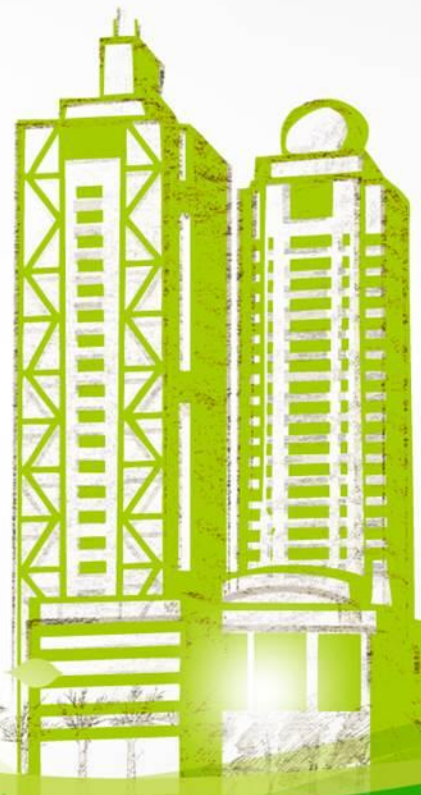




# **POU CHEN CORPORATION**

## **2015 Corporate Social Responsibility Report**



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# About This Report

## Reporting Guidelines

Pou Chen Corporation 2015 Corporate Social Responsibility Report (CSR Report) is aligned with the Global Reporting Initiative Version 4 Sustainability Reporting Guidelines (GRI G4), and is in compliance with its core options.

## Scope of the Report

Pou Chen Corporation (hereinafter referred to as “Pou Chen” or the “Company”) and its subsidiaries are collectively known as Pou Chen Group. The Company's businesses include footwear and apparel manufacturing, sporting goods retailing and brand licensing, real estate development and hotel management. The economic performance in this report is consistent with Pou Chen 2015 consolidated financial report, which includes Pou Chen Corporation and its subsidiaries. However, based on financial significance and industrial relevance, the social and environmental performance in this report primarily delineates Pou Chen's footwear manufacturing business, and does not include other businesses. Pou Chen's footwear manufacturing is mainly operated through its major subsidiary, Yue Yuen Industrial (Holdings) Limited. Compared to Pou Chen 2014 CSR Report, the scope of this report has expanded to the Company's tanneries, and two new footwear factories in Myanmar and Indonesia. Unless otherwise noted, most indicators encompass the performance of Pou Chen's main operation bases in Taiwan, China, Vietnam and Indonesia.

Pou Chen strives to steadily incorporate the sporting goods retailing and brand licensing business of its subsidiaries into its future CSR reports to provide comprehensive information on Pou Chen's sustainable operations and management.

## Period Covered

The information published in this report is for the period of January 1, 2015 to December 31, 2015. Some of the information and data for 2014 is also disclosed for comparison.

## Report Data and Verification

The data in this report is calculated and analyzed by the Company's internal management system. The financial data in this report is based on Pou Chen 2015 consolidated financial report which has been audited by the accounting firm Deloitte & Touche. Data that needed to be verified according to the regulations is measured and confirmed by third party organization and presented by using common numerical. All data is actual and confirmed.

This report has been verified by SGS Taiwan Ltd., to enhance conformity with the requirements of GRI G4 Core Option and AA1000 Assurance Standard (2008) Type 1, Moderate Level assurance.

## Reporting Cycle

This report is the second Corporate Social Responsibility Report issued by Pou Chen. The Company regularly issues its annual Corporate Social Responsibility Report before the end of June each year.

Previous version: Issued on August 26, 2015 (first issue).

Current version: Issued on June 26, 2016.

## Contact Information

This report can be downloaded from the Taiwan Stock Exchange Market Observation Post System (MOPS) website: <http://mops.twse.com.tw> or the CSR section at the Company's website: <http://www.pouchen.com/index.php/csr/csr-reports>

Questions, advice or suggestions on Pou Chen CSR topics are welcome.

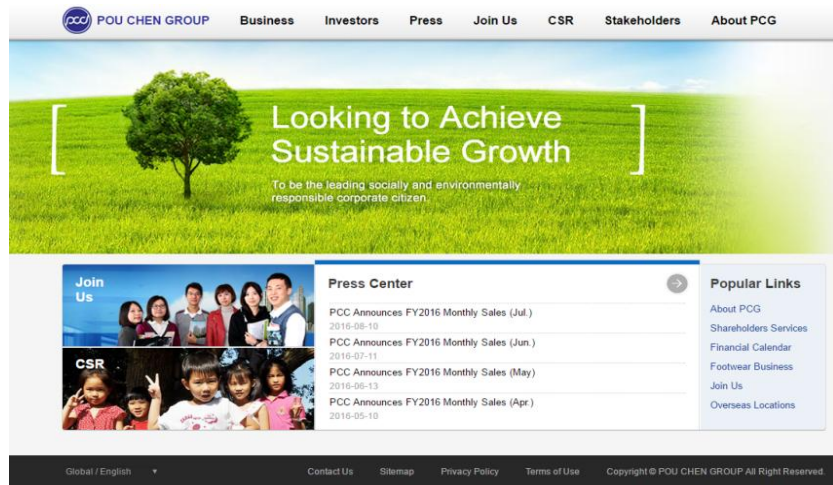
### Pou Chen Corporation

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### Notice to Readers

*This English-version CSR report is translated from the original Chinese version. If there is any conflict between the English version and the Original Chinese version or any difference in the interpretation of the two versions, the Chinese version shall prevail.*



# From The Chairman

Faced with the changes and challenges of global economy and environment, Pou Chen Corporation has adhered to the core values of “Professionalism, Dedication, Innovation and Service” with positive attitude since its founding in 1969. The Company continues to focus on its core businesses' operation, and is committed to be the best sports and leisure goods manufacturer and retailer. While striving to achieve a better operating performance, Pou Chen fully understands its responsibilities as a corporate citizen. Therefore, Pou Chen constantly implements and strengthen corporate governance, develops sustainable environment, and preserves public welfare to build value for its customers, employees, investors, suppliers and communities.

## Implementing Corporate Governance, Respecting Stakeholder Interests

Pou Chen has reinterpreted its core values, reviewed and amended “PCG Code of Conduct”, enacted “Ethical Conduct standards”, “Ethical Corporate Management Best Practice Principles”, “Procedures for Ethical Corporate Management and Conduct Guidelines” and other regulations along with internal communication platform and team-building activities, it is expected that the core values will be recognized and implemented by the employees to create a corporate culture of integrity. In 2015, Pou Chen also formulated “Procedures for Evaluating the Board of Directors’ Performance” and set up a Stakeholder section on the Company’s website. The Company is dedicated to building an effective governance structure, strengthening communication channels with stakeholders and improving corporate governance, and the Company was honored to be rated top 5% and top 20% in the 1<sup>st</sup> and 2<sup>nd</sup> Corporate Governance Assessment for Taiwan Stock Exchange listed companies, respectively.

## Environmental Care and Sustainable Development

To follow the global green trend, Pou Chen has promoted a set of energy management mechanisms and measures to enhance the efficiency in the usage of energy. The Company continues to carry out energy usage examination and monitoring, gradually phase out facilities which are of high pollutants/high carbon emission to achieve clean production and reduce energy waste. Moreover, Pou Chen continues to collaborate with brand customers and strategic suppliers to explore the possibility for the development and application of green materials in footwear manufacturing, and to further introduce the concept of green supply chain management. In 2015, green building design was applied into the new factories in Myanmar and Indonesia, including using sunlight and natural ventilation, water recycling, and greening the factories. These practices have proved Pou Chen's efforts toward environmental care and earth sustainability.

## Treasure Talents and Social Welfare

In order to attract talents, Pou Chen is committed to provide a safe and healthy work environment, and has obtained “Talent Quality-management System (TTQS)” Silver Medal Award by Workforce Development Agency, Ministry of Labor, Executive Yuan in 2015. In addition, the Company holds activities such as family events, company trips, sports competitions and celebrity lectures to help employees balance their work and family life. At the same time, Pou Chen regularly holds team-building activities to encourage employees to participate in community activities, including “Protect Agricultural Land, Appreciate Farmers” and the “Used Shoes Save Lives” with Step 30 International Ministries in 2015. The Company will continue to encourage its employees to care for the community and participate in social welfare by holding such activities.

Incorporated in Taiwan, today the Company has expanded to China, Indonesia, Vietnam, Cambodia, Bangladesh, Myanmar, America and Mexico along with the growth of its business. Transnational operations make the Company to be more cautiously and comprehensively to formulate strategies and measures to achieve sustainable development, and Pou Chen believes that corporate social responsibility is a quite important part. The Company will continue to strengthen and integrate its resources, enhance its performance of corporate social responsibility and then to establish a solid foundation for sustainable development through practicality, persistence, transparency and particularity, thereby to contribute to the economy, society and environment.

Chairman of Pou Chen Corporation

Chan, Lu-Min



## 1.0

# Company Profile and Corporate Governance

## 1.1 Introduction

Pou Chen Corporation was founded in September 1969, and it is involved in two core businesses, footwear business and retail business. Firstly it manufactures footwear, predominantly athletic, casual and outdoor. The Company has began as an original equipment manufacturer (OEM), and then successfully turned to be an original design manufacturer (ODM) for international brand name companies. Based on the risk diversification and cost saving consideration, the Company began to steadily spread from Taiwan to China, Indonesia, Vietnam and other countries. Today Pou Chen is the world's largest footwear manufacturer for athletic, casual and outdoor. The Company can annually produce over 300 million pairs of shoes, and accounts for approximately 20% of the combined wholesale value of the global branded athletic and casual footwear market. Second, the Company operates a retail network in the Greater China region that sells international brand name footwear and apparel either directly to consumers or to sub-distributors on a wholesale basis. For retail business, the Company started with brand licensing in 1992 and later expanded into sporting goods retailing. Now the Company has established an extensive retail network in the Greater China, and has become one of the leading sporting goods retailer and distributor in China.

Company Name	Pou Chen Corporation
Date of Establishment	September 4, 1969
Paid-in Capital	NTD 29.468 billion (as of 2015/12/31)
Chairman	Mr. Chan, Lu-Min
President	Mr. Lu, Chin-Chu
Main Business	Footwear and apparel manufacturing business (hereinafter referred to as "Footwear Business") Sporting goods retailing and brand licensing business (hereinafter referred to as "Retail Business")
Headquarter	No.600, Sec. 4, Taiwan Blvd., Xitun Dist., Taichung City, 407, Taiwan
Operation Regions	Taiwan, Hong Kong, Macau, China, Vietnam, Indonesia, America, Mexico, Cambodia, Bangladesh and Myanmar
Number of Employees	415,296 employees (as of 2015/12/31)
Company Website	<a href="http://www.pouchen.com">www.pouchen.com</a>

## Participation in Outside Organizations

Outside Organization	Status
Taiwan Footwear Manufacturers Association	Member
Changhua County Industrial Association	Member
Changhua Importers & Exporters Chamber of Commerce	Member
Fair Labor Association ( FLA )	Participating Suppliers

Pou Chen complies with the regulations of various Associations, advocates for the issues in the 2011 FLA Workplace Code of Conduct, and strives to create a fair and friendly workplace.

The 2011 FLA Workplace Code of Conduct and other relevant information are available at the FLA website ([www.fairlabor.org](http://www.fairlabor.org)).



### 1.1.1 Core Business

Pou Chen consolidated revenue in 2015 was NTD 269 billion. Footwear business is the major contributor, accounted for 72.6% of the overall revenue, retail business accounted for 27.1%, other business accounted for 0.3%.

(in NTD million)

Business Category	2015		2014	
	Amount	%	Amount	%
Footwear Business	195,313	72.6 %	183,292	75.1 %
Retail Business	72,927	27.1 %	59,891	24.6 %
Other Businesses	841	0.3 %	793	0.3 %
Total	269,081	100.0 %	243,976	100.0 %

#### Footwear Business

Initially, Pou Chen primarily manufactured rubber shoes for export. In 1978, the Company started manufacturing athletic shoes on a OEM basis, and later specialized in athletic, casual and outdoor. The Company is now the largest branded athletic and casual shoes manufacturer in the world. Its main customers include Nike, adidas, Reebok, Asics, Under Armour, New Balance, Puma, Converse, Crocs and Timberland, etc. The Company produced a total of 317.5 million pairs of shoes in 2015. The breakdown of production volume by location is as follows: 25% in China, 42% in Vietnam, 32% in Indonesia, and 1% in others (including America, Mexico, Cambodia, Bangladesh and Myanmar).

For more information of the Company's footwear business, please refer to 2015 annual reports of the Company and its subsidiary Yue Yuen Industrial (Holdings) Limited (hereafter referred to as "Yue Yuen").



#### Retail Business

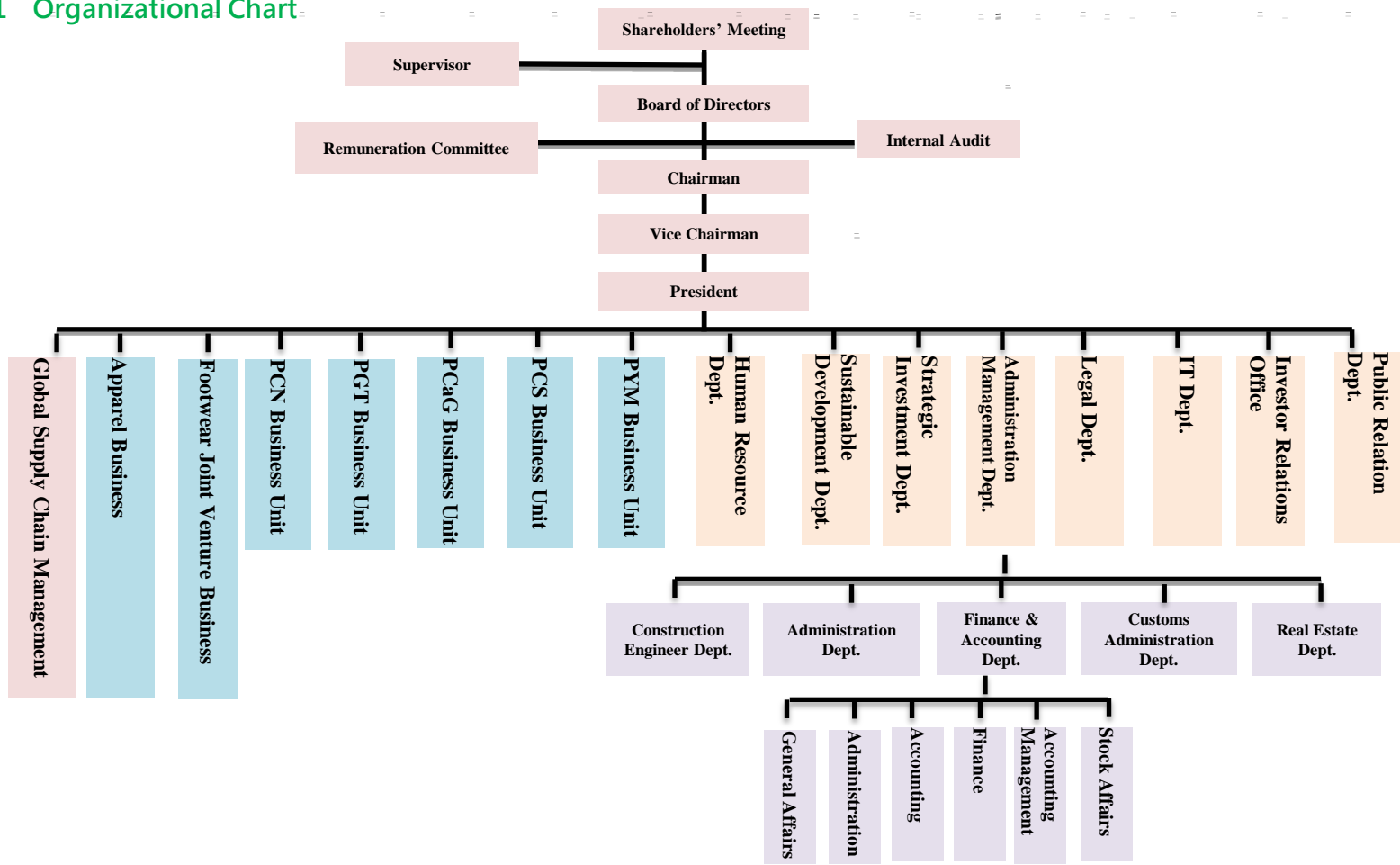
For retail business, the Company began with brand licensing in 1992 and later expanded into sporting goods retailing. Currently, Pou Chen indirectly through Pou Sheng International (Holdings) Limited (hereafter referred to as "Pou Sheng"), a subsidiary of Yue Yuen, to operate the retail business. Pou Sheng has established an extensive retail network in the Greater China. As of December 31, 2015, Pou Sheng had a total of 7,836 counters/stores in the Greater China region, including 4,943 directly operated counters/stores and 2,893 stores operated by sub-distributors. Besides, Pou Sheng is the brand licensee for Hush Puppies in Taiwan and for Pony in China and Taiwan.



For more information of the Company's retail business, please refer to 2015 annual report of Pou Sheng.

# 1.1.2 Organizational and Operational Structure

## 1.1.2.1 Organizational Chart

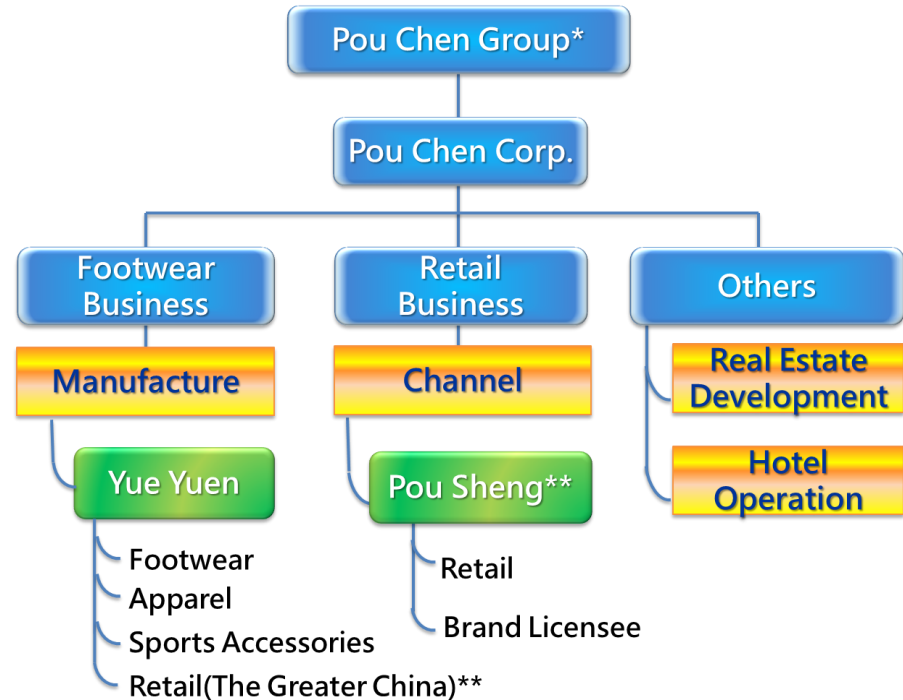




### 1.1.2.2 Affiliated Enterprises

Besides focusing on development of its footwear business and retail business through its subsidiaries, Yue Yuen and Pou Sheng, Pou Chen is also engaged in the manufacturing and sale of footwear materials, sports apparel, sports accessories and other related business via its affiliated enterprises to build a complete supply chain. Moreover, Pou Chen also diversifies into real estate development and hotel operation to increase the value of the Company.

For more information of the Company's affiliated enterprises, please refer to the Pou Chen 2015 Annual Report.



\* Pou Chen Group is not an official Legal entity.

\*\*Pou Chen via Yue Yuen indirectly invested PouSheng to operate retail business.

### 1.1.2.3 CSR Operational Structure

#### Corporate Social Responsibility Policy

In consideration of the correlation between the development of domestic and international corporate social responsibility principles and corporate core business operations, and the influence of the Company's operation and business as a whole on stakeholders, Pou Chen has enacted "Corporate Social Responsibility Best Practice Principles" approved by the Board of Directors. Through regular semi-annual "Business Management Meetings", the performance of relevant measures involving corporate social responsibility is reviewed and analyzed, and the goals and measures will be modified accordingly, so as to ensure the Company is able to reach the goal of sustainable development.

