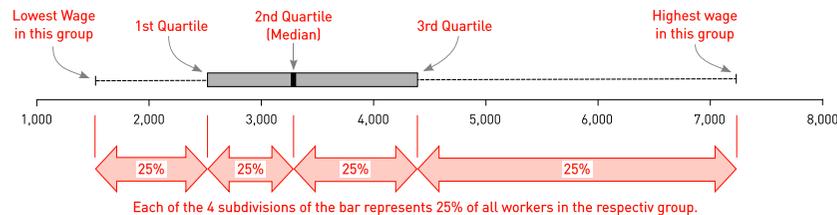




Our wage distribution is displayed in box plots, or box-and-whisker plots. To read the most information out of this presentation style, the following part will cover a short introduction and example on how to read the graphs.

In a box plot the groups of data, in our case all piece rate wages of each department, are displayed and visually divided into sub-groups. The most essential visible values for our setup are the lowest, highest and middle wage paid in each department. Additionally, the whole group of each department is graphically split into four sub-groups of which each represents 25 percent of the workers in this group.

Below is a simplified and commented example of a box plot.



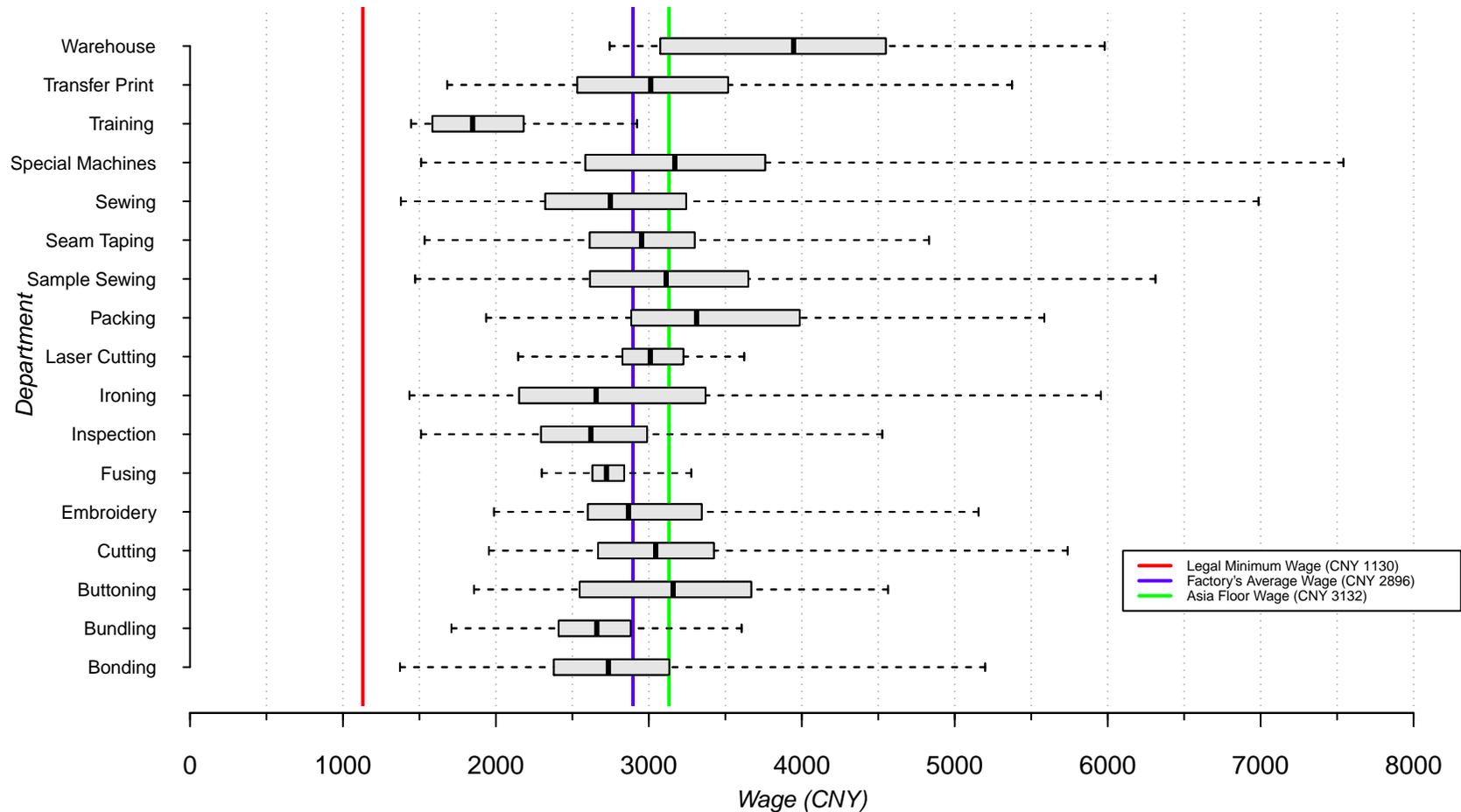
If we, for this example, assume that a department employs 400 workers, and the five reference values would be CNY 1,500 as lowest wage, CNY 2,000 as 1st Quartile, CNY 2,400 as 2nd Quartile, CNY 3,000 as 3rd Quartile and CNY 5,000 as highest wage, we can draw the following conclusions:

The middle income in this department is CNY 2,400. 100 workers in this department earn between CNY 1,500 and CNY 2,000, 100 workers earn between CNY 2,000 and CNY 2,400, 100 workers earn between CNY 2,400 and CNY 3,000 and 100 workers earn between CNY 3,000 and CNY 5,000.

