

Shenzhou International Group Company Action

Constructive Dialogue Leads to Changes on the Board



Source: Shenzhou International Group

COMPANY OVERVIEW

Shenzhou International Group is one of the largest vertically integrated apparel manufacturers in China. With customers that include prominent athletic brands around the world, innovation, performance and the ability to manage the many challenges facing the apparel industry are key. Apparel is water, energy and labor intensive, particularly in the early segments of the supply chain. Moreover, as consumers begin to recognize the environmental impacts of apparel, including the amount of waste produced, major brands are making environmental commitments and pushing these upstream to their suppliers.

OUR RECOMMENDATION

During a call in 2020, we encouraged Shenzhou International Group to consider appointing additional independent and female board members, which would add valuable skills to the board while enhancing minority shareholder rights.

COMPANY ACTION

In April 2021 Shenzhou International Group let us know that one woman and two Independent Non-Executive Directors (INEDs) had been appointed to their board. One teacher is a textile professional and the other is an automatic production professional. During an engagement call in June 2021, the company reported that the new Directors were adding value to the Board by providing meaningful insights related to raw material innovation and automation.

We believe these changes to the board are tremendous steps forward which will contribute to the company's competitive position. Additionally, their responsiveness to engagement shows a genuine commitment to addressing shareholder concerns and willingness to meet rising expectations related to ESG performance.

"After considering Rockefeller Asset Management's suggestion, we added one woman and two university teachers to our Board. One teacher is a professional in textile and the other is a professional in automatic production."

- Kenji Chan

Shenzhou, Financial Controller & Company Secretary

PREVIOUS OUTCOMES

As discussed in our earlier case study on [Shenzhou International Group](#), the company took action on previous recommendations by increasing disclosures in their annual report. Specifically, they included a section describing the governance structure for sustainability within the company, including Board oversight into sustainability topics. They included a table illustrating resource efficiency projects completed, in progress or planned between 2017- 2021 which included water reduction and energy reduction targets in two areas. They also included a discussion about supplier management. Our questions about the firm’s process for monitoring supply chain standards upstream prompted an internal inquiry into the matter, which was impetus for company leadership to deepen its knowledge on how labor standards upstream are monitored. This enabled them to better communicate these procedures to investors and brush them up in the process.

SUMMARY OF DIALOGUE AND ONGOING ENGAGEMENT

We have had numerous meaningful conversations with the company over the course of 2020 and 2021. These have covered topics such setting energy and water reduction targets, supply chain management, governance and ESG disclosures.

We are pleased with the notable steps forward taken by Shenzhou International Group. As with every company, strengthening ESG performance is a process of continuous improvement. We continue to dialogue with the company about appointing additional INEDs, aiming for an independent majority on the Board. We also discussed the issue of the proposals for general mandates to issue shares and repurchase shares which granted by the AGM to the Board of Directors annually. We exchanged views on the Corporate Governance issues, such as maintaining the flexibility of the Shenzhou International and protecting the rights and interests of minority shareholders. Similarly, we discussed the importance of reliable financial reporting and our preference for lower non audit related fees as well as the importance of avoiding forced labor in the sourcing of cotton.

Shenzhou International Group’s receptiveness to our engagement efforts demonstrates the value of engagement as part of our ESG integrated investment process, which strives to accelerate improvement and maximize shareholder value.



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SUSTAINABLE DEVELOPMENT GOALS



Goal 8
Decent Work & Economic Growth
Engagement Target
Improve disclosure oversight of supply chain labor conditions



Goal 13
Climate Action
Engagement Target
Set aggregate GHG reduction targets



Goal 12
Responsible Consumption & Production
Engagement Target
Set aggregate water reduction targets

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