For information of Pou Chen's "Corporate Social Responsibility Best Practice Principles", please refer to the Company's website at <http://www.pouchen.com/>.

#### Pou Chen CSR Policy

As a leading company in footwear manufacturing industry, Pou Chen is deeply committed to implementing exemplary corporate social responsibility policy. While pursuing sustainable operations and profits, Pou Chen will give due consideration to the rights and interests of its stakeholders, the environment and society. The Company implements corporate social responsibility initiatives according to the following principles:

##### Implement Corporate Governance

- Effective Corporate Governance Framework
- Strengthen the Board's Function
- Corporate Culture of Integrity
- Respect Stakeholders' Rights and Interests

##### Preserve Social Welfare

- Comply with International Labor and Human Rights Standards
- Provide Safe and Healthy Workplace
- Employee Training and Career Development
- Multi-Channel Communication
- Facilitate Suppliers' Sustainable Development
- Social Contribution and Community Participation

##### Develop Sustainable Environment

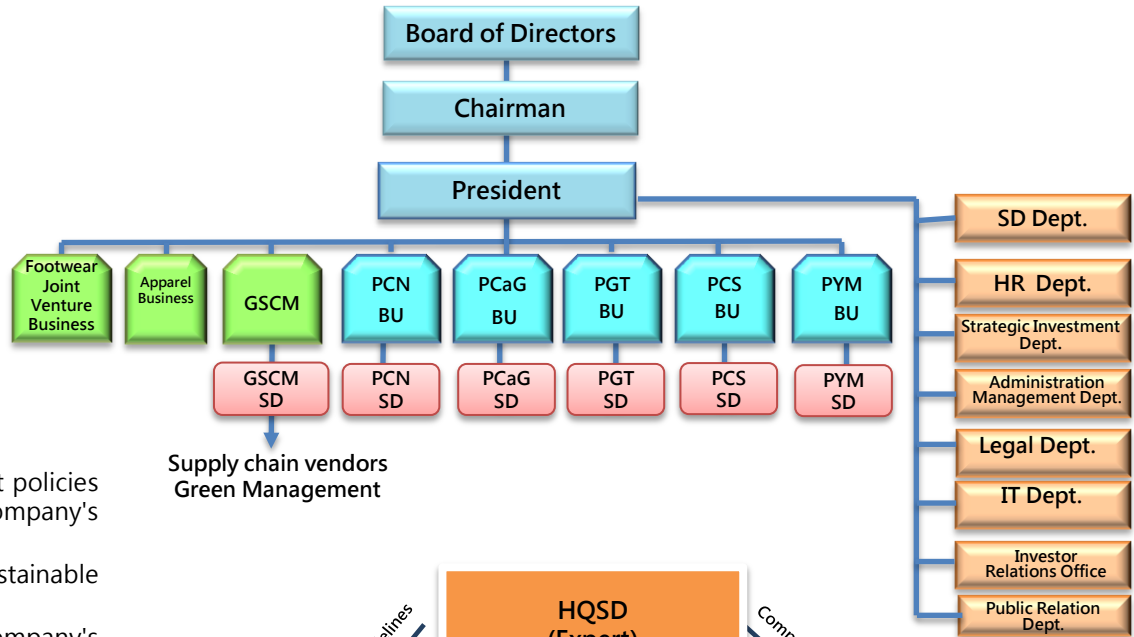
- Comply with International Standards
- Establish Environmental Management System
- Adaptation Activities for Climate Change
- Education for Sustainable Environment
- Improve Efficiency of Energy and Resource Use

##### Enhance Information Disclosure

- Corporate Social Responsibility Report
- Spokesperson System
- Public Information Disclosure Channels
- Provide Timely and Accurate Information

## Organizational Structure of CSR Operations

The Company has established a Sustainable Development Department (SD) responsible for enacting and promoting corporate social responsibility policies for all factories to comply with. SD also assists factories in strengthening the CSR projects management, including brand customers requirements for sustainable operation, legal compliance, employee relations management and external audits of the Company's factories by NGOs. In addition, SD is required to report to the Company's management the CSR planning, implementation and results on a regular basis.



### Headquarters SD (HQSD) :

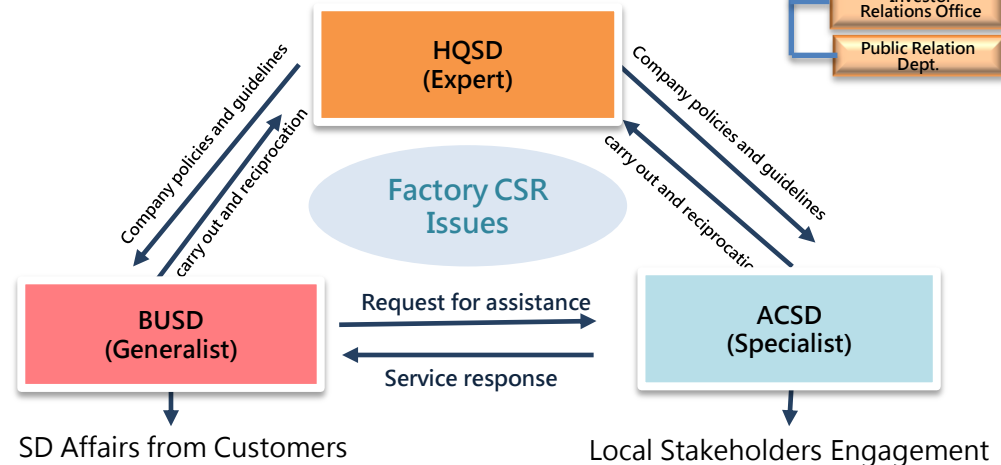
- To formulate the Company's sustainable development policies and guidelines by taking consideration of the Company's business strategies and operation needs.
- To integrate and implement the Company's sustainable development by optimizing staffing.
- To inspect, review and continually improve the Company's sustainable development policies, standards and processes.

### Administrative Center SD (ACSD) :

- To effectively integrate local resources and handle routine SD affairs.
- To implement regional integration in comply with the Company's policies and guidelines.
- To assist BUSD in resolving customer's various needs.

### Business Unit SD (BUSD) :

- To further understand the needs of Business Units, maintain and enhance strategic partnership with brand customers, provide customers with high value-added services.
- To assist in communication and implement the Company's policies and guidelines to reach the goal.



## 1.2 Core Values and Vision

Pou Chen is committed to be the world's leading athletic and casual footwear manufacturer. Since its founding, the Company adheres to the core values of "Professionalism, Dedication, Innovation and Service" in overcoming difficulties and challenges. The Company also upholds the spirit of innovation and strives to continually grow and exceed itself. Through the establishment of a variety of internal communication channels, it is expected that the core values will be recognized and implemented by the employees, and the Group's sustainable operation will be enriched by the employees' enthusiasm and actions of accountability to achieve the goal of sustainable development.

### Four Major Strategies

- Treasure talents, connect people, build industrial CSR leadership.
- Institute future manufacturing excellence model.
- Elevate supply chain efficiency and innovativeness.
- Achieve end-to-end business success in China.

### Our Vision

To be the best sports gears producer and distributor. We build value for our customers, employees, investors, suppliers and communities by constantly providing world class products, services and solutions; and by leading as a socially and environmentally responsible corporate citizen.

### Four Major Goals

- Become the industrial leader.
- Preferred workplace for employees.
- Establish soft power of sustainable production.
- Share prosperity with the community.

## PCG Core Value



Treasure Talents · Connect People

Develop proportionally · Happy life

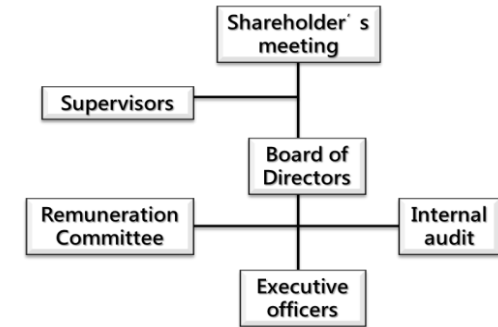
## 1.3 Corporate Governance

Pou Chen upholds the highest principle in integrity management, constantly strives to protect shareholders' interests and to pursue the goal of sustainable development. The Company believes that establishing an effective corporate governance structure is the sound foundation of good governance. Hence, the Company continuously strengthens the function of the Board of Directors and the competence of functional committees, implements internal control mechanisms, respects stakeholders' rights and interests, increases information transparency as to improve its corporate governance. In addition, the Company was honored to be rated top 5% and top 20% in the 1<sup>st</sup> and 2<sup>nd</sup> Corporate Governance Assessment for Taiwan Stock Exchange listed companies, respectively. The Company will continue to enhance the effectiveness of corporate governance.

### 1.3.1 Board of Directors

#### Board Responsibilities

The Board of Directors is Pou Chen's highest governance unit and decision making center. Its main responsibilities include establishing independent directors, functional committees and internal audit mechanisms, overseeing the Company's legal compliance and operational transparency. The Board holds regular "Business Management Meetings" to understand operational risks and challenges confronting the Company, and to confirm business strategies and operating principles. The Board also assesses the performance of management team and appoints or dismisses managerial officers. In 2015, the "Procedures for Evaluating the Board of Directors' Performance" was approved, and the performance of the Board, individual Board member and functional committees shall be evaluated at least once a year to strengthen the Board's operation and governance systems.



Picture : Governance Structure

#### Board Organization

The composition of the Board is adopted a diversified guideline, based on the Company's operations, business model and development needs, including but not limited to gender, age and educational background. Pou Chen's 21<sup>st</sup> Board of Directors comprises seven directors and two supervisors for a three-year term (from June 14, 2013 to June 13, 2016). The Company has one female director and two independent directors among the seven directors. The professional knowledge and skill backgrounds of the directors are diversified, including the industry, finance and accounting, techniques, management and legal. All directors are competent in the knowledge, skills and capability necessary for executing their duties.

#### Board Election

The Board of Directors shall be elected from legally competent persons at the shareholders' meeting for a term of three years. Re-elected directors may serve consecutive terms. Independent directors shall be elected at the shareholders' meeting from a list of nominated candidates, and qualification shall comply with the "Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies". Shareholders who hold more than 1% of the total number of shares issued by the Company can submit a list of independent candidates to the Company.

#### Mechanisms for Avoiding Conflict of Interest

The Company has enacted its "Regulations governing the Board of Directors' Meetings" to ensure implementation of recusal system of directors. If a director is involved in a conflict of interest in certain proposal at a Board meeting, the director shall recuse himself from the discussion or the voting, and may not exercise voting rights as proxy for another director. In addition, the Company has elected two independent directors, who will provide professional and cogent suggestions. In discussion of proposals, the Board of directors will take into account of independent directors' opinions to effectively protect the Company's interest. Furthermore, according to relevant Securities Acts, the Company regularly discloses the operational status of corporate governance.

In 2015, the Board strictly complied with the principles of conflict of interest, and there was no violation in its operation.



## Members of Board of Directors

(as of 2015.12.31)

Title	Nationality or Registration Area	Name	Gender	Date of Appointment	Date of First Appointment	Education and/or Experiences
Chairman	Panama	PC Brothers Corporation	-	2013.06.14	1992.08.08	N/A
	R.O.C.	Representative: Chan, Lu-Min	Male	2013.06.14	1992.08.08	Statistics Department, National Chung Hsing University Executive Director of Yue Yuen
Vice Chairman	R.O.C.	Tsai, Nai-Fung	Male	2013.06.14	1980.03.26	Senior high school Chairman and Non-Executive Director of Pou Sheng
Director	R.O.C.	Tzong Ming Investments Co., Ltd.	-	2013.06.14	2013.06.14	N/A
	R.O.C.	Representative: Tsai, Min-Chieh	Female	2013.06.14	2013.06.14	Finance Department, Wharton School of the University of Pennsylvania, America Financial Analytics, Finance Department at Bloomberg News
Director	R.O.C.	Chang Ming Investments Co., Ltd.	-	2013.06.14	2007.04.24	N/A
	R.O.C.	Representative: Lu, Chin-Chu	Male	2013.06.14	2011.03.07	Department of Mechanical Engineering, Oriental Institute of Technology Chairman and Executive Director of Yue Yuen
Director	R.O.C.	Lai Chia Investments Co., Ltd.	-	2015.06.12	2007.04.24	N/A
	R.O.C.	Representative: Tsai, Ming-Lun	Male	2015.06.12	2015.06.12	Master' s Degree, Graduate School of Design, Harvard University, America Executive Director of Yue Yuen
Independent Director	R.O.C.	Chen, Bor-Liang	Male	2013.06.14	2013.06.14	Ph.D. in Applied Mathematics, National Chiao Tung University Professor of the Department of Business Administration, National Taichung University of Science and Technology Professor of the Department of Applied Mathematics, Tunghai University
Independent Director	R.O.C.	Chiu, Tien-I	Male	2013.06.14	2013.06.14	S.J.D., Tunghai University Partner, Chiu & Chien, Attorneys at Law Adjunct Assistant Professor of the Department of Financial and Economic Law, Chung Yuan Christian University
Supervisor	R.O.C.	Sheachang Enterprise Corporation	-	2013.06.14	2003.10.03	N/A
	R.O.C.	Representative: Lin, Yuan-Lang	Male	2013.06.14	2010.06.17	National Taichung University of Education County Head of Nantou County, Legislator, Member of National Assembly
Supervisor	R.O.C.	Ever Green Investments Corporation	-	2013.06.14	2007.04.24	N/A
	R.O.C.	Representative: Chen, Huan-Chung	Male	2013.06.14	2010.10.19	Department of Industrial Management, National Taiwan University of Science and Technology Vice President, E-Sun Bills Finance Corporation

### 1.3.2 Remuneration Committee

Members of Pou Chen's 2<sup>nd</sup> Remuneration Committee comprises two independent directors and one independent person. The term is 3 years, from June 14, 2013 to June 13, 2016. The Committee's functions are to professionally and objectively evaluate the policies and systems for compensation of the directors, supervisors, and managerial officers of the Company, and submit recommendations to the Board of Directors for its reference in decision making.

The Remuneration Committee's meeting was held four times in 2015, and the attendance is as shown below:

Title	Name	Attendance in Person	Attendance by Proxy	Attendance Rate (%)
Convener	Chen, Bor-Liang	4	0	100
Member	Chiu, Tien-I	4	0	100
Member	Lee, Ton-Han	3	1	75

### 1.3.3 Audit Committee

For sound supervisory function and strong management mechanism, three independent directors will be elected and an audit committee will be established to act as supervisors upon the expiration of the 21<sup>st</sup> Board of Directors and Supervisors in 2016.

### 1.3.4 Internal Audit

Pou Chen's Internal Audit Department is an independent unit under the Board of Directors. It is responsible for auditing each operational units within the Company and its subsidiaries, including regular internal audits and special audit projects. The Internal Audit Department expects to promptly detect potential risk in the Company's internal control system and offer recommendations. Based on the 2015 risk assessment results, an annual audit plan approved by the Board was formulated and implemented. In accordance to the Company's internal audit procedure, the Internal Audit Department issued audit notices, reviewed departmental self-assessment results, then conducted field audits and sample testing. Finally, audit reports shall be submitted to and reviewed by independent directors and supervisors by the end of the following month as well as approved by the Board of Directors. Any material incidents are immediately reported to the independent directors and supervisors.

In 2015, a total of 37 items were audited, including regular audits, required by "Regulations Governing Establishment of Internal Control Systems by Public Companies" and special audits. The Internal Audit Department has conducted audits in accordance with the auditing principles and procedures, and has collected sufficient and appropriate evidence, and concluded that there was no significant deficiency in the Company's internal control system.

### 1.3.5 Moral Integrity and Anti-Corruption

#### Establishing Standards

The Board of Directors and managers have already established an internal control system, and through continuous and effective management, ensured operational effectiveness and efficiency (including profit performance and safeguarding of asset). Relevant reports are reliable, timely, transparent and in compliance with relevant standards and regulations.

In terms of control environment elements in the internal control system, the Company has formulated the “Corporate Governance Best Practice Principles” and further developed the “Ethical Conduct standards”, “Ethical Corporate Management Best Practice Principles”, “Procedures for Ethical Corporate Management and Conduct Guidelines” and other management measures.

The Company's specific actions for moral integrity and anti-corruption range from employee code of conduct to signing of the “Code of Ethics and Integrity” and “Non-Disclosure Undertakings”.

Major suppliers are also expected to comply with the Company's transaction integrity system, including signing of the Company's “Undertaking of Ethics and Integrity”, or providing a declaration of integrity to the Company. In addition, other supervisory or management mechanisms are implemented, such as mailboxes for internal and external reporting.

#### Behavioral Prevention

Based on analysis of our businesses that are susceptible to a higher risk of unethical conduct, the Company has listed the following conduct that should be avoided:

- (1) Giving or receiving bribe.
- (2) Making illegal political contributions.
- (3) Making inappropriate charitable donations or sponsorship.
- (4) Giving or accepting unreasonable gifts, hospitality or other unfair advantage.
- (5) Infringing on trade secrets, trademarks, patents, copyrights and other intellectual property rights.
- (6) Engaging in acts of unfair competition.
- (7) Directly or indirectly harming the interest, health or safety of consumers or other stakeholder in the development, procurement, manufacturing, provision or sale of product or service.

#### Measures for Preventing the Use of Charitable Donations and Sponsorships (Financial or Goods) to Conceal Bribery

The Company complies with the following principles in charitable donations or sponsorship activities, and major contributions must be approved by the Board of Directors:

- (1) Must comply with local laws of place of operation.
- (2) Decision must be in the form of written record.
- (3) Recipients of charitable donations must be charity organizations and donations can not be bribes in disguise.
- (4) Consideration in exchange for sponsorship must be clearly defined and reasonable. Recipient of sponsorship cannot be a business partner or person with interests in the Company.
- (5) After making a charitable donation or sponsorship, the consistency between the use of donation or sponsorship and contribution purpose must be verified.

## Communication and Training

The Company's policy on operational integrity is disclosed on the Company's internal Website, annual report, company websites and other company literature to help employees, suppliers, customers and other relevant organization or personnel clearly understand the Company's philosophy and standards on operational integrity.

When engaging in commercial activities, Company employees are required to explain the Company's integrity management policy and relevant regulations to the trading partners. They must also clearly refuse direct or indirect offer, promise or request of unfair advantage in any form or on anyone's behalf, including rebate, commission or facilitation payments, and refuse to provide or accept unfair advantage through any means.

In 2015, through the numerous domestic and overseas integrity education and training organized by Legal Department, the Company expects to further promote its philosophy and standard on operational integrity.

## Information, Complaint and Reporting Principles and Channels

When in doubt that whether a conduct is consistent with the Company's operational integrity philosophy or standards, employees or stakeholders may seek advice and assistance from the direct heads of their department or from the Legal Department. Stakeholders may inquire through the Company's Stakeholder Site or mailbox (ir@pouchen.com). The Company will process the inquiry according to the scope and nature of the issue and forward it to the relevant personnel for handling and response (Please refer to Chapter 2.1 for details).

The Company responds to employee feedback and complaint through 3 types of complaint and reporting channels established by the Work Guidelines:

1. Immediate department heads of the employee;
2. Human Resource Department of the various plants; and
3. Complaint mailbox in each plant, which is directly managed by the Human Resource Department or Sustainable Development Unit (SD).

In line with the Company's development in global logistics and electronic information, 2 types of electronic complaints and reporting channels are available in 2014 to enhance accessibility and efficiency.

(1) E-mail: HQ@pouchen.com.

(2) Internal Website: <http://website.pouchen.com/integrityadmin/tw/>.

Any person may report company employee found in violation of laws or unethical acts through the above channels.

## Legal Measures Against Unethical Conduct

To protect Company interest, necessary legal action will be taken against any corruption according to the severity and specifics of the incident. In 2015, except for on-going cases of legal action against unethical employee conduct, there is no new case of litigation.

1.4 Operational Risk Identification and Response

With internationalization, operations are affected by changes in the global economic environment and increasingly complex challenges. To reduce potential risk of interruptions in operations, the Company has formulated relevant management strategies and response measures to identify from daily operations the risks that may affect the Company's sustainable development.

The Company's specific actions for moral integrity and anti-corruption range from employee code of conduct to signing the Employee Professional Ethics Agreement and Confidentiality Agreement.

Major suppliers are also expected to comply with the Company's transaction integrity system, including signing the Company's Transaction Integrity Agreement, or providing a declaration of integrity or documents of explanation to the Company. In addition, other supervisory or management mechanisms are implemented, such as mailboxes for internal and external reporting.