While this presentation requires a minimum level of understanding, it provides a good impression on the wage levels and wage distribution throughout the departments.

# Wage Distribution at KTC Limited

Heshan Rondor Garments Limited (2014)

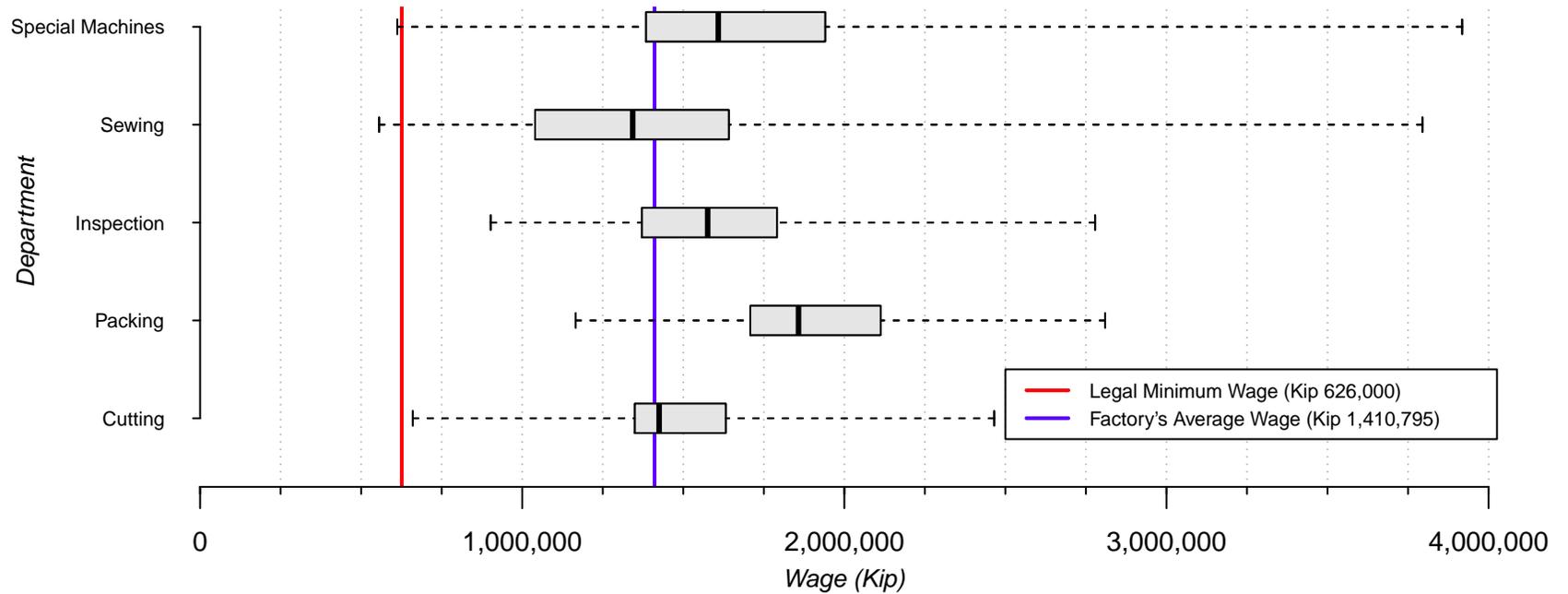


Notes:

- 1) The wages used in this graph are gross wages before deduction of income tax and social insurance contribution.
- 2) The wages used in this graph are calculated for a normal working week of 5 workdays per week, 8 hours per workday.
- 3) The wages used in this graph include the financial value for meal allowance and commuting or dormitory allowance.

# Wage Distribution at KTC Limited

Trio (Lao) Export Co., Limited (2014)



Notes:

- 1) The wages used in this graph are gross wages before deduction of income tax and social insurance contribution.
- 2) The wages used in this graph are calculated for a normal working week of 6 workdays per week, 8 hours per workday.
- 3) The wages used in this graph include the financial value for meal allowance and commuting or dormitory allowance.



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Fish pond and park area at our factory in China.

We hope you enjoyed reading this brief overview about a selection of our activities that go together with our core business, the engineering and manufacturing of premium functional garments. Feedback, comments and further questions are always welcome and may be sent directly to [martin@ktcquality.com](mailto:martin@ktcquality.com).

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