Risk Identification

Five major categories of overall risk to the Company are identified as follow:

- 1. Operations and management risk: Impact and effect of changes in factors such as domestic and international economy, technology, environment and sporting goods consumer market.
- 2. Strategic investment risk: Market price fluctuations in short-term securities investment and the management of long-term investments.
- 3. Credit management risks: Risk of loss from counterparty failure to fulfill contractual liability or responsibility.
- 4. Operations management risk: Damage to company caused by negligence in internal control processes and inappropriate failures in information systems.
- 5. Legal management risk: Inability to bind counterparties to their contract obligations due to contracts lacking comprehensiveness, inaccurate authorization, incomplete regulations, counterparties not subjected to legal enforcement or other factors, resulting in the risk of financial or reputation loss.

Risk Process Management Mechanism

1. Risk management mechanism

The Company risk control is divided into 3 levels (mechanism):

- (1) In the First Mechanism, the organizer or contractor is responsible for identifying, assessing and reporting risk in initial operation.
- (2) In the Second Mechanism, the General Manager and department heads are responsible for overall risk assessment and corresponding management decisions.
- (3) In the Third Mechanism, the Audit Department is responsible for auditing and the Board is responsible for control and supervision.

Risk management organizational structure and responsibilities

Name of Organization	Range of Responsibilities and Operations
Board of Directors	<ul style="list-style-type: none"><li>● The Board is the Company's highest supervisory unit for risk management. Its goal is to ensure compliance with regulations, and promote and implement the Company's overall risk management. The Board clearly understands the risks confronted by the Company's operations, ensures the effectiveness of risk management mechanisms, and is ultimately responsible for risk management.</li></ul>
Functional Committees	<ul style="list-style-type: none"><li>● In accordance with organizational regulations, Functional Committees carefully conduct independent and professional assessments of risks and present the outcome to the Board for resolution.</li></ul>
President	<ul style="list-style-type: none"><li>● Executives the Board's risk management policies and inter-departmental interaction, communication and coordination.</li><li>● Is responsible for auditing program strategies and assessing project risks.</li></ul>
Administration Department, Business Units, and other Department Heads	<ul style="list-style-type: none"><li>● Assist with and supervise departments and units in risk management activities.</li><li>● Determine risk categories and recommend measures according to environmental changes.</li><li>● Summarize the implementation outcome of risk management activities.</li><li>● Conduct performance measurement and coordination following risk adjustment.</li></ul>
Individual Departments and Units	<ul style="list-style-type: none"><li>● Perform daily risk management activities.</li></ul>



## 二、2015 Risk Identification and Control Measures

Dimension	Risk Identification	Risk Control Measures
Economic	Change in corporate image	Continue to implement sustainable development, uphold operational principles of professionalism and integrity, and emphasize corporate social responsibility, corporate governance, environmental protection and risks control.
	Moral integrity and anti-corruption	The Company has formulated the Group Code of Conduct, Ethical Corporate Management Best Practice Principles, Procedures for Ethical Corporate Management and Conduct Guidelines and other internal regulations. In 2015, the Company formulated the Ethical Conduct standards to help stakeholders further understand the Company's standards for ethical conduct. In addition, the Legal Department offers integrity education and training, and has set up internal and outside channels for complaints and reporting .
	Inflation in manufacturing cost	Make good use of local advantages in production and maintain maximum flexibility in production configuration; continue to promote supply chain resource integration and process optimization, and steadily increase the ratio of automated production.
	Financial risk	Continue to assess overall economic indicators, appropriately avoid interest rate and exchange rate risk, manage credit risk, carefully evaluate investment management.
	Information risk	Build a sound information management system and multiple control and protection network for information security, strengthen information security and proactive warning capability.
	Legal risk	Continue to inventory updated changes in laws and regulations, and conduct education and training to achieve regulatory compliance. Assist with legal advice and review contracts to reduce business disputes.
Environmental	Climate change risk	Continue to inventory energy and resource use, and manage sources. Steadily promote clean and low-carbon fuel alternatives and seek opportunities to save energy and reduce carbon emission.
	Increasingly rigorous environmental protection law	Formulate key management tasks for environmental safety and health. In 2015, inventory of regulation compliance in various regions was strengthened to ensure compliance with relevant regulations. Actively participate in pollution control facilities and monitoring, strengthen regulatory compliance in the management of pollutant emission, and steadily promote clean production processes and waste reduction processes, and increase energy efficiency of equipment.
Social	Infectious diseases control risk	Strengthen epidemic prevention measures, including measures for plant access control, handling abnormalities, plant disinfection, employee health management and independent medical examination, mechanism for epidemic reporting and healthcare logistics, and review and reserve immunization supplies.
	Fire safety management	Continue to implement fire prevention measures, reinforce employee fire prevention awareness and fire fighting training, strictly enforce fire source control and independent safety inspection mechanism, and periodically conduct thermal imaging of electrical equipment.
	Safety and health risk	Conduct employee occupational safety and health education and training; strengthen protective measures for hazards and risks and operational control to ensure safe workplace and production process. Establish workplace safety and health committee to regularly inspect and improve occupational safety concerns.
	Human resources risk management	Provide a competitive working environment, employee benefits, comprehensive training and development programs. Organize cultural and recreational activities, and promote activity series on employee care and respect. Continue to promote personnel training programs.
	Product quality and safety Management	Comprehensively promote product safety-related policies and measures. From product development, trial and manufacture, strictly adhere to international regulations and brand standards in the use of raw materials. Implement breakage prevention and metal inspection measures to rigorously protect consumers from injury when using products.

## 1.5 Lean Production and Process Optimization

To meet the logistic management needs of regional footwear industry and increase business performance, Pou Chen has actively introduced LEAN Production and Manufacturing Excellence (ME) in recent years. The Company continues to integrate supply chain resource, develop and promote automated production, and expand import plan to accelerate depreciation of energy consuming process and equipment. Through process optimization, production efficiency is expected to increase and energy and chemical use is expected to decrease per unit product.

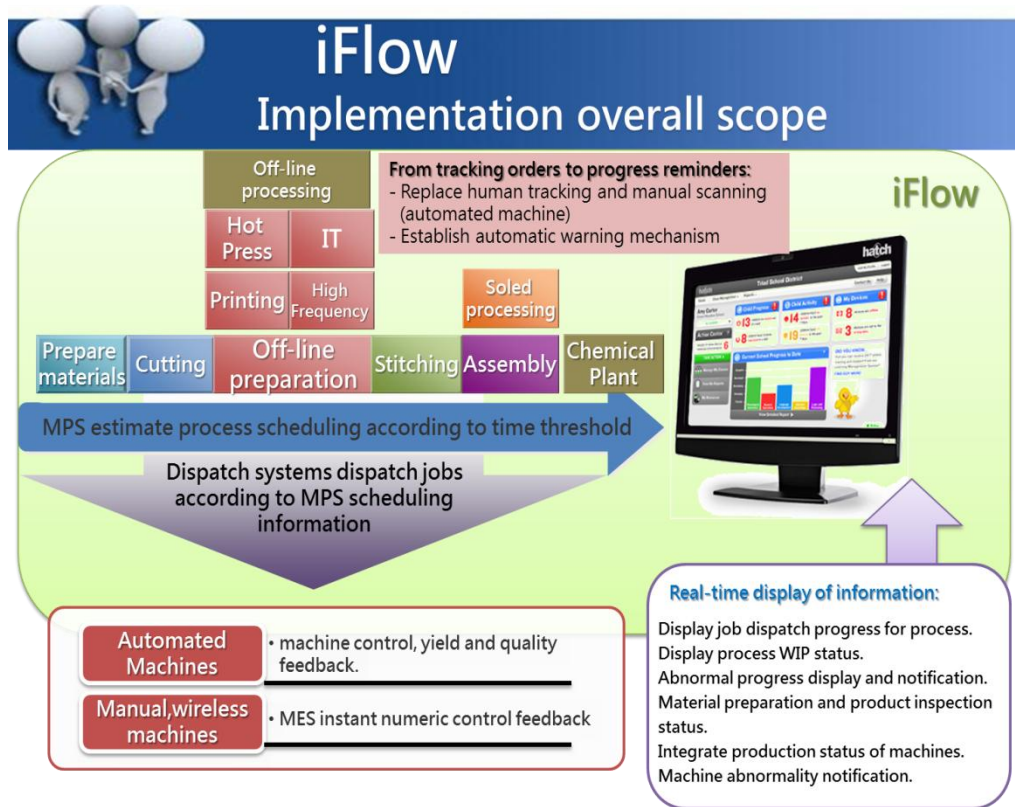
### Innovation and Automation in Footwear Manufacturing

Pou Chen continues to invest resources into innovative footwear material and new technology application, intelligent manufacturing and more flexible production methods. The Company actively develops unique and innovative quality footwear for brand customers to satisfy market demand. The Company's product R & D Center and teams are dedicated to brand customers, work closely with them during the development of product prototypes, and contribute professional knowledge and recommendations to the product design to meet the stringent requirements of brand customers.

Through interdisciplinary cooperation, Pou Chen's multi-talented R & D teams apply digital management tools, integrate hardware and software systems and plan production processes to refine production efficiency and flexibility. Moreover, given the different footwear designs, the teams steadily promote automated manufacturing, and have currently developed the 3D / 2D vision technology and applied it to mechanical arm technology for precision adhesive spraying in footwear outsoles. Visual technology and digital control processing equipment are also used to quickly identify material appearance and the range of processing path, thereby achieving automated production process.

At the same time, the Company has also developed other related core technologies such as the CAD / CAM / RE, which can be combined with knowledge-based field experience. Related strategies such as computer-aided process planning have been developed, and by integrating above the technology and strategies, a system for enhancing plant utilization is developed and applied to footwear mold design or production process.

Furthermore, the Company actively participates in intelligent footwear manufacturing alliances, collaborates with academic research institutions and supply chain vendors to research and develop new materials, and sophisticated, automated footwear manufacturing process. The Company continues to accumulate collaborations and development experience in core technologies, and strives to increase overall production efficiency to provide customers with more valuable products and services.



## Systems Implementation Items

### Raw material support and quality inspection system in tandem with dispatch system

- . Tandem to dispatch once raw materials and quality inspections are approved.
- . Raw material support progress feedback in tandem to production progress schedule.

### Off-line OEM dispatch and numeric control/link to footwear plant

- . Immediate control of all production status (tandem system).
- . Scan and collect numeric control information of all production processes.

### Chemical Numeric Control Management / Tandem footwear plants

- . Immediate control of base material support status (tandem system).
- . Immediate query of base material storage status.

### Tandem Production Schedule / Warning Mechanism

- . Available process information from raw material preparation to all production progress schedule.
- . Provide warning mechanism through discrepancy between production scheduling and on-site production

In view of future automation trend in the footwear industry, from design to manufacture such as 2D / 3D digital geometry construction, database systems integration, production equipment series and finished product output, each key area requires system integration experience, and must also take into account innovation and efficiency. Through the accumulated experience of numerous integration projects, the Company has successfully acquired profession integration capabilities, including software and hardware integration, on-site process series integration, OEM computation system and type database link computation, thereby not only improving product quality but also creating opportunities for future overall development.

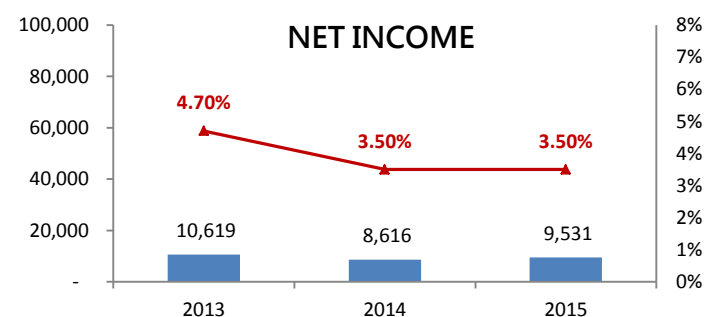
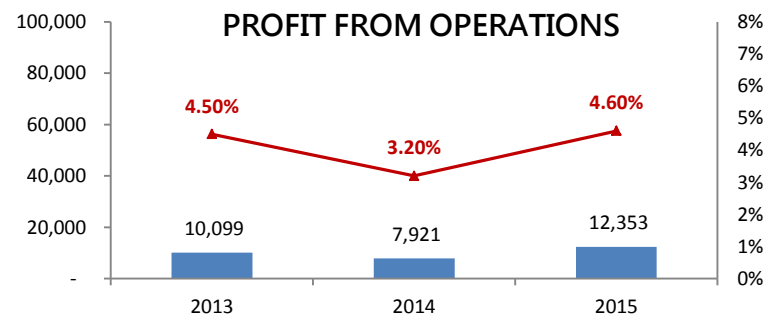
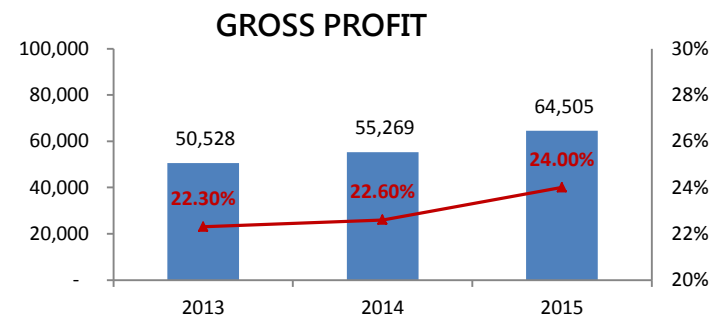
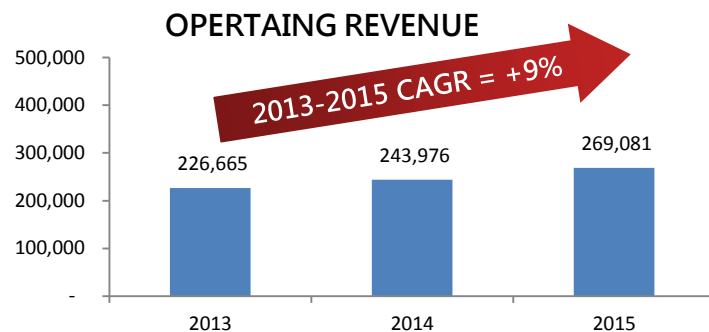
## Specific Measures for Optimizing Process in 2015

Original Operation Process	ME Optimization Measure	Impact Assessment
Footwear production line processes (ME)	LEAN for improving systems structure -promote iFlow project. (Including production equipment monitoring)	Program in progress. Expected outcome: flexibility and quick response, faster production, reduced risk of flawed design to produce better footwear.
Manual application of molded insoles adhesive	Changed adhesive operations.	Increased efficiency, shortened processes, improved quality.
Stockfitting with water-based glue	Water-based adhesive laminator project (20 machines have been installed)	Replaced 1 person per machine, and reduced glue consumption by 5%.
Single mode steel cutting. Two single-pole steel cutting for cuff foam	Changed from single mode to 6 mode operation. Change from single-pole to continuous pole operation.	Increased efficiency, shortened processes, improved quality.
Automatic cutting machine	Replaced traditional manual operation with automation.	Efficiency increased by 27% based on current production model and parts calculation.
Panel pattern data management	Brand - Planning system for patterns (Developed archiving system for hard copies and electronic records of art-work sheets)	Panel design information effectively managed, and big data can be analyzed to quickly adjust or improve pattern design.
Production optimization measures	<ol style="list-style-type: none"> <li>1. For parts that require pre-processing, changed from inside cutting to outside cutting to increase efficiency.</li> <li>2. For areas requiring high frequency, used isolated turntable to improve activation rate.</li> <li>3. Installed laser punching machines to reduce labor.</li> <li>4. Installed automated cutting machine (for midsole &amp; insole) and modular production to reduce labor.</li> <li>5. Installed automated printing presses to reduce labor .</li> <li>6. Installed roller laminator (rubber) to reduce sockliner cementing labor.</li> <li>7. Installed 2D PUR (Die-cut EVA) to reduce sockliner cementing labor.</li> <li>8. Promoted modular Layout for demonstration line area to increase C2B production efficiency, reduce machine waste and electricity waste.</li> </ol>	<ol style="list-style-type: none"> <li>1. Efficiency increased by 52%.</li> <li>2. Efficiency increased by 289%.</li> <li>3. Efficiency increased by 300%.</li> <li>4. Efficiency increased by 333%.</li> <li>5. Efficiency increased by 32%.</li> <li>6. Efficiency increased by 584%.</li> <li>7. Efficiency increased by 217%.</li> <li>8.C2B PPH upgraded by 49%.</li> </ol>

## 1.6 Operational Performance

Pou Chen's 2015 consolidated revenue amounted to NTD 269 billion, which is an increase of 10.3% compared to 2014, which could be attributed to steady growth in footwear business, improved operating efficiency and network expansion of retail business. With continuing growth in consolidated revenue, consolidated gross profit and consolidated operating profit was NTD 64.5 billion and NTD 12.4 billion, respectively, up 16.7% and 56.0% compared to 2014. Together with contribution of investment income and other non-operating income, Pou Chen's 2015 net income attributable to the Company was NTD 9.5 billion, an increase of 10.6% compared to NTD 8.6 billion in 2014, and the earnings per share was NT\$3.24.

(in NTD million)





Pou Chen distributed 2014 earnings in 2015 with NTD 1.50 cash dividend per share. The Board of Directors has adopted 2015 profit distribution on April 29, 2016 to distribute cash dividends of NTD 1.50 per share. The distribution will be made at 2016 annual general shareholders' meeting on June 15, 2016 for resolution.

(In NTD million, Except Earnings Per Share)

Consolidated Financial Statements	2015		2014	
	Amount	%	Amount	%
OPERATING REVENUE	269,081	100.0 %	243,976	100.0 %
GROSS PROFIT	64,505	24.0 %	55,269	22.6 %
PROFIT FROM OPERATIONS	12,353	4.6 %	7,921	3.2 %
INCOME BEFORE INCOME TAX	20,240	7.5 %	15,874	6.5 %
INCOME TAX EXPENSE	3,639	1.4 %	2,015	0.8 %
NET INCOME	16,601	6.1 %	13,859	5.7 %
<i>ATTRIBUTABLE TO: Owners of the Company</i>	9,531	3.5 %	8,616	3.5 %
EARNINGS PER SHARE	3.24		2.93	
STAFF SALARIES AND BENEFITS	70,009		65,011	
NUMBER OF SHIPMENTS ( MILLION PAIRS)	317.5		307.1	

### Sales (provided) region of major products (service)

(In NTD million, Except Earnings Per Share)

Region	2015		2014	
	Amount	%	Amount	%
Asia	129,988	48.3%	111,473	45.7 %
America	80,752	30.0%	81,499	33.4 %
Europe	52,111	19.4%	45,400	18.6 %
Others	6,230	2.3%	5,604	2.3 %
<b>Total</b>	<b>269,081</b>	<b>100%</b>	<b>243,976</b>	<b>100.0 %</b>

Pou Chen's website ([www.pouchen.com](http://www.pouchen.com)) has set up an Investors Section with updated financial information.

For questions and suggestions, please contact: [ir@pouchen.com](mailto:ir@pouchen.com)

## 2.0

# Stakeholder Engagement and Material Aspects

## 2.1 Stakeholder Engagement Identifying Stakeholder Relationship

Based on the recorded frequencies of inquiries and communications between customers, outside groups and Company employees with business management personnel, Pou Chen delineated 8 major categories of stakeholder relationships concerned with the Company's footwear business, namely shareholders / investors, clients, authorities, employees, suppliers, community, media and non-governmental organizations ( NGO ).

### Stakeholder Dialogue

Through regular and ad hoc meetings, and transparent and positive communications via relevant business windows, Pou Chen addresses stakeholders concerns and solicit their opinions and suggestions. In addition, feedback are reported and discussed during internal meetings and used as important reference for sustainable development strategy. The Company's main administrative center for operations and production has a SD dedicated to coordinating and managing stakeholder communication and feedback on environmental protection, human rights and community impact issues.



Principle for Identification :  
Interaction Frequency

To strengthen the effectiveness of stakeholder communication channels , the Company added the following communication windows to provide more immediate and clear information and meet stakeholder information demand.

#### Taichung office

ADD: No.600, Sec. 4, Taiwan Blvd., Xitun Dist.,  
Taichung, 40764, Taiwan, R.O.C  
Tel : (04)2461-5678 (switchboard)

#### Changhua Office

ADD: No. 2, Fu Kung Road, Fu Hsin Hsian,  
Chang Hwa, 50662, Taiwan, R.O.C.  
Tel : (04)769-5147 (switchboard)

#### Customers

Mr. Hsu,  
E-mail : Shoe.Business@pouchen.com

#### Employees

Ms. Hsu,  
E-mail : care4u@pouchen.com

#### Employment

E-mail : recruiting@pouchen.com

#### Investor Relations and spokesman

E-mail : ir@pouchen.com

#### Suppliers

Mr. Chu,  
E-mail : GSCM@pouchen.com

#### CSR

Mr. Niu,  
E-mail : sd@pouchen.com

#### Share Transfer Agent

Grand Fortune Securities Co., Ltd.

ADD: 6F, No.6, Sec. 1, Zhongxiao W.  
Rd., Zhongzheng Dist., Taipei  
City 10041, Taiwan, R.O.C.

Website: [www.gfortune.com.tw/](http://www.gfortune.com.tw/)  
TEL: 886-2-2371-1658

## Pou Chen Stakeholder Communication Channels

Stakeholder	Major Concern	Communication Channel	Frequency
Shareholder/ Investor	<ul style="list-style-type: none"> <li>Economic Performance</li> <li>Corporate Governance</li> <li>Market image</li> </ul>	<ul style="list-style-type: none"> <li>Information posted on MOPS and Company website</li> <li>Shareholders' meeting</li> <li>Participation in organizational meetings</li> <li>Via spokesperson</li> </ul>	<ul style="list-style-type: none"> <li>Non scheduled</li> <li>At least once a year</li> <li>At least twice a year</li> <li>Non scheduled</li> </ul>
Customer	<ul style="list-style-type: none"> <li>Product quality</li> <li>Banned and restricted substance management</li> <li>ESH management and performance</li> <li>Code of Conduct performance (labor relations / labor rights / legal compliance)</li> <li>Transparency and reliability of information disclosure</li> </ul>	<ul style="list-style-type: none"> <li>Business visits / routine meetings</li> <li>Unscheduled communications meetings</li> <li>Audit feedback / self-management performance feedback</li> <li>E-mail and telephone contact</li> </ul>	<ul style="list-style-type: none"> <li>Monthly</li> <li>Non scheduled</li> <li>Monthly</li> <li>Non scheduled</li> </ul>
Authorities	<ul style="list-style-type: none"> <li>Corporate governance</li> <li>Legal compliance</li> </ul>	<ul style="list-style-type: none"> <li>Cooperate with government in implementing safety inspections</li> <li>Regularly file declarations and documents (monthly / quarterly)</li> <li>Participate in briefings/seminars</li> </ul>	<ul style="list-style-type: none"> <li>Non scheduled</li> <li>Non scheduled</li> <li>Non scheduled</li> </ul>
Employee	<ul style="list-style-type: none"> <li>Company operating status (job stability)</li> <li>Salary and remuneration</li> <li>Labor relations / labor rights / work hours management</li> <li>Workplace safety / appropriateness of regulations</li> <li>Feedback channels</li> </ul>	<ul style="list-style-type: none"> <li>Company internal Website / e-mail / employee suggestion box</li> <li>Staff Welfare Committee / Occupational Safety and Health Committee / union</li> <li>Complaints and Merits Committee</li> <li>Internal employee publications</li> <li>Employees and management conference</li> <li>Questionnaire survey</li> <li>Employee Affairs Department counseling services for employees in overseas production factory plants</li> </ul>	<ul style="list-style-type: none"> <li>Non scheduled</li> <li>Monthly</li> <li>Non scheduled</li> <li>Monthly Issue /Bi-monthly Issue</li> <li>Monthly/Quarterly/</li> <li>Non scheduled</li> <li>Daily</li> </ul>
Supplier	<ul style="list-style-type: none"> <li>Banned and restricted substance management</li> <li>Fair competition / quality and price</li> <li>Supplier evaluation</li> </ul>	<ul style="list-style-type: none"> <li>Commitment Agreement (for each material supplier)</li> <li>Purchase contract</li> <li>Business communication / e-mail and telephone contact</li> <li>Supplier evaluation system</li> </ul>	<ul style="list-style-type: none"> <li>Non scheduled</li> <li>Non scheduled</li> <li>Non scheduled</li> <li>Yearly</li> </ul>
Community	<ul style="list-style-type: none"> <li>Environmental issues /degree of legal compliance</li> <li>Transportation</li> <li>Job opportunities</li> <li>Community outreach and reciprocation</li> </ul>	<ul style="list-style-type: none"> <li>Initiate visits</li> <li>Establish outside communication window for suggestion and feedback</li> <li>Sponsor community outreach activities / Community visits</li> <li>Company public website</li> </ul>	<ul style="list-style-type: none"> <li>Non scheduled</li> <li>Non scheduled</li> <li>Non scheduled /Quarterly</li> <li>Non scheduled</li> </ul>
Media	<ul style="list-style-type: none"> <li>Employee complaints</li> <li>Legal violations / accidents</li> <li>Strikes</li> </ul>	<ul style="list-style-type: none"> <li>Briefings to address concerns/ Issue press releases</li> <li>Coordinate and arrange media request for interviews and information</li> </ul>	<ul style="list-style-type: none"> <li>Non scheduled</li> <li>Non scheduled</li> </ul>
NGO	<ul style="list-style-type: none"> <li>Labor relations / labor rights</li> <li>Legal compliance</li> <li>Environmental issues</li> </ul>	<ul style="list-style-type: none"> <li>Improve and respond to FLA audit outcome / NGO cooperation plans</li> <li>Briefings to address concerns/Issue press releases</li> <li>Communications meetings/E-mail and telephone contact</li> </ul>	<ul style="list-style-type: none"> <li>Yearly</li> <li>Non scheduled</li> <li>Non scheduled</li> </ul>

\* NGO : Refers to FLA, Greenpeace and other organizations.

## 2.2 Identified Material Aspects and Boundaries

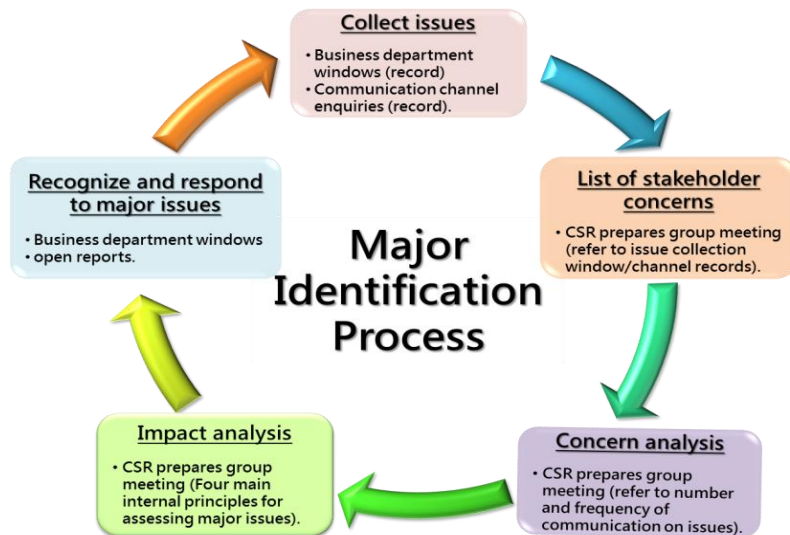
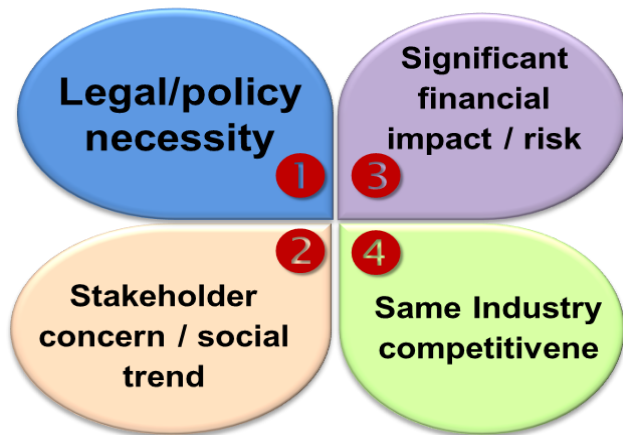
### Material Aspects Identification Process

Pou Chen self-reviews daily operations to identify potential impact issues, self-assesses according to specific dimensions in the GRI G4 and its industrial concerns<sup>(note)</sup>, and list a summary of 41 issues for consideration.

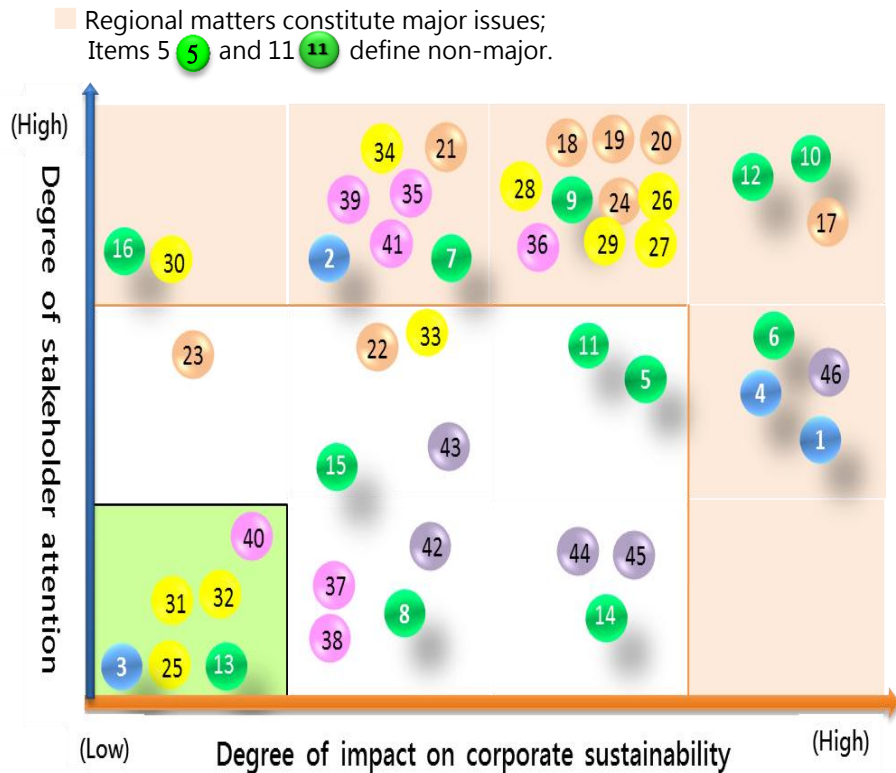
Pou Chen's core footwear business is a labor-intensive manufacturing industry that attracts continual attention from international labor rights group, and brand customers views on major issues that are critical to operational cooperation. Therefore brand customer Code of Conduct requirements and the US Fair Labor Association requirements are listed by the Company as major issues. At the same time, the Company continues to address the concerns of other stakeholders, and based on stakeholder communications records by internal departments, summarizes their issues of concern.

From the summary of stakeholder concerns, the CSR team consults with relevant departmental authorities, and delineated 26 major issues according to the four main principles for major issue assessment. Coupled with 2 descriptions, a total of 28 items are reported in this report.

#### Four main internal principles for assessing major issues



(note) Refer GRI sustainability-topics-19-Textiles, Apparel, Footwear and Luxury Goods-59 Topics .



Picture : Priority assessment diagram

G4.0 SSD					
Category	No.	Material Aspects	Category	No.	Material Aspects
Economic	1	Economic Performance	Social-Human Rights	25	Investment
	2	Market Presence		26	Non-discrimination
	3	Indirect Economic Impacts		27	Freedom of Association and Collective Bargaining
	4	Procurement Practices		28	Child Labor
Environmental	5	Materials		29	Forced or Compulsory Labor
	6	Energy		30	Security Practices
	7	Water		31	Indigenous Rights
	8	Biodiversity		32	Assessment
	9	Emissions		33	Supplier Human Rights Assessment
	10	Effluents and Waste		34	Human Rights Grievance Mechanisms
	11	Products and Services	Social-Society	35	Local Communities
	12	Compliance		36	Anti-corruption
	13	Transport		37	Public Policy
	14	Overall		38	Anti-competitive Behavior
	15	Supplier Environmental Assessment		39	Compliance
	16	Environmental Grievance Mechanisms		40	Supplier Assessment for Impacts on Society
Social-Labor Practices and Decent Work	17	Employment	Social-Product Responsibility	41	Grievance Mechanisms for Impacts on Society
	18	Labor/Management Relations		42	Customer Health and Safety
	19	Occupational Health and Safety		43	Product and Service Labeling
	20	Training and Education		44	Marketing Communications
	21	Diversity and Equal Opportunity		45	Customer Privacy
	22	Equal Remuneration for Women and Men		46	Compliance
	23	Supplier Assessment for Labor Practices			
	24	Labor Practices Grievance Mechanisms			

## 2.2 Material Aspects Identification and Boundaries

### Boundaries of Material Aspects

☑ Complete disclosure; ☆ Partial disclosure; ○ Impact not included in disclosure.

G4.0 SSD			Within the organization	Outside the Organization				
Category	No.	Material Aspects	PCC	Supplier	Client	Community	Authorities	NGO
Economic	1	Economic Performance	☑			○	○	
	2	Market Presence	☑		○	○	○	
	4	Procurement Practices	☑	○	○			
Environmental	5	Materials	☑	○	○		○	○
	6	Energy	☑	○	○	○	○	
	7	Water	☑	○		○	○	
	9	Emissions	☑	○	○		○	○
	10	Effluents and Waste	☆	○		○	○	○
	11	Products and Services	☆	○	○		○	
	12	Compliance	☑	○	○	○	○	○
Social-Labor Practices and Decent Work	16	Environmental Grievance Mechanisms	☑			○		○
	17	Employment	☑			○	○	
	18	Labor/Management Relations	☑		○	○	○	○
	19	Occupational Health and Safety	☑	○	○	○	○	○
	20	Training and Education	☑	○	○			○
	21	Diversity and Equal Opportunity	☑			○		○
Social-Human Rights	24	Labor Practices Grievance Mechanisms	☑	○	○	○		○
	26	Non-discrimination	☑	○	○	○		○
	27	Freedom of Association and Collective Bargaining	☑	○	○	○	○	○
	28	Child Labor	☑	○	○	○	○	○
	29	Forced or Compulsory Labor	☑	○	○	○	○	○
	30	Security Practices	☑	○	○	○		○
Social-Society	34	Human Rights Grievance Mechanisms	☑	○	○	○		○
	35	Local Communities	☆			○		
	36	Anti-corruption	☑	○	○	○	○	
	39	Compliance	☑	○	○	○	○	○
Social-Product Responsibility	41	Grievance Mechanisms for Impacts on Society	☑	○		○		
	46	Compliance	☑	○	○	○	○	

※ Pou Chen (PCC) includes Yue Yuen Industrial's footwear business and manufacturing.

## 2.3 Major Annual Events

As a responsible corporation, to comply with local laws of place of operation is the basic management requirement. Every year, the Company's administration centers together with legal department and relevant personnel summarizes the latest information on important statutory changes and communicates them through the Company. In addition, the Company holds training sessions and meetings for its departments and business units to ensure that each department and business unit understands the revisions and their potential impact and takes appropriate measures in response.

Regarding regulatory compliance, the Company's environmental incidents are explained in "Chapter 5.4 Pollution Prevention Management". In economic and social dimensions, there is no major violation that resulted in fines or administrative sanction. However, in the first quarter of 2015, the incident in the Vietnam factory resulted in social concern, and the explanation is as follows:

### **Vietnam Stoppage Event**

As a response to the discontent among some of the workers at Pou Yuen Factory located in Binh Chanh, Vietnam (the "Factory"), one of the factories under Pou Chen's subsidiary Yue Yuen, caused by the revision of Vietnam Social Security regulations, stopped their works when the Vietnam Government visited the Factory and promoted its revised regulations in March, 2015. The controversy surrounding the social security payment method resulted in the operation of the Factory was disrupted five days.

### **Response Measures**

The Factory proactively communicated with the group of discontented employees through Labor Union. At the same time, the Factory has forwarded the employee petitions to HCM Congress. The Factory wished Vietnam Government can intensify communications with the employees to resolve any misunderstandings in regards to the relevant regulations, in order not to have any negative impacts to factory operation.

After several days of communication, the Vietnamese Prime Minister agreed to request that Congress re-examine the revised social security regulations. The government response met with employee expectation, and the incident was resolved.

### **Impact and Follow-up**

The incident was due to the discontent response of some employees toward revision of the Vietnam Social Security regulations, employees at the Factory did not appeal for the increase of employee benefits. In addition, the number of affected days was not too long, and did not cause significant impact on the Company's overall operation or business.

The Company continues to strengthen employee's suggestions and complaints mechanisms. Multi-channels communication is set up for early identification and resolution of employee problems, and accordingly enhance internal cohesion and identification within the Company.



# 3.0 Social Contribution and Community Participation

## 3.1 Outreach Activities in Taiwan

### Protect Agricultural Land, Appreciate Farmers

Upholding the Company's core value of dedication, the Company treasure the land that sustains life. Through agricultural land adoption, a total of 1,150 members of the Group's founders, executives, management and Taiwan employees participated in farming experience. By rolling up their sleeves and getting down to planting in the rice fields, the participants deeply experienced and appreciated the toil of farmers. At the same time, in the spirit of service, revenues from subscription rice purchase are donated to charity to reciprocate society.



### Used Shoes Save Lives Africa Outreach

Together with the STEP30 International Ministries, Pou Chen upholds the core value of service by co-sponsoring the Central Region Winter Used Shoes Save Lives Africa Outreach With Pou Chen Employees overseas charity event. In addition to donating NTD 1 million, about 1,500 employees in Taiwan sorted and packed donated used shoes (including 150,000 pairs of used shoes, used children's clothes and adult clothes) in their work hours during the activity period. The goods were shipped to the people in Uganda and Kenya and other places in three containers painted by volunteers. The painted containers were also donated for conversion into classrooms and care stations for the local children.



### Helping Rural Children Cultivate Secondary Skills

Tiensen Elementary is located in the rural area of Changhua County Puyan Township, and lacks learning resources. However, the school is committed to helping the children cultivate secondary skills, and whether in ocarina or taiko drums, the students have achieved good results. Pou Chen recognizes the efforts of the students, and has organized 4 photography training programs. With cameras raised by the Alliance Cultural Foundation, instruction by teachers from the Photographic Society of Taiwan, Taichung Branch and assistance from Pou Chen employees, the children freely used photos to record their perspective of their hometown and observe the beauty of the world.

The learning achievements were exhibited in photography exhibition tours organized by charity platforms, and also displayed in the Through the Eyes of Children photography exhibition organized by the Company's flagship hotel, Windsor Hotel Taichung. The photographs showcased the children's photography learning outcome and learning experience. Parents and the public alike could feel the innocent smiles of the children. The children's curious eyes for new things and their sharing of life's details helped more people see the world through the eyes of children, and awakened public concern for rural areas.



## 3.2 Important Operation Bases and Community Involvement

The Company's main footwear production bases include areas such as China, Vietnam and Indonesia. Consistent with the Company's sustainable operation goal of community partnership and common prosperity, the social values of and relationship with local stakeholders are enhanced and maintained. Beginning with meeting employee needs, outreach and services are steadily expanded to include employee families and community.

Pou Chen actively integrates with local culture and community life, and respects local beliefs and cultural activities. In Indonesia, the Company participates in the meat donation activities of Ramadan Eid al-Fitr and the Festival of the Sacrifice in the local community and orphanages. In Vietnam, the Company reaches out to the needs of disabled veterans and the poor by donating warm and safe Friendship Houses. In China, the Company organizes annual summer and winter educational camps for children, and reaches out to the elderly and young by visiting nursing homes and orphanages. Since medical care in the Company's operation bases is quite lacking, the Company collaborates with professional medical organizations to regularly provide free clinics and medical resources to rural areas, and also contribute to the local community public health.

### Vietnam Friendship Houses

Miss Hu is an outstanding employee in Pou Chen. Financially limited, divorced and raising her children as a single parent, she was impoverished. When her situation was brought to the attention of the Company union, the Company appealed to the public and relevant government agencies to help provide her with a comfortable and safe living.

More than half of the housing construction was funded by donations from the Company's overseas executives, union and employees. In addition, the Company donated VND 30 million, the plant supervisor donated VND 22.5 million, and the Company employees donated VND 17.5 million and goods such as TV, fan and rice to help provide her with a stable residence.

**In 2015, Pou Chen has donated a total of 25 Friendship Houses, of which 15 were for employees and 10 for community residents.**



### Indonesia Eid al-fitr with Orphanage Children

Eid al-Fitr is the end of Ramadan, and celebrated by Muslims all over the world. Islam is the faith of the majority of Indonesians. Equivalent to the New Year, the Eid al-Fitr is a very important holiday to Indonesians. Pou Chen's plant in Indonesia celebrates Eid al-Fitr with its employees and local orphanages to welcome the Indonesian New Year.



## Local Community Charity and Activities

**Environment Day:** Events include donating saplings and tree planting, community and school clean-up services, environmental protection education, waste recycling competitions and environmental protection arts and crafts.

**Free Clinics and Blood Drives:** Blood drives are regularly organized, and together with local medical resources, free clinics and material donations are provided to remote communities.

**Friendship House Donations:** Material goods are donated to disabled and impoverished Vietnamese veterans in the community.

**Material Donations:** Based on the urgency of needs of local communities, rice, daily necessities, used clothes and gifts, repairs and paint for local schools, and supplies for local festivals are donated.

**Community Student Sponsorship:** Vietnam Pou Chen Seeds of Hope Scholarship: The Company awarded scholarships to 100 students in 10 schools, funded repairs in two schools, donated books to Huangjiang Number 2 Elementary School, visited and made donations to three rural schools in Vietnam Lo An Province, donated to the Vietnam Binh Chanh District Association for the Advancement of Learning to help local impoverished students go to school and other contributions.

**Community Visitations and Outreach to the Disadvantaged:** Visitations and outreach to community nursing homes, adults and children with disabilities and orphanages, and accessible community volunteer services

### LIST OF MAJOR INVOLVEMENT AND ACTIVITIES

- **Community Environment Day** : 121 people.
- **Sapling Donation and Tree Planting** : 344 people.
- **Blood Drive** : 2,360 people.
- **Community Free Clinic** : 320 people.
- **Vietnam District Friendship House Donation** : 10 houses
- **Material Donations** : rice (2,000 packages), paint & painting services (96 people), Eid al-Adha sheep donation (19 sheep), egg donation (140 schools), gifts and clothes donation (2,338 items).
- **Student Sponsorship** : Vietnam Pou Chen Seeds of Hope Grants (300 million VND), Vietnam Long An Province remote schools (200 million VND), Binh Chanh District Association for the Advancement of Learning (100 million VND), book donations (150 sets) .
- **Elderly Outreach** : 957 people.
- **Disabled Adults and Children Outreach** : 121 people.
- **Accessible Community Volunteer Services** : 700 people



Rice Donation



Pou Chen Seeds of Hope  
Scholarship awards



Charitable Blood Drive



School Repair Activities



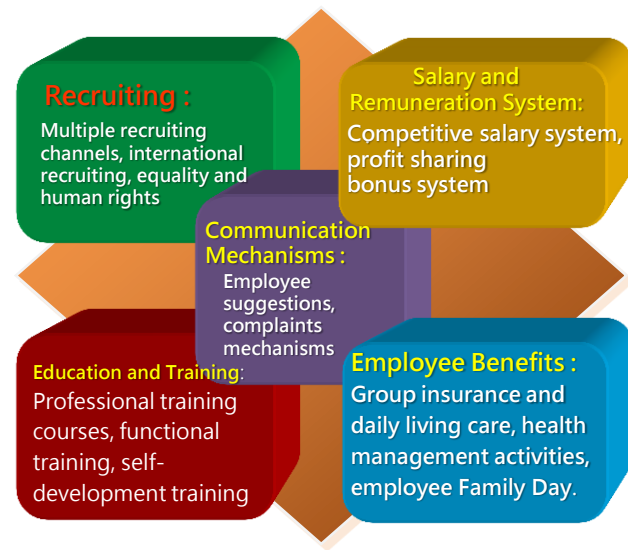
Orphanage Visitations

## 4.0

## Best Workplace

The Company upholds the belief in valuing talents and being people-oriented, and believes that human resource is an important asset to the Company. Founded in legal compliance with national laws, integrating with sustainable development strategies, and taking into full consideration the code of conducts of large scale NGOs and numerous brand customers, the Company formulated its Group Code of Conduct to specify standards for selecting, using, educating, retaining employees, and the core employee standards for carrying out duties. Through internal and external audits to control risk and improve working conditions, and continuous promotion of harmonious labor relation, the Company strives toward being a quality enterprise that is people oriented and values talents.

To attract talents, the Company offers a comprehensive education and training system, competitive salaries and a diversity of communication mechanisms to enhance employee professional competency and job dedication. Cohesion building activities enhance employee identification with the Company's care values, and at the same time, the introduction of performance management system effectively motivates employees to develop. The Company helps employees with career planning to pass on talents, fulfill social responsibility and move towards the goal of sustainable development.





## 4.1 Ability and Job Compatibility

### Multiple Recruiting Channels

The Company practices just and fair recruiting by inviting applicants from different nationality, gender, age and religion. In addition to recruiting through job banks, consulting firms, social networking sites, organization visitation, campus interns and military, the Company also actively promotes internal employee recommendation. The Company promotes the mission of Help the Company Find A Great Talent, Help a Friend Find A Great Job to encourage employees to recommend talents and become involved in the Recommend A Talent activities.

The Company gives considerable attention to personnel training, and actively participates in annual campus recruiting. Through campus fairs, seminars, Company interns and management trainees, students can quickly be on par with industrial standards.



Campus Recruiting ( In Feng Chia University )



Campus Recruiting ( In Cheng Kung University )



Internal Employee Recommendation DM

The Management Associate training development program includes professional skills courses in footwear manufacturing, management training for grassroots managers, work attitude cultivation and general knowledge training, and teamwork and research report training. In addition to footwear manufacturing skills, the program cultivates leadership ability in the management trainees and help them understand the importance of team cooperation.



Footwear Manufacture Skill Courses



2015 PCG Management Associate Training Courses

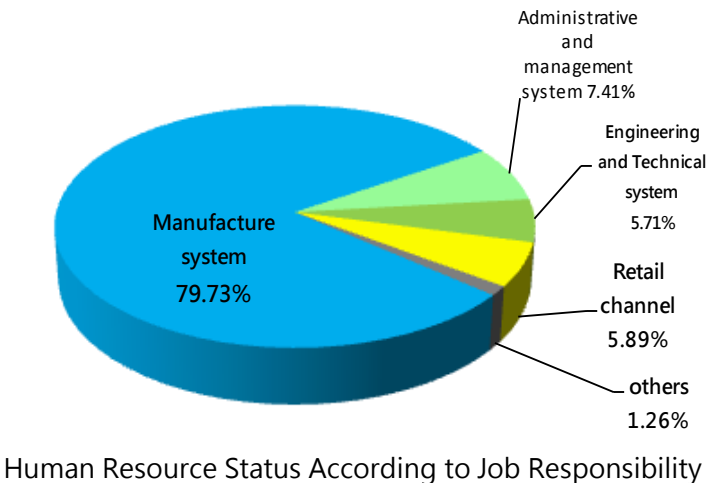
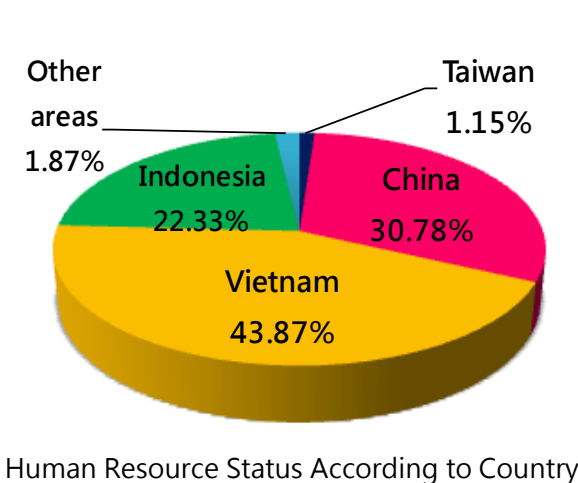
## Gathering of Multiple Talents

Pou Chen continues to accumulate professional capacity by welcoming a diversity of talents. Based on hiring needs, departments submit hiring requests to the Human Resource Department. Recruitment procedures comply with local regulations, are open and transparent, and accepts suitable candidates from different industries to stimulate creative thinking. The following summary of human resource structure is based on Pouchen's Footwear Manufacturing, Distribution and other businesses.

Pou Chen global operations are distributed in Taiwan, China, Vietnam, Indonesia, Hong Kong, the US, Mexico, Bangladesh, Cambodia, Myanmar and other bases. As of December 31, 2015, except for outsourcing a small part of janitorial work in China, employees in all other areas are full-time. The Company employs a total 415,296 people, of which about 385,601 are in footwear manufacturing and about 24,447 are in Retail channel. Taiwan accounted for 1.15% of employees; China , 30.78%; Vietnam, 43.87%; Indonesia, 22.33% ; and other areas, 1.87%.

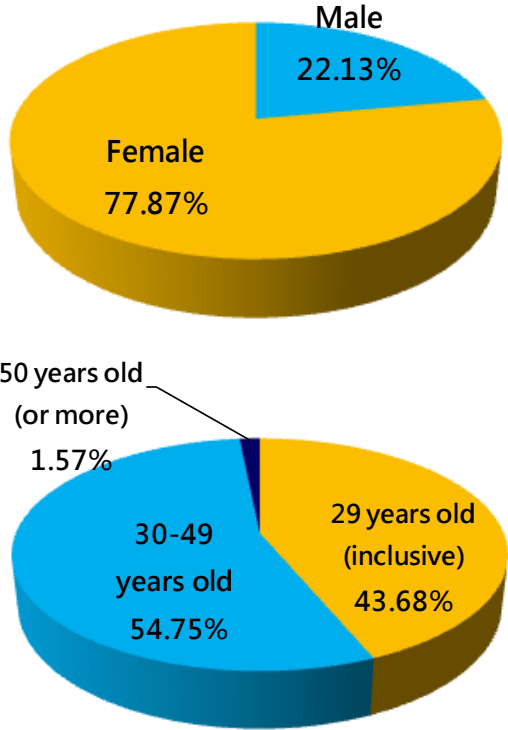
Professionals in various fields are the Company's most important asset. In terms of job attributes, 79.73% of employees are in manufacturing systems, 7.41% in administrative and management systems, 5.71% in engineering and technical systems, 5.89% in channel systems, and 1.26% in other systems.

### 2015 Pou Chen Human Resource Structure





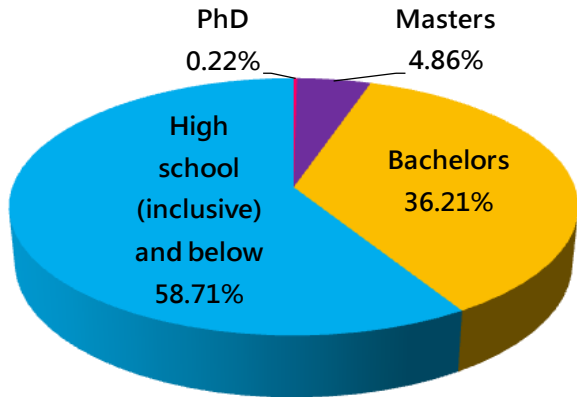
Since the Company is a service industry, more than 70% of the Company's employees are females. The company provides transparent and just promotion channels, and more than 41.29% of employees with college degrees are in managerial positions. In addition, most managerial employees are local residents to retain the diversity and localization of human resource capital.



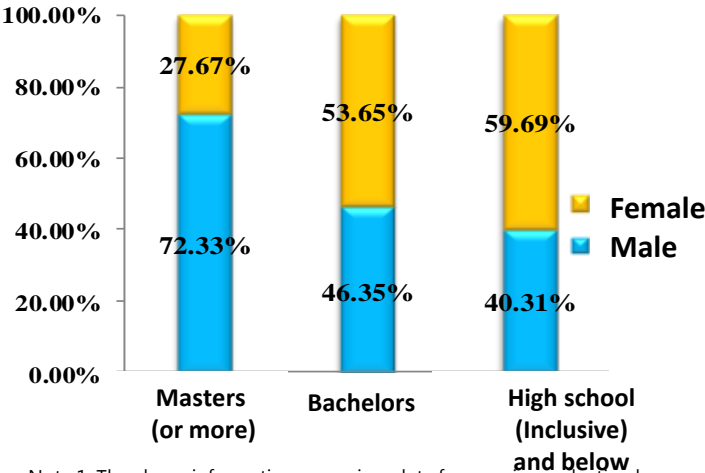
Gender and Age ratio of Pou Chen Employees

Gender and Age ratio of regional employees.

Region	Gender	29 years old (inclusive)	30 – 49 years old	50 years old (or more)
Taiwan	male	17.34 %	68.75 %	13.91 %
	Female	20.98 %	68.88 %	10.14 %
China	male	36.93 %	59.32 %	3.75 %
	Female	26.53 %	71.67 %	1.80 %
Vietnam	male	54.76 %	43.73 %	1.51 %
	Female	45.56 %	53.09 %	1.35 %
Indonesia	male	47.57 %	51.58 %	0.85 %
	Female	63.28 %	36.66 %	0.06 %
Others	male	79.63 %	19.34 %	1.03 %
	Female	69.11 %	30.00 %	0.89 %



Qualification Distribution of Managerial Employees



Note 1: The above information comprises data from main production bases: Taiwan, China, Vietnam and Indonesia.

Note 2: Managerial employees refer to department heads and above.

## 2015 Employee Turnover

The Company welcomes people from the same industry and continues to build professional capacity by recruiting employees from other industries to stimulate creative thinking.

### Voluntary Turnover - Gender and Age

Region	Gender		Age		
	Female	Male	29 years old (inclusive)	30 – 49 years old	50 years old (or more)
Taiwan	5.8 %	6.3 %	5.5 %	6.2 %	0.3 %
China	17.9 %	13.3 %	13.7 %	16.7 %	0.7 %
Vietnam	9.4 %	2.1 %	7.6 %	3.9 %	0.0 %
Indonesia	7.3 %	0.5 %	5.6 %	2.1 %	0.0 %
Others	16.1 %	9.4 %	20.4 %	5.0 %	0.1 %

Note: Voluntary turnover rate = Number of resignations/ (number of employees + number of resignations as of December 2015).

### New Employment Rate - Gender and Age

Region	Gender		Age		
	Female	Male	29 years old (inclusive)	30 – 49 years old	50 years old (or more)
Taiwan	45.54 %	54.46 %	50.20 %	47.67 %	2.13 %
China	56.47 %	43.53 %	48.47 %	50.85 %	0.68 %
Vietnam	80.61 %	19.39 %	70.36 %	29.33 %	0.31 %
Indonesia	91.89 %	8.11 %	88.30 %	11.67 %	0.03 %
Others	61.11 %	38.89 %	80.67 %	19.14 %	0.19 %

Note 1: New employees refer to seniority of less than one year as of December 2015)

Note 2: New employment rate = number of new employees according to gender and age in all regions / Total number of new employees in all regions.

## 4.2 Education, Training and Career Development

### Education and Training Policy

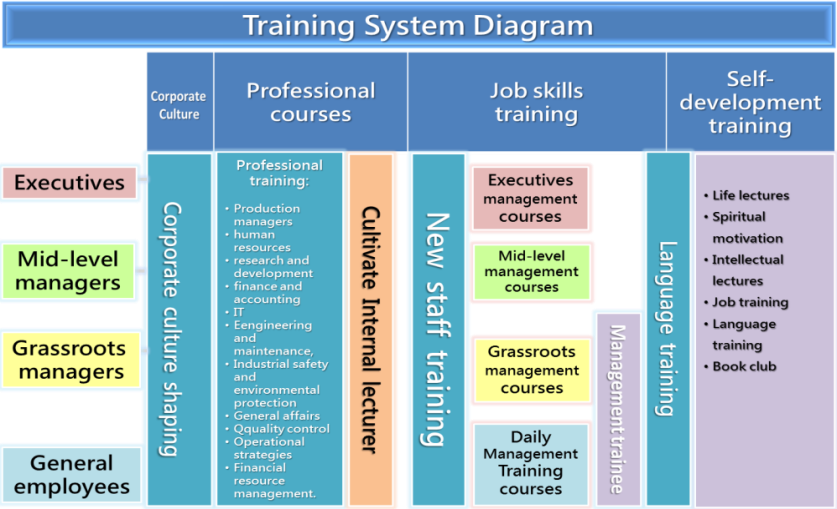
Talent is the cornerstone of corporate sustainability. Pou Chen is the best strategic partner of world-renowned sports brands, hopes to become the preferred company for business talents, and actively cultivates core talents for its corporate culture . Systematic, diverse and comprehensive training mechanisms cultivate talents with international perspective and advanced expertise, and instill meaningful corporate culture to create competitive talents for the foundation of the Company's sustainable development.

- Integrate Company mission, vision, operations strategies and goals, develop strategies for talents, actively cultivate leaders and professionals, and enhance employee availability rate.
- Actively establish the Company's talent pool. Through a systematic and professional approach, assess and examine development needs of the organization and individuals, and formulate a talent cultivation and training blueprint.
- Strengthen corporate vision, shape its culture and values, and create an irreplaceable corporate soft power.
- Continue to innovate, introduce new technologies, ideas or tools and promote personal growth and organizational learning to help the Company and individuals to achieve their goals.
- The employee personal development outreach program provides diverse learning channels to encourage self-learning and stimulate employee potential to achieve personal success.

### Education and Training Development Plan

The goal of training and development is to continuously improve the quality of human resource and job skills, stimulate employee enthusiasm and meet challenges, thereby increasing the value of the Company and achieving operational goals and future development.

To fulfill the Company's training development policies and objectives, training development plans take into account employee performance and hiring needs in addition to the Company's operational vision and objectives. In collaboration with the Company and management systems, an education and training framework is established to plan new employee training, professional training, managerial training, environmental safety training and courses on Company core values. Through physical or e-learning, employees are provided a full range of training to enhance their expertise and management ability, find a platform for their skills, grow with the Company and become a long-term and stable partner with the Company.



## Performance Management System

The Company consolidated the use of internal resources through a performance management system to achieve operations objectives and enhance employee skills. All employees in the Company's main operating bases in Taiwan, China, Vietnam, Indonesia and Myanmar are subjected to the system regardless of gender or age. Grassroots employees are assessed by the system each month to help improve their daily work performance. Through organizational and individual goal setting and implementation, mid-level and higher level management assist supervisors and employees with two-way communication and feedback to more clearly define and connect the job direction of the organization and individual.

The performance management is mainly intended to measure employee overall goal achievement and competency, and the ultimate outcome used as reference for employee promotion, bonus, training and personal development plans. Through the use of a sound performance management system, it is hoped that a performance oriented corporate culture can be created to motivate employees in their performance and competency, and subsequently cultivate and develop their individual ability.



## Corporate Education and Training

### Implementation Overview

In 2015, the Company offered 21,086 education and training classes, totaling 1,423,441 training hours. A total of 1,431,054 employees were trained, averaging 3.66 hours per employee

Total Number of Education and training Classes Offered	Total Number of Training Hours (in hours)	Total Number of Employees Trained	Average Training Hours Per Employee (in hours)
21,086	1,423,441	1,431,054	3.66

Note 1: Total training hours=  $\Sigma$  (Hours of training per class \* number of persons per class).

Average training hours per employee = Total training hours / Total number of employees for the year (excludes number of distribution business employees).

Note 2: In 2016, training hours according to gender and employee job category will be disclosed.

## Training System Curriculum

The Company's annual training plan for talent development integrates the Company mission, vision, operational strategies and goals. Innovations and new technology, ideas and tools are continually introduced to promote personal growth and organizational learning, and diverse learning channels are provided to encourage self-learning. At the same time, in consideration of employee personal development plans, training systems for all job levels, quality management systems and professional certification courses for fulfilling legal requirements, the Company has formulated the Education and Training Management Regulations to facilitate operational compliance.

**(1) Training System Courses :** To further the job skills of all levels of employees and fulfill the vision of lifelong learning, the Company has planned education and training courses for all employees in accordance to corporate core values and employee competencies in the various systems. From newly hired to retiring employees, the Company continues to train employees in skills necessary to their job responsibilities to strengthen their employability and help them plan for retirement. It is hoped that the employee education and training courses can instill in employees internal cohesion, consensus and identification with organizational values, and thereby achieve optimum performance.

**General Employees :** Training in Company core values, employee knowledge and skills competency, self-development courses.

**Professional Systems :** Based on job competency and professional requirements, develop Professional Competency Courses.

**Management Systems :** Based on the Company's core and managerial competency development, plan various levels of management capability courses for executives, middle-management and management trainees.



Company Seminars  
- for Various Levels of Leaders



Special Factory Responsibilities Training for  
Overseas Plants



2015 Team Building for Executives

- (2) **Personal Development Plan** : Based on competency assessment outcome and annual performance evaluation, formulate personal development plans and annual departmental training courses. In addition to complementing employee professional knowledge, training resources in management capability, self-development soft power and general work skills are offered to enhance employee competence, improve overall employee quality and increase operational performance.



Management Training for Taiwan and Overseas Supervisors

## TTQS (Talent Development Quality Management System) Assessment and Validation

In 2015, the Company participated in the TTQS assessment by Taiwan's Executive Yuan Department of Labor Workforce Development Agency Vocational Training Bureau, and was awarded the TTQS Training Quality Assessment Silver Award. This award indicates that the Company's performance in employee training and development has won a high rating, and the Company will continue to expand and further its employee training and development.





## 4.3 Comprehensive Remuneration and Benefits System

### Competitive Salary and Remuneration Policies

The Company views employees as its greatest asset. To attract and retain excellent talents, the Company offers attractive and competitive salaries. The Company treats all employees equally regardless of gender, race, religion, political affiliation, sexual orientation and marital status. Salary is independent of gender, and remuneration is based on the principle of gender equality. Salary standard is based on educational background, job responsibilities and professional skills capability. Bonus and promotions are based on employee work attitude, professional competence and overall performance. The Company also regularly reviews remuneration policies to ensure that salary standards are competitive. In addition, to facilitate the recruitment and retention of excellent talents, salary adjustment and promotions are based on performance management systems.

As an international corporation, the Company also complies with government regulations, industrial standards and human resource market to design salary systems that are locally appropriate to its overseas bases to encourage long-term job commitment and joint growth with the Company. In addition, monthly bonuses are awarded according to job performance, and a certain percentage of annual Company profits is also awarded as annual bonus and dividends to motivate employee job dedication and enthusiasm by sharing the Company's operating outcome.

Comparison of Pou Chen Regional Starting Salary Standard and Local Legal Minimum Wage Requirement

Region	Taiwan	China	Vietnam	Indonesia
Salary ratio	1.4	1.4	1.4	1.0

Note 1: The above information includes only data from major production bases in Taiwan, China, Vietnam and Indonesia.

Note 2: Salary ratio = (minimum starting salary standard for inexperienced college graduates / local legal minimum wage requirement).

Note 3: The proportion of salary = (minimum wage standard of junior officers / regions local legal minimum wage).

### Secure Retirement

The Company retirement policy is based on the local laws of its operation bases. Each employee is provided with a stable and secure pension to protect employee retirement. Using Taiwan as example, 46 employees applied for retirement in 2015. Under the old pension system, the pension provision was NTD 0.13 billion; however, under the new system, the pension payout was NTD 0.14 billion to ensure worry-free retirement for employees.



## Comprehensive Insurance Pan

The Company provides appropriate insurance coverage for employees according to regional governmental provisions to ensure employee care. In Taiwan, in addition to mandated employee labor and health insurance, new employees are included in Group insurance, which provides for life insurance, accident insurance and critical illness insurance. Additional out-of-pocket insurance coverage is also available to employee dependents so that through the extended medical care for families, the burden of medical cost is reduced.

Region	Taiwan	China	Indonesia	Vietnam	Cambodia	Bangladesh	Myanmar
Insurance Item	<ul style="list-style-type: none"> <li>• Labor Insurance</li> <li>• Health insurance</li> <li>• Group Insurance</li> <li>• Travel insurance</li> </ul>	<ul style="list-style-type: none"> <li>• Pension</li> <li>• Unemployment Insurance</li> <li>• Occupational Injury Insurance</li> <li>• Maternity Insurance</li> <li>• Medical Insurance</li> <li>• Housing Fund</li> </ul>	<ul style="list-style-type: none"> <li>• Old-age Insurance</li> <li>• Retirement Insurance</li> <li>• Occupational Injury and Accident Insurance</li> <li>• Death Insurance</li> <li>• Medical insurance</li> </ul>	<ul style="list-style-type: none"> <li>• Social Insurance</li> <li>• 24 Hours Accident Insurance</li> <li>• Unemployment Insurance</li> <li>• Medical insurance</li> </ul>	<ul style="list-style-type: none"> <li>• Occupational Injury Insurance</li> </ul>	<ul style="list-style-type: none"> <li>• Employee Occupational Injury Insurance</li> </ul>	<ul style="list-style-type: none"> <li>• Medical Insurance</li> <li>• Occupational Injury Insurance</li> </ul>

Note: Where local government lacks clear social security provisions, implementation is based on local regulations

## Career and Family Balance

The Company encourages employees to balance work and family, and protects the employment rights of employees following a vacation. According to the various regional laws on vacation policies, all employees can schedule their holidays within the scope of regulations. Using Taiwan as example, female employees in the Company are legally entitled to menstrual leave, maternity leave and pre-natal care leave and male employees are entitled to paternity leave. Employees with childcare needs may apply for parental leave without pay or childcare leave according to regulations. When the term of leave is expired, employees may apply for job reinstatement or extend the leave according to actual needs, thereby balancing job and personal and family care.

In 2015, a total of 49 Taiwan employees applied for parental leave without pay, of which the majority were female, totaling 42 employees. In 2014, 28 employees applied for reinstatement and continued working for one year, representing a retention of 41.8%. Family factor is the primary reason for employees who continued working less than a year.

In this year, a total of 17,780 Vietnam employees applied for parental leave, of which a total 15,457 returned to work after the leave, representing a reinstatement rate of 86.93%.

### 2014 and 2015 parental leave and job reinstatement rate for Taiwan

Item	Male	Female	Total
2015 Expected eligible applicants for parental leave	323	251	574
2015 Number of parental leave applicants	7	42	49
2014 Number of reinstatement following parental leave (A)	10	57	67
2014 Number who completed one year of service following reinstatement (B)	2	26	28
2014 Rate of reinstatement following parental leave (B / A)	20.00%	45.61%	41.79%

## Diverse Employee Benefits

The Company provides diversified and flexible benefits, including major emergency financial assistance, monetary wedding gift, monetary birthday gift, monetary birth gift, funeral subsidy, monetary hospitalization condolence, 3 major holiday gifts (vouchers), Labor Day gift or monetary gift, tour subsidy, designated retail discount, employee dormitory, employee cafeteria, shuttle services, performance bonuses and employee dividends and nursing room for female employees so that with the comprehensive benefits system, employees can free concentrate in their work.

### Benefits Policy and Measures in Major Overseas Operational Regions

- Production performance bonuses and year-end bonuses.
- Employee dormitory, cafeteria and shuttle services.
- Employee reading room, free books loans and magazines services.
- Basketball courts, soccer fields, gymnasium, tennis courts and employee recreational center .
- Kindergartens and clinics within respective plants to provide appropriate medical care.
- Regular range of activities (singing, sports, movies, community activities).
- Employee tours for respective regions.

2015 Tour and activities for Pou Chen Employees in Vietnam Đồng Nai Province Plant, totaling 7 activities and 10,392 participants



Employee Activity Center



Audio-Visual Library



Prayer Rooms in Indonesian Factory



Fitness Equipment  
in Employee Activity Center



Employee Dormitory



Comfortable and Natural Environment and Stadium in Factory





## Interesting learning and community activities



Photography Classes (China Region)



English Classes



Singing Talent Show



Hot Pot Cooking Competition



Makeup and Eyebrow Sculpting



Ball Games



Yoga Classes

Benefits Policies and Activities in Taiwan Region

Types of Subsidy	
Weddings, funerals and births/ maternity / hospitalization allowance	A total of 441 allowance applications, totaling NT \$ 669,400.
Birthday gift certificates / gifts	A total of 4,540 employees received this benefit, totaling NT\$ 4,105,500.
Festival gift vouchers / monetary gifts	A total of 4,540 employees received this benefit, totaling NT\$ 4,068,100.
Activity and course allowance	A total of 118 applications, totaling NT \$ 152,935.
Employee tour allowance	A total of 4,540 employees received this benefit, totaling NT \$ 9.08 million

Sports and Recreation	
Pou Chen Family Day	About 4,700 people participated in this event, which included a fair and charitable activities for the visually impaired. Team competitions and family race were held to promote family relations and harmony.
3-on-3 Basketball	The 3-on-3 basketball was held for the first time in 2015 to give basketball lovers a chance to pit their skills and promote friendship. A total of 12 teams signed up for the match.
Other ball tournament	Badminton, bowling and other tournaments were held to provide employees with a diversity of sports activities and promote interpersonal exchanges and friendship. A total of 120 people participated.



Pou Chen Family Day



Bowling Tournament



3-on-3 Basketball Friendly Match



Other Activities	
<b>Celebrity Lectures</b>	Celebrities in various fields were invited to share their success secrets and life philosophy with employees . In 2015, celebrity lecture sessions were held, and a total of 900 employees attended. (Speakers: Liu Xuan, Lang Tsu- Yun, C. Chang, Chuang Ya- Jing, Hsu Chan-Yuan)
<b>In-house massage service by visually impaired masseurs</b>	Provides employees with regular place for massages by visually impaired masseurs to help employees relax their body and spirit during their leisure, and at the same time help disadvantaged populations. A total of 680 employees used the services.
<b>Pou Chen Library</b>	Provides a variety of magazines and books for free loan to employees. The collection of 3,700 books helps employees cultivate the habit of reading.
<b>Recreational activities for singles</b>	In 2015, two social events for singles, Alice's Happy Party and My Age of Pursuit, were held. Participants included male and female Pou Chen employees and outside employees so that the Company's employees can meet more new friends.

Club Activities



Badminton Club



Mountaineering Club and Hiking activities



Softball Club Activities

Celebrity Lectures



## 4.4 Employee Relations

Pou Chen is committed to providing employees with a safe and healthy working environment. The Company complies with the laws and regulations of the host country and creates a happy workplace by promoting harmonious labor relations. Since 2012, the Company has been a member of the FLA. Each year, the Company submits a compliance review report to the FLA, and accepts Sustainable Compliance Initiatives (SCI) assessments of regional plants by the FLA. The Root Cause Analysis in the outcome report is uploaded to the official FLA website. The plants make improvements according to report recommendations and submit regular progress reports. The plants also accept systematic and regular human rights reviews/supervision by NGOs. For relevant annual assessment reports, please refer to the publicly available information on the official FLA website (<http://www.fairlabor.org/transparency/assessments>).

### Significant Operational Changes Announcements

To ensure the employment rights of employees, local governments are notified of the Company's major operational changes. At the same time, positive communication with employees is maintained through mechanisms such as briefings or labor meetings. In Taiwan, the Company does not any collective agreement with unions. Individual employee sign labor contract with the Company, such as the Termination of Contract of Employment in accordance to Article 11 or the Provisos in Article 13 of the Labor Standards Act. In accordance to regulations, announcement schedule is as shown below:

- Employees who have worked for more than 3 months but less than 1 year must be notified 10 days in advance.
- Employees who have worked for more than 1 year but less than 1 years must be notified 20 days in advance.
- Employees who have worked for more than 3 years must be notified 30 days in advance.

In major operational and production bases outside of Taiwan, collective agreement is signed with regional unions to clearly define relevant labor conditions, rights and announcements for major operational changes. Signed collective agreements are submitted to local authorities for records.

Major operational region	China	Vietnam	Indonesia
Average proportion of employees who voluntarily join unions (%)	88%	97%	79%
Announcement schedule for major operational changes	30 days in advance	30 days in advance	Not otherwise specified, and implemented according to labor law.

## 4.4 .1 Respect for Labor Rights

### Promoting Equality and Human Rights

Pou Chen complies with local regulations, international human rights conventions and the Pou Chen Group Code of Conduct, and is committed to promoting the implementation of equality principles and human rights policies.

In terms of equality, in 2015, the Company employed 27 people with physical and mental disabilities. In terms of job transfer, promotion, hiring, termination, severance, vacation, benefits and training, there was no incident or complaint of discrimination in 2015.

In the implementation of human rights policies, new employees and existing employees are required to attend annual training in human rights policy (such as working hours, salaries, anti-harassment, non-discrimination and appeal mechanisms). Each new employee receives 4 hours of training, and each employee receives an annual re-training of 2 hours.

### PCG Code of Conduct

Stemming from the commitment to corporate social responsibility, Pou Chen Group (hereinafter referred to as "PCG") always demonstrates rigorousness, openness, and transparency in its compliance with the applicable laws and regulations of the countries of operation; if there is discrepancy or conflict between different standards, whichever is higher is adhered to. PCG (i) develops its core standards for all employees performing duties by referring to the codes of conduct adopted by primary non-governmental organizations and various brand-name clients from time to time; (ii) dedicates itself to continuous improvements in work environment and risk control through the detection of potential problems by internal and external audits; and (iii) strives to further foster labor harmony and aims to become one of the best enterprises to work for. PCG's Code of Conduct is as follows:

#### Employment Relationship

Employers shall adopt and adhere to rules and conditions of employment that respect workers and, at a minimum, safeguard their rights under national and international labor and social security laws and regulations.

#### Nondiscrimination

No person shall be subject to any discrimination in employment, including hiring, compensation, benefits, advancement, discipline, termination or retirement, on the basis of gender, race, religion, age, disability, sexual orientation, nationality, political opinion, social status or ethnic origin.

#### Harassment or Abuse

Every employee shall be treated with respect. It's not allowed to treat any employee by physical, sexual, psychological or verbal harassment or abuse.

#### Forced Labor

No use of forced labor shall be allowed, including prison labor, indentured labor, bonded labor or other forms of forced labor.

#### Child Labor

No person shall be employed under the age of 15 or under the age for completion of compulsory education, whichever is higher.

#### Freedom of Association and Collective Bargaining

Employers shall recognize and respect the right of employees to freedom of association and collective bargaining.

#### Health, Safety, and Environment

Employers shall provide a safe and healthy workplace setting to prevent accidents and injury jeopardizing health when workers engage in work-related tasks or the operation of employers' facilities.

Employers shall adopt responsible measures to mitigate negative impacts that the workplace has on the environment.

#### Hours of Work

Employers shall not require workers to work more than the regular and overtime hours allowed by the law of the country where the workers are employed. The regular work week shall not exceed 48 hours. Employers shall allow workers at least 24 consecutive hours of rest in every seven-day period. All overtime work shall be consensual. Employers shall not request overtime on a frequent basis and shall compensate all overtime work at a premium rate. Other than in exceptional circumstances, the sum of regular and overtime hours in a week shall not exceed 60 hours.

#### Compensation

Every worker has a right to compensation for a regular work week that is sufficient to meet the workers' basic needs and provide some discretionary income. Employers shall pay at least the minimum wage or the appropriate prevailing wage, whichever is higher, comply with all legal requirements on wages, and provide any fringe benefits required by law or contract. Where compensation does not meet workers' basic needs and provide some discretionary income, each employer shall take appropriate actions that seek to progressively realize a level of compensation that does.

#### Community Outreach and Partnership

PCG dedicates itself to active participation in community beneficial activity, enhancement of the community development, and creation of harmonized society.



## Pou Chen Recruitment Policy

Pou Chen upholds the principles of equal opportunity, respects the contributions and development of diversified talents. The Company provides equal employment and employment conditions for job seekers regardless of gender, race, religion, age, disability, sexual orientation, nationality, political opinion, social status or minority ethnicity. Relevant management principles are also embodied in employment, wages, benefits, promotion, discipline, dismissal or retirement.

### Practical Implementation:

Newly hired employees are required to sign a labor contract that clearly defines the rights, responsibilities and obligations of both parties. All employees have the right to terminate employment relationship with the plant. All labor contract, changes, cancellation and termination are in strict adherence to relevant laws and regulations.

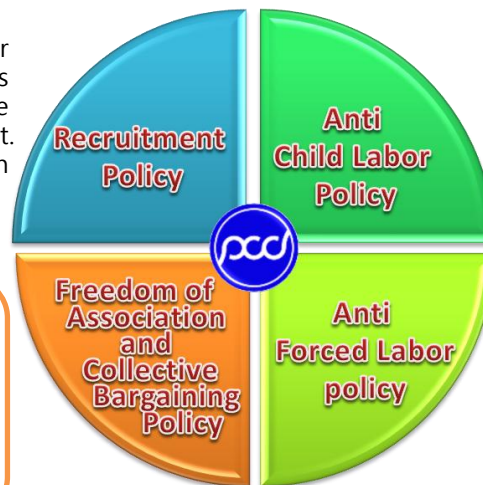
In 2015, no case of discrimination was found.

## Freedom of Association and Collective Bargaining Policy

Pou Chen upholds the rights of employees to freedom of association and collective bargaining, recognizes legal unions and organizations independently formed by employees, and actively communicates and interacts with the unions and organizations.

### Practical Implementation:

Voluntary employee unions are set up in Pou Chen's major operation bases in Taiwan, China, Indonesia and Vietnam to facilitate communication on labor issues such as representatives for signing collective labor contracts, reviewing labor rights in employee handbooks, establishing relevant labor standards and negotiation representation. Regional unions helps the Company jointly organize activities for employee outreach and services to enhance communication and identification between employees and the Company.



## Anti Child Labor Policy

In accordance the Pou Chen Group Code of Conduct and government regulations, the use of child labor is prohibited. Young workers (minors) are registered and approved according to regulations, and relevant protective policies for their working hours and jobs are consistent with legal specifications.

### Practical Implementation:

The Human Resource Department requires job applicants to provide valid proof of identification to verify actual age. Once the mistaken use of child labor is discovered, the child labor is immediately terminated and the child will be returned to the parents or guardian. All transportation, food and accommodation costs involved are assumed by the Company, and actual wage is paid for work done.

In 2015, no case of child-labor was found.

## Anti Forced Labor Policy

Pou Chen does not use any forced or illegal indentured labor. All work is voluntary, employees receive reasonable notification of overtime, and have the right to freely resign as stipulated by local laws.

### Practical Implementation:

Plants under the flagship of Pou Chen use multiple channels to recruit employees. At the time of interview, the Human Resource Department verifies the validity of documents, legal age, and employment willingness. Only applicants who are legally qualified are hired, and employee identification card or work documents are not held in bond. Employee working hours are in strict compliance to relevant national laws and brand agreement. For overtime, consent must be voluntarily signed by the employee and overtime pay is consistent with local regulations.

In 2015, no case of forced labor was found.

## 4.4.2 Communication Mechanisms

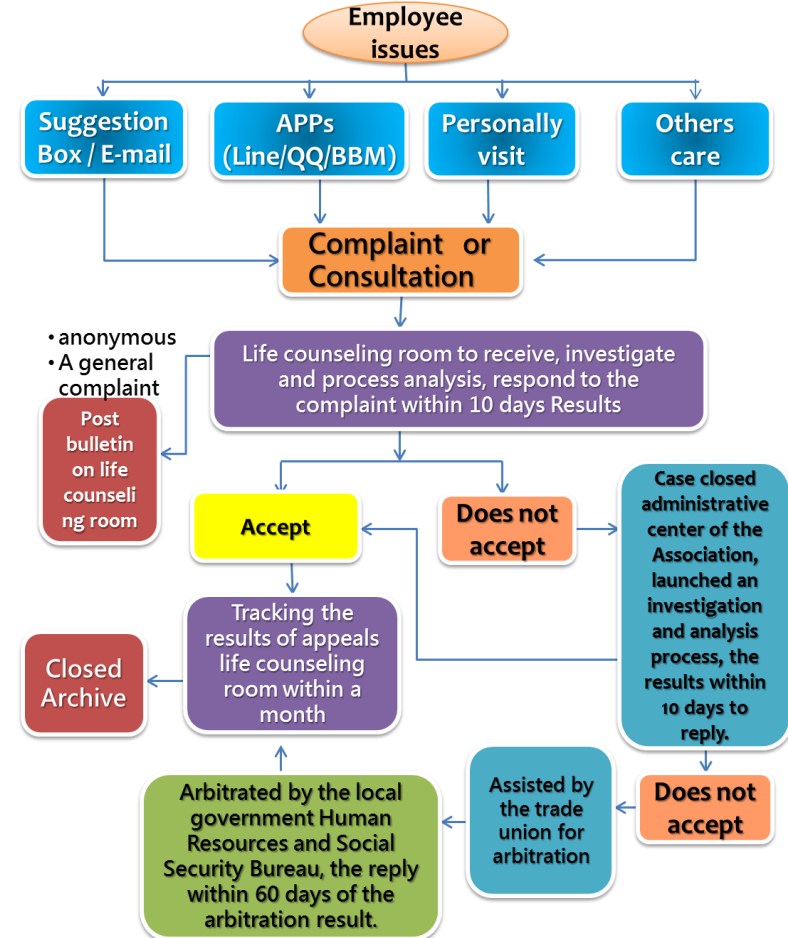
### Strengthen Mechanisms for Employee Suggestions and Complaints

The Company encourages dialogue between management and employees. In addition to listening to employee voice through the counseling office, messaging, hotlines and employee suggestion box, the Company has regular employee forums for proposing solutions to employee feedback. At the same time, in coordination with regional complaint channels, complaints are regularly analyzed to determine and resolve employee issues.

In 2015, Pou Chen has tried hard to establish an effective communication platform between the management and the employees through several sessions of counseling capacity building for employee relations staff. In addition, Pou Chen has planned to build up a consistent grievance system which the head quarter or the regional office can efficiently analyze cases and provide timely feedback to frontline staff. Meanwhile, employee relations activities and community outreach programs were organized to win the recognition for not only the employees, but also the community. The Company continues to strive toward being the best employer.



### Factory grievance mechanisms flowchart



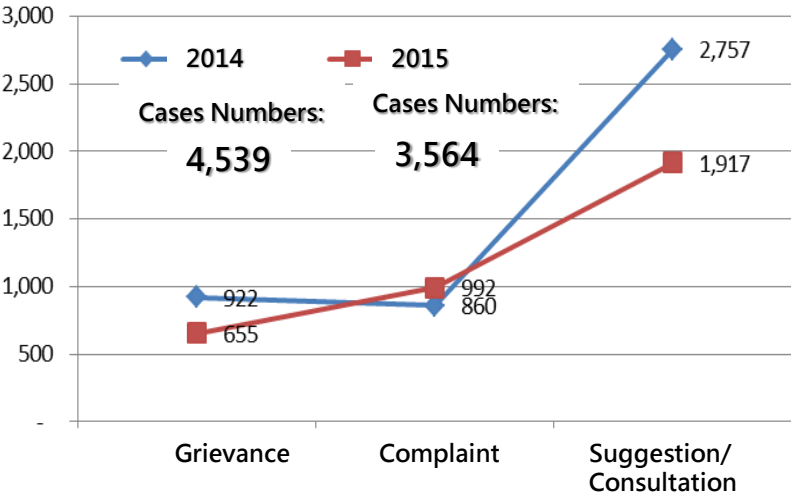
### Multiple Communication Channels

All Company employees and management can use multiple communication channels for horizontal or vertical communication, such as suggestion box, e-mail, forum or bulletin boards. The Company normally responds to employee suggestion and problem within 10 working days, and uses the follow-up mechanism of the Counseling Office to ensure quality closure.

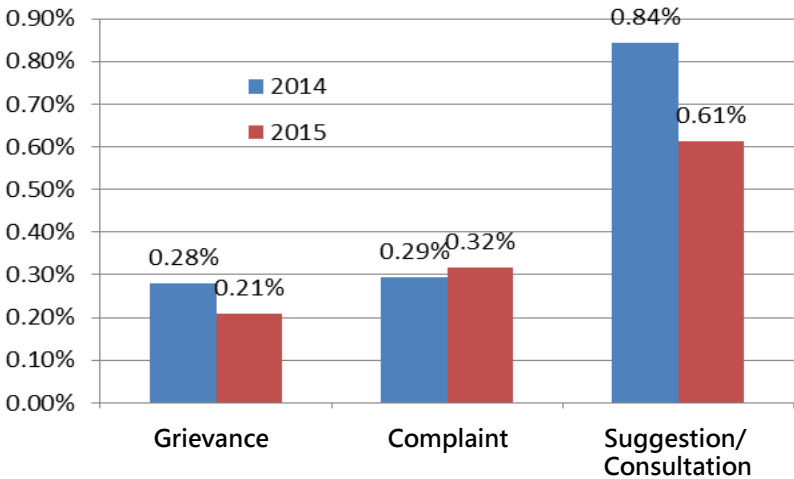
From August 2015 to the end of December 2015, 93.45% of the cases received through the Company's multiple communication channels were processed and closed. In 2015, employee concerns in the Company's major operational regions are primarily Social Security and Incentive/Workplace Conduct issues.

Communication Method	Communication Channel	Respond Method
Face-to-face	<ul style="list-style-type: none"><li>● Labor meetings</li><li>● Labor groups meetings/ corporate union suggestion box (Taiwan)</li><li>● Welfare Committee meetings / Welfare Committee suggestion box (Taiwan)</li><li>● Department meetings</li><li>● Employee forum</li></ul>	Face-to-face Written Public announcement
Written	<ul style="list-style-type: none"><li>● Employee suggestion box</li><li>● Employee satisfaction survey</li><li>● Bulletin board</li></ul>	Written Public announcement
Email / Website / Mobile APP	<ul style="list-style-type: none"><li>● Company internal website</li><li>● APP appeals, complaints, suggestions and enquiry mechanisms</li></ul>	Written Public announcement

2014 ~ 2015 Communication Categories in Pou Chen's Major Production Regions.



2014 ~ 2015 Proportion of Case Types to Total Employees in Pou Chen's Major Production Regions.



## Community Platform

The Company has set up the Pou Chen Home WeChat platform in its plants in China. The communication platform was activated in June 2015 to provide dynamic information and exchange on plant activities so that employees can obtain the most recent Pou Chen news, recent employee activities, cultural news and new information for living.

Pou Chen Home WeChat ID : POUCHENHOME



## 4.5 Employee Care

### Employee Health

The Company has consistently complied with local regulations in contributing health insurance payments and health checks, and also provides additional medical services to employees in various regions (such as plant infirmary / employee hospital) for accessible and prompt care for ill employees. In Vietnam, the Company continues to collaborate with the local Marie Stopes International (MSIVN) to organize employee health clinic and health fair activities such as hygiene education, medical care, health care consultation, and women and children's health education.

The Taiwan plant has an in-house medical station where physicians from medical facilities provide health promoting services such as four major cancer screening, including cervical cancer, and lectures such as workplace stress relief, food safety, cardiovascular health and disease prevention, cancer prevention trends.

In addition to medical care and health check, activities are often organized in the various regions to enrich employee recreation and promote employee health. Recreational activities include ball games, jumping rope, aerobics and other community tournaments. Carnivals, fairs and lectures and other forms of activities are also used to promote mental health knowledge to promote team life and facilitate supportive and harmonious employee relationships.

#### 2015 Health Promotion Activities (Taiwan)

<b>Health Lectures / Activity</b>	To promote employee health, the Company actively organizes blood drive, metabolic syndrome prevention, cancer trend and prevention, four major cancer screening (breast cancer, cervical cancer, oral cancer and colorectal cancer), occupational injury prevention and emergency response, workplace stress relief and lower back pain and other health lectures and activities to help employees stay healthy and able to continue working.
<b>Weight Loss Activity</b>	In 2015, two weight loss competitions were held to encourage employees prevent modern disease and stay healthy through exercise and diet control.



## Employee Assistance and Outreach

Employee home visitation has always been one of the Company's approach to employee outreach. Regional management uses holidays to visit employees to understand their family situation, and provide immediate assistance to employees who need housing repairs and home improvement to enhance their living quality and happiness.



Employee Home Visitation


## Plant Employees Outreach Activities

- **Exchanges and forums:** Employee forum, management forum, new employee socials, disabled employee outreach and forum, counseling services.
- **Outstanding employee recognition:** Model labor, employee demonstrating outstanding corporate core values.
- **Health care measures:** Health checks and special examination, in-house medical clinics and ambulance, health education, establish employee health management system, visitation to injured employee and emergency relief, health promotion activities (such as cancer screening, health and fitness, weight loss, health lectures, stress relief massage).
- **Female employee health care activities:** Gynecological health check and education, pregnancy and pregnancy test education, managing healthcare for working pregnant women, parenting education and counseling, health fairs.
- **Leisure activities:** Provide employee recreation center and recreation equipment, organize ball tournaments, club activities, secondary skills courses (computers, cosmetics, cooking), singing contest, dance competition, tug-of-war, carnival, employee tour, mountain climbing, Pou Chen Employee Day activities.
- **Holiday Activities and Gifts:** Include monthly birthday celebration, Children's Day, Women's Day, Ramadan Iftar, Dragon Boat Festival sachet making, Mid-Autumn Festival party and creative lantern competition, National Day Celebration, Christmas, year-end banquet and raffle, Chinese New Year couplets and get-together, going-home tickets, Lantern Festival and riddle activity.
- **Other services for convenient living:** Employee dormitory, shuttle services, shuttle pick-up points within the plants, swimming pool, ball courts, sports and fitness equipment, commissary.

The majority of the Company's employees are female, and therefore factory outreach measures include special attention to women's health care and child care. In addition to providing local residents with many job opportunities and promoting economic development in the community, the Company also initiates visitations to employee family, organizes regular free medical clinics to remote areas, assist in home improvement, offers scholarships, reaches out to disadvantaged populations and other concrete actions to express concern and reciprocate the families of employees. In addition, the Company also contributes resources to local community welfare to strengthen their mutually dependent and beneficial relationship.

## Employee Family Outreach and Visitation

- Regular home visitations and daily necessities donations, assistance to family of deceased employee.
- Scholarships and childcare allowance (kindergarten) for children of employees, recognition of outstanding children of employees.
- Relief funds and Friendship House for impoverished employees to help them build a comfortable and secure home.
- Employee Day and Family Camp: Overnight family camp for children, summer and winter camps, family sports day and carnival activities, Cute Baby contest.



### List of Major Activities

- **Family visitation:** 3,147 families
- **Scholarship for employee children:** 1,452 children.
- **Recognition for outstanding employee children:** 8,167 children.
- **Vietnam Friendship House donation:** 15 houses.
- **Parent-child activities:** 3,380 participants
- **Relief funds for family of deceased employee:** 16 families, totaling 1,015,408,000 VND.



Friendship House Donation for Vietnam Employees



Employee Home Visitation and Material Donation



Local Media Report of Company CSR Activities in Indonesia



## Summary of Major Activities

- **Outstanding employee recognition:** 253 employees.
- **Health check and health promotion activities:** 29,456 employees.
- **Female employee health care (special exams and health consultation):** 9,848 employees.
- **Health promotion activities:** 2,551 employees; plant Environment Day: 1,360 employees.
- **Special skills training** - Computers, makeup, iCARE knowledge and communication skills : 961 employees
- **Injured or ill employee visitation:** 160 employees; relief for impoverished employees: 55 employees.
- **Pou Chen employee Family Day:** 17,600 participants; birthday party: 2,679 participants; communication forum: 5,085 participants.
- **Recreational activities** (mountain climbing/ tug-of-war / biking/ cooking) and ball tournament (basketball / football / table tennis / badminton): 15,624 participants.
- **Festivals:** Dragon Boat Festival activities (305 participants), Women's Day activities (700 participants), Mid-Autumn Festival activities (4,484 participants), Lantern Festival activities (729 participants), the New Year celebration activities (8,367 participants), Christmas activities (9,000 participants ).
- **Employee New Year going-home transportation:** 19 vehicles, 494 employees.



Family Camp in Plant



iCARE Family day (Indonesia)



Injured and Ill Employee Visitation and Assistance



## 4.6 Employee Participation

### iCARE Program

iCARE <sup>(Note)</sup> is a care culture, and a platform for communicating the Company 's core values. Through a set of activities, local talents who reflect the Company's core values and spirits are discovered (cultivated), and the Company encourages all employees to reach out and actively participate in matters that contribute to the plant and organization. This in turn generates employee sense of responsibility, and motivates them to seek the most team-oriented and effective solutions that integrate inter-departmental competencies and strengthen employer branding.

In 2015, the iCARE program promotes the theme of Self Management. Participating plants integrate and develop their respective operational goals. For example, using iCare approach and tools, the PCI plant in Indonesia SERANG District steadily instill a mindset of quality in its demonstration line employees through activities such as themed workshops, core value teams and Quality Star ( Eco-Management and Audit Scheme, EMAS). The process demonstrates the autonomy and creativity of the local team. From logo design, formulating the Star Award quality indicators, activity planning and implementation, local employees from various departments assumed responsibility, nurtured and developed local talents, and displayed the local influence of iCARE



Indonesia Employee iCare Participation

(Note) iCARE represents the application of Integrate consensus, effective Communication, Alignment, Responsive and Expressive tools and approaches to encourage everyone to take the initiative to care for and actively participate in matters that contribute to the plant and organization, which in turn generate their sense of responsibility. Management is urged to encourage and praise, and employees are encouraged to initiate participation and contribute toward creating a culture of shared responsibilities/ results so that they are motivated to seek the most team-oriented and effective solutions that effectively integrate functions.

## Pou Chen Square Dance

This is the first Square Dance competition organized by Pou Chen in southern China. More than 600 people participated, totaling 14 teams. The competition was festive and colorful, and more than 3,000 audience showed up for the lively competition and cheer the dancers.



## Beautiful Voice of Pou Chen

In 2015, the Pou Chen in south China held its 5th Beautiful Voice of Pou Chen singing contest. There were more competitors, more experience and more inter-regional competitors than before in this major cultural competition. The organizing, training, exchanges and performance tours formed an integrated event. In 2015, a total of 563 employees and friends participated. The top 13 contestants conducted a performance tour in the Company's No. 3 Plant in south China, and sang to an audience of more than 6,000.



## Summer Camp

In the summer of 2015, Pou Chen held the annual summer camp for the children of employees in the living area of the plants in Gaobu, Huang Jiang, Zhongshan and Zhuhai. The camp activities attracted nearly 1000 children from 13 provinces.





## Pou Chen Employee Family Day

To promote employee attraction to the Company, plants in Pou Chen's major operation bases organize Employee Family Day activities or open house to promote fun and mutual understanding between employees and their families. In the Vietnam Dong Nai plant, Pou Chen organized a 2015 Family Day event at the Buu Long Resort, and about 20,000 employees and their families participated in the activities. In addition to the resort amusement park, Pou Chen also invited the Youth Union to plan carnival activities such as raffle, contests and cultural events, and prizes included motorcycles, televisions, refrigerators, washing machines, and other major prizes. Intense tug-of-war and sack race, and colorful and lively song and dance performances by film celebrities gave all the employees a wonderful day filled with food and fun. The Company also offered gifts to employees in financial hardship to help them feel cared for.



## Employee Publications

The Company's major operation bases in China, Indonesia, Vietnam regularly issue employee publications that report major internal activities and news, and also literary articles for employees.



## 4.7 Safe Workplace

### 4.7.1 Health and Safety Management

#### Occupational Safety and Health Management Policy

The Company's safety and health policy is to "provide a safe and healthy workplace to protect employees from occupational hazards." To fulfill its commitment to provide employees with a safe and healthy workplace, the Company is steadily establishing a standardized management system that is implemented at the organizational base, horizontal inter-department cooperation and vertical top-down operation.

#### Safety and Health Management System

In addition to complying with relevant regional regulations and customer requirements, the Company's occupational safety and health management is also based on the OHSAS 18001 International Standards and FLA Workplace Code of Conduct. A series of management approach is formulated for required departmental implementation to avoid harm. The approach is based on relevant decrees and is consistent with internal standards to steadily promote the safety and health management system. Every plant and administrative center of the Company has an Environmental and Energy Safety and Health Committee that meets regularly. Through the fixed organizational approach, each department reviews issues pertaining to safety and health management. In addition, the plants are required to regularly conduct an internal review of their safety and health management mechanism and establish an e-management system for abnormalities so that data can be analyzed to help focus preventive mechanisms on significant risks.

#### Standardized Management Measures

The Company strengthens its health and safety management in stages. After surveying fire safety, chemical safety, special job hazards control and job disaster management, the following tasks were further strengthened in 2015:

##### Machine Safety Management

Comprehensive machine safety management is implemented through defining high-risk machines, clearly requiring the installation of safety devices and safe operation, evaluating procurement sources, on-site safety inspection, machine safety, periodic safety review and other means.

##### Contractors Construction Management

Formulated an integrated Company standards for contractor access control, danger notification, special hazardous operations control, on-site supervision and violation demerits. The standards have been steadily implemented in the various regions.

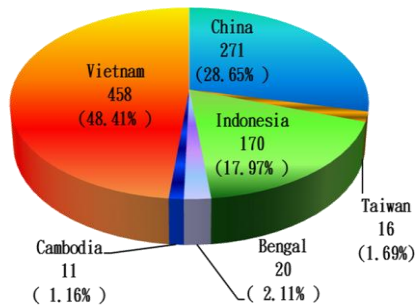
##### Abnormal Incident Management

The occupational incident investigation management has been standardization to ensure reporting and follow-up. In addition, investigative and identification capability of plant incidents continues to be strengthened to prevent risk recurrence while at the same time promote corrective measures.

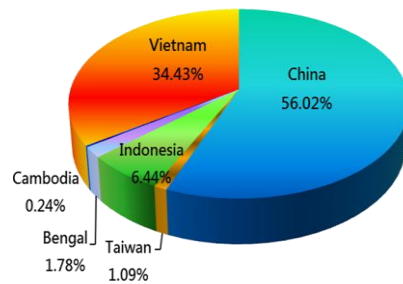


- ## Safety and Health Indicators

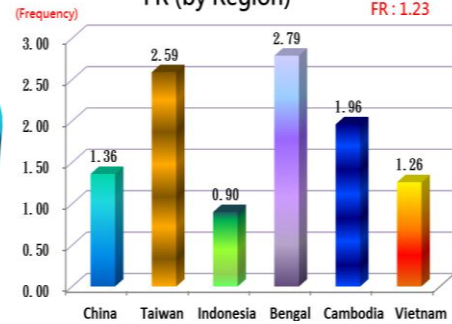
The number and % of occupational accidents (by Region)



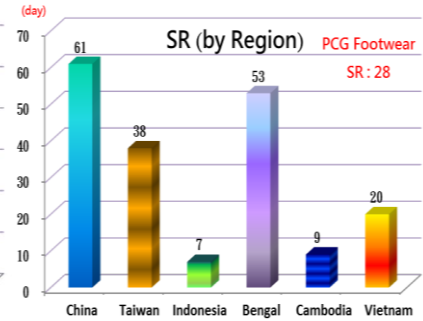
Loss days percentage (%) by Region



FR (by Region)



SR (by Region)



The statistics show that although the Vietnam region had more job related disaster, its FR and SR did not show significant increase compared to other regions. This is because in addition to differences in the population, the frequency and severity of work-related in the various plants were also different. To reduce the risk of reoccurrence, the Company will conduct regular comprehensive investigation of work disaster incidents and promote methods for improvement. Furthermore, the Company will coordinate with key management control measures for the year, such as improving existing machines, and managing new machine procurements to achieve progressive improvement.

To prevention occupational diseases, the Company provides employee health checks in accordance to local regulations. According to procedure, those showing abnormal findings are scheduled for re-examination. If re-test result shows occupational illness, the Company initiates application for assessment according to regional regulations. If employees themselves apply to the local government for assessment, the assessment process is also coordinated with local regulations. In terms of internal management, the workplace is regularly inspected according to local regulations, including inspection for chemical exposure, hearing and lighting. Workplaces showing abnormal test results are improved accordingly, and appropriate personal protective gears are provided. Employees with suspected occupational illness who have applied for assessment are transferred to a position with no contact with the hazardous source. The position is not finalized until the final assessment results are confirmed. Since prevention of occupational disease is a priority care, plants in all regions have medical clinics or collaborate with local hospitals. Health lectures are conducted regularly and general health education is promoted to help employees take preventive measures to protect their personal health.

## Self-Management of Environmental, Safety and Health (ESH)

Pou Chen's ESH self-management system is staffed by full-time employees and supervised by various levels of authority. Production plants are equipped with dedicated ESH staff (or SD staff) who inspect fire prevention equipment and safety measures in the production workshop weekly. Any failure is immediately reported to the relevant authority and dealt with. From time to time, SD staff from various departments oversees and assists with relevant customer requests in the plants under their supervision. Each month, the SD Department in regional administrative centers inspects compliance with regional regulations and the Company's internal management standards. The Company Headquarters also schedules annual audit if necessary to ensure efficient implementation of relevant measures.



## 4.7.2 Loss Prevention Management

To ensure workplace safety and protect the property of company, the company strengthens the promotion and management of loss prevention. In view of past incident of a major plant fire, loss prevention management measures focus primarily on fire prevention inside the plants and fire resistant construction.

### Fire Control Management

Pou Chen provides multiple channels on fire protection management, such as preventing fire from the original source, control the spread of fire, and emergency response and rescue etc. To reduce fire risks, improvement funds are provided and relevant management mechanisms are implemented.



Pou Chen has clearly defined the design standards for fire prevention equipment and construction safety. For all new construction, additional, or change in purpose, must be according as the Company's design specifications such as fire zoning, fire lanes, fire extinguishers, water-based fire protection system, chemical fire protection system, fire alarm equipment, exit signs and emergency lighting. The design, construction, inspection and maintenance of fire prevention equipment are under an integrated management mechanism..



There are 13 fire-fighting units in its major production bases in our company such as in Vietnam, Indonesia and China. The Company headquarters formulated whole set of integrated standards and daily duties and training for its fire-fighting units, and verifies their capability. Hope the standardizing of the regulations can optimize their performance.



Plants are required to conduct their own fire inspection each month. Regional administrative centers also conduct fire prevention inspection and appraisal quarterly, the focus targets are, power source management, power switches / outlets, motors, high temperature machines, hot work, fire zoning, firefighting equipment and dust collectors. Daily power source control and inspection are particularly reinforced to avoid fire hazards..



Emphasizing the concept of a learning organization, the Company offers electrician courses in each region. Every electrician in the plant is required to participate in the training, exchanges the experiences and make the certifications of qualification to strengthen their ability and enhance their professional skills. The long term purpose is to enhance their self-management capability of the plants by their learning to reduce their operational risks.







An integrated firefighting equipment maintenance contract and inspection schedule is formulated to verify the capability of the maintenance vendors. The contract can enhance maintenance quality and ensure normal operation of fire-fighting equipment. Through periodic assessment mechanisms which can replace low quality vendors.



Electrical safety is an important link in fire prevention. the Company has formulated a system for using infrared thermal imaging device to regularly scan its electrical equipment . Most of the plants are equipped with the infrared thermal imaging device, and suitable electricians from the plants are selected for training from the Headquarters to conduct regular required scans of electrical equipment.



To train employees in first response and rescue capability, the Company has formulated a unified set of standards for increasing response capability, to prevent fire spread and ensuring personal safety. Each plant has an emergency response team with regular training and drilling. At the same time, periodic joint drills in disaster rescue are conducted with governmental fire-fighting units to increase their joint rescue capability.



To reduce various operational risks in the plants, Pou Chen plans to map out the full range of damage risks outside of fire (e.g. earthquakes, storms, flood). For major potential risks, appropriate improvements have been made for the existing plants and set up the safety standards for newly built plants in order to make sure they can effectively assess and prevent potential risks of the business interruption.

# 5.0 Environmental Conservation and Earth Sustainability

## 5.1 Resources Utilization

### 5.1.1 Materials Procurement

#### Raw Materials Use

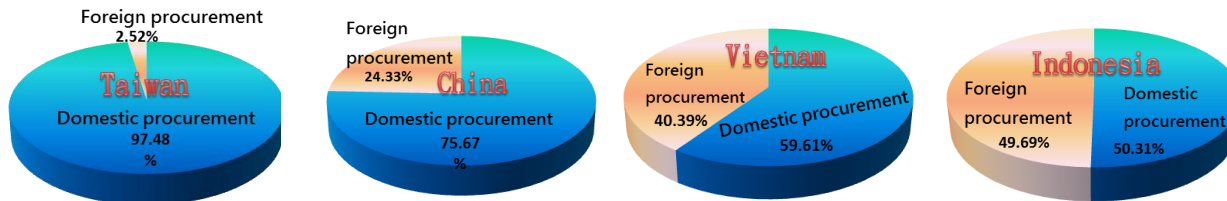
Raw materials used in footwear manufacturing can be broadly divided into upper materials and sole materials. Upper materials are mainly woven / non-woven, synthetic leather, genuine leather, foam and accessories. Sole materials are mainly made from EVA resins (Ethylene/VinylAcetate copolymer), PU resins (Polyurethane) and rubber. Thermoplastic polyurethane (TPU resin), an environmental-friendly material, has gradually been used both in upper and sole materials in recent years.

Pou Chen has always maintained close communication with brand customers and material suppliers in the selection of raw materials, and adheres to the standards required by brand customers. The Company also meets with the requirement from the Restricted Substances List (RSL), as well as the testing standards of the American Society for Testing and Materials (ASTM), and also works with customers to develop a variety of green materials for footwear manufacturing.

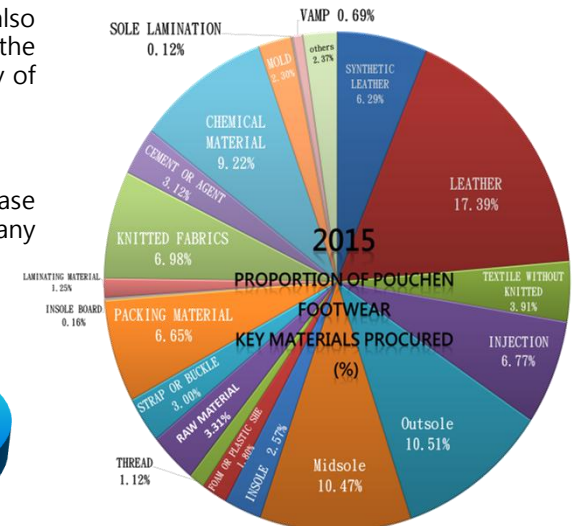
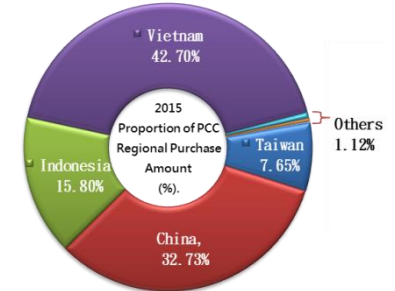
#### Materials Procurement

Materials are mainly procured from local suppliers to reduce the risk of supply interruption and decrease carbon emissions from overseas transportation. There are around 1,964 suppliers from which the company has purchased materials in the last three years, from 2013 to 2015.

#### Proportion of foreign and domestic procurement in main operation and production bases



2015 Proportion of PCC Regional Purchase Amount (%)



## 5.1.2 Energy Use

Pou Chen key management strategies for energy use are as follow:

- (1) Gradually replace high pollution / high carbon emission fossil fuels with electricity or clean fuel substitutes.
- (2) Conduct energy use inventory and monitoring, and focus on energy efficiency improvement projects to reduce energy consumption.
- (3) Promote systematic ISO 50001 Energy Management System, and continue to improve energy efficiency.

The Company has also developed the Energy Management Regulations for reasonable energy use and steady increase in the efficiency of energy use. Specific implementation standards are also publicly posted.

Categories of resources used by Pou Chen's footwear manufacturing business (including the Headquarters) in 2015 included electricity, fossil fuels, coal (including anthracite), bio-fuels and natural gas. Of these, biomass fuels were used by outsourced vendors for supplying steam heat.

Pou Chen's total energy consumption in 2015 was 4,697.8 trillion joules (TJ).

### 2014 -2015 Types of energy and total amount of energy use:

	Electricity	Fossil Fuel	Coal ( including anthracite )	Biofuel	Natural Gas <sup>(Note)</sup>	Average Power Consumption Per Pair of Shoes
Amount (2015)	938,739.14 ( MWH )	6,894.74 ( K L )	0.8014 ( 10 <sup>4</sup> tons )	5.2584 ( 10 <sup>4</sup> tons )	76.01 ( 10 <sup>4</sup> M <sup>3</sup> )	2.02 ~ 4.04 ( KWH/pair )
	3,380.07 ( TJ )	242.87 ( TJ )	201.09 ( TJ )	792.57 ( TJ )	25.46 ( TJ )	7.28 ~ 14.56 ( KJ/pair )
Amount (2014)	1,064,001.46 ( MWH )	13,363.8 ( K L )	4.43 ( 10 <sup>4</sup> tons )	32.22 ( 10 <sup>4</sup> tons )	104.65 ( 10 <sup>4</sup> M <sup>3</sup> )	2.00 ~ 4.67 ( KWH/pair )
Remark	Mains electricity	(Heavy oil / diesel gasoline/kerosene)	( Boiler used )	( Rice husk / Palm shell )	( Municipal supply )	( Estimated average shoe consumption in the China, India, Vietnam Footwear manufacturing Region.)

(Note) Excludes liquefied petroleum gas. In 2015, total consumption of liquefied petroleum gas was 55.74 TJ.

Due to adjustments in the operations and production plants, the data collected in 2014 is incomplete and hence data comparison by year is temporarily unavailable. The Company data collection system is expected to be revised in 2016, and data collection will be more complete and future analysis more comprehensive.

In terms of energy management, the comprehensive implementation of energy monitoring system is priority. In 2015, the installation of energy online system is completed for some of the plants in China. Online systems will continue to be installed in other plants to enable early detection of abnormal energy consumption and help identify energy-saving opportunities.

At the same time, carbon reduction projects are being actively promoted in plants. In 2015, an energy saving project for high energy consumption facilities in a pilot plant was completed where key measures included establishing an energy management system and implementing management policies, modifying injection machines, inspecting leaks and optimizing the operation of compressed air systems and motors, and installing water pump invertors, which resulted in 10% energy saving. .

In 2016, the energy saving project will be expanded and standards for procuring energy saving machines will be formulated. Specifications for ventilation, heat insulation and energy saving plant design will also be developed to achieve source management.

### 5.1.3 Water Use

#### Water Treatment and Management

Footwear manufacturing is not a high water consumption production process. Therefore water use in the plants are for employee domestic use and only a small portion is for use in sole manufacturing. In response to stakeholder concern about safe drinking water management for employees and international trend in water resource sustainability, the Company's water resources management system not only ensures compliance with laws and regulations on safe water quality and wastewater treatment, but also includes mid and long term plans to increase water re-use rate within the plants to avoid excessive depletion of natural water resources.

In the management of water resource safety, large water treatment plants and reverse osmosis (RO) water purification system equipment are installed as needed, and operational criteria and door access requirements for water purification and wastewater treatment areas are formulated. Each month, the lab in the each administrative center conducts self-tests on water quality and announces the test outcome. At the same time, in accordance to regulations, water quality tests are outsourced regularly to ensure that the quality of all water types within the plants are safe.

The Company's current water sources in its main operation and production areas are primarily local municipal water supply, rivers and lakes. In 2015, the total water use in the footwear manufacturing production region measured  $24.1456 \times 10^6 \text{ m}^3$ , and the water supply source and water withdrawal volume are within the permitted range of local government and does not significantly impact water supply source.

Footwear Production Region		China	Indonesia	Vietnam	Bangladesh	Mexican America	Taiwan	Other Regions (Cambodia/ Myanmar)	Total Water Consumption
Regional water use volume and proportion (%)	2015	54.37 % (1,312.81 *10 <sup>4</sup> M <sup>3</sup> )	19.18 % (463.17 *10 <sup>4</sup> M <sup>3</sup> )	25.25 % (609.68 *10 <sup>4</sup> M <sup>3</sup> )	0.27 % (6.51*10 <sup>4</sup> M <sup>3</sup> )	0.05 % (1.20 *10 <sup>4</sup> M <sup>3</sup> )	0.59 % (14.26 *10 <sup>4</sup> M <sup>3</sup> )	0.29 % (6.93 *10 <sup>4</sup> M <sup>3</sup> )	2,414.56 *10 <sup>4</sup> M <sup>3</sup>
	2014	52.42 %	29.61 %	16.91 %	0.24 %	0.08 %	0.44%	0.30 %	2,462.63 *10 <sup>4</sup> M <sup>3</sup>
Main water supply sources		Municipal water supply	River water / Municipal Water	River water / Municipal Water	Municipal Water	Municipal water	Municipal water	Municipal water / Well water (Burma)	Complies with legal water source supply
Remake		<ul style="list-style-type: none"> <li>❖ Compared to 2014, the China water consumption in 2015 included the PAC plant.</li> <li>❖ Compared to 2014, the Vietnam water consumption in 2015 included the PAV plant.</li> <li>❖ Compared to 2014, the Indonesia water consumption in 2015 included the new PCRY plant and KMK plant.</li> <li>❖ Compared to 2014, the America-Mexico water consumption in 2015 excluded the US SolarLink plant.</li> </ul>							





## Wastewater Management

In the Company's Wastewater Pollution Control Management Regulations, the management policy prioritizes source reduction and prevention, followed by recycling and reuse, and finally proper treatment. In addition to requiring compliance with local emissions regulations, management implementation includes mid and long term management goals of improving water re-use rate and reducing emissions.

In the footwear plants, most wastewater comes from domestic use by employees and a small proportion is industrial waste from washing during sole manufacturing, painting and printing. All plants are equipped with mounted pre-treatment facility for chemical coagulation to treat industrial wastewater with higher pollutant concentration until they meet emission standards before being released into the large wastewater treatment plants for a secondary biodegradation process. The wastewater treatment plants are specially equipped with water quality laboratory to test and monitor water quality. At the same time, according to regulations, effluents are regularly sampled and tested by outside labs approved by the local authorities, and the effluents are discharged through legal outlets. In some of the plants, detention ponds collect effluents from wastewater treatment plants for later reuse in the plants. The detention ponds also serve as recreational parks for employees.

In 2015, the Company's plants had no notification of illegal effluents, and did not cause significantly pollution to receiving waters or surrounding environment.



Ecological pond

## Effluent Recycling and Reuse

According to the principles of corporate governance, each plant continues to seek opportunities to recycle water. In 2015, the average effluent re-use rate of the Company footwear production bases was 10.62%, and effluent was mainly used to water park greeneries, flush toilets and supply fire prevention pools. In tannery processes that requires a larger amount of water use, effluent re-use rate was 36.84% (Vietnam plant) and 56.17% (China plant), and reuse included production workshops and foam agent systems in wastewater treatment plants.

## 5.2 Greenhouse Gas Emissions

Pou Chen greenhouse gas inventory is in accordance with the ISO 14064-1 international standards. Inventory is progressively conducted in production plants and inventory items are based mainly on Scope 1 and Scope 2; Scope 2 is yet to be included in the inventory. Calculations for greenhouse gas emissions are primarily based on emission coefficient, and the formula is: activity data  $\times$  emission factor  $\times$  global-warming potential (GWP) = CO<sub>2e</sub>; unit is metric tons / year.

Greenhouse emissions activity index varies with emission source, and measured in kilograms, kiloliter or liter of weight or volume. Emission sources are also recorded.

The coefficients of emission sources are based on the emission coefficients released by the IPCC 2006. Incorporating the announced emission coefficients and heat values of different fuels, the coefficient for each emission source is calculated. Supplementary calculation tools include the Taiwan's EPA Greenhouse Gas Emission Coefficient Management Table Version 6.0.1 for different emission sources, and the Ministry of Economic Affairs Industrial Development Bureau Greenhouse Gas Inventory (version 4.1).

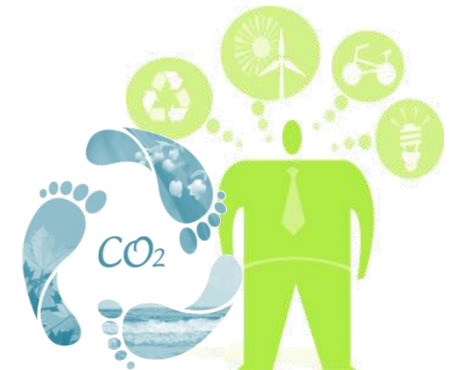
Electricity emission coefficients are based on the emissions coefficients announced by various regions or the coefficient calculation announced by the IEA 2013. The Global Warming Potential (GWP) for e various greenhouse gases are consistently based on the IPCC Fourth Bulletin (2007).

Carbon dioxide, Methane and Nitrous oxide emissions from footwear production are mainly from the use of electricity and fossil fuel combustion. In addition, a small portion of methane is emitted from septic tanks. In terms of Hydrogen Fluorocarbon (HFC), Perfluorocarbons (PFC) and Sulfur hexafluoride (SF<sub>6</sub>), only a small amount of SF<sub>6</sub> is used in the gas insulation of high-voltage power distribution equipment, and equipment manufacturer information indicates extremely low amount of daily leak. Carbon emissions caused by such fugitive emission is calculated only when the equipment insulation is refilled, and hence treated as 0 when there is no refilling.

In 2015, the total greenhouse gas emission of the Company's footwear manufacturing plants was about 79,4098 x10<sup>4</sup> metric tons of carbon dioxide, of which Scope 1 carbon emission was equivalent to about 82,720 metric tons of carbon dioxide and Scope 2 carbon emission was equivalent to about 711,378 metric tons of carbon dioxide. The main sources of carbon emissions are from the use of electricity (78.53%) and fuel (15.50%).

Due to differences in production processes and regional energy carbon emission coefficients, the Company's average carbon emission per pair of footwear for the China, Indonesia and Vietnam plants ranged from 1.7112 ~ 4.7536 kg CO<sub>2e</sub> / pr.

In 2015, the Company continued to strengthen the reliability and completeness of its greenhouse gas inventory data in all its plants. In addition to on-site sampling of inventory data in the plants, new production and operation plants (in Indonesia and Myanmar) received inventory training and education, and are formally included in the 2016 greenhouse gas emission inventory statistics.



### 5.3 Green Construction

#### New Plant in Indonesia

Following the construction of the Company's green building for the kindergarten in the Vietnam plant, the green building concept for environmental sustainability is incorporated into the design for new plants. In 2015, the new footwear manufacturing plant in Indonesia plant used natural lighting and transparent ventilation design with blinds and glass instead of brick walls to achieve ventilation and lighting. LED lighting is used extensively in the plant, and the roof is partially installed with 15% light transmittance tiles (using fireproof material) to improve plant lighting and achieve thermal insulation. Outdoor areas of the plant are lighted with solar panel street lamps.

The plant is cooled by drawing outside cold air into the plant with non-powered fans while the hot air inside the plant is drawn out with non-powered fans. Both the interior and exterior of the plant are decorated with an eco-green area to create a comfortable feeling of being in a park and providing a comfortable workplace. In addition, the dormitories are installed with solar water heaters.

To manage water recycling, rainwater storage pools are constructed in plant areas and employee cafeteria. Wastewater treatment plant and water reclamation pools are also constructed in the park. Water reclamation pools are incorporated into water recycling design to provide water for landscaping, toilet sanitation and fire-fighting. The park has an ecological pond for water storage and flood detention, and collects recycled water from treated domestic wastewater and reclaimed water, thereby reducing water emission as well as providing employees with an ecological park.



New Plant in Indonesia

#### New Myanmar Plant

Building strength against strong winds is emphasized in the plant to create a safe workplace. At the same time, a natural lighting design is introduced using high ceiling and white surfers to reduce the use of air-conditioning. The roof is installed with thermal insulation foam coupled with negative pressure fan and drencher system to effectively reduce the temperature in the work areas.



## 5.4 Pollution Prevention Management

Pou Chen upholds the principles of environmental protection and the balance between ecology and production, and is committed to the following environmental protection measures:

1. Introduce effective environmental management system, implement pollution control and environmental impact management, and continue to improve and promote the sustainability of environmental resources.
2. Comply with environmental laws and regulations and other requirements, and formulate and implement standard operating procedures accordingly.
3. Optimize production processes, promote clean production, reduce pollution emissions, implement pollution control and management, and conduct regular testing and inspection.
4. Reduce the use of hazardous substances, promote industrial waste reduction, recycle and reuse resources, conserve energy and reduce carbon to improve corporate environmental protection performance.
5. Strengthen education and training and enhance employee environmental protection awareness to thoroughly implement environmental responsibility.

In practical operations and management, formulate relevant environmental management guidelines as operating standard for each respective plant. In accordance to the ISO 14001 environmental management system, establish a self- management system for each plant that meets local environmental requirements. In addition, strive toward mid and long term management goals of clean production and reduced emission of environmental pollutants.

## Environmental Grievance Mechanism

Pou Chen values the rights of surrounding communities and the environmental concerns of stakeholders. SD in the administrative centers of each operation and production base is responsible for receiving, processing and responding to the social and environmental grievance or feedback by the community. In 2015, the Company's major operations and production areas did not receive any environmental complaint from community residents, but received four notifications from local authorities (Indonesia, China, Vietnam), as respectively described below.

## Environmental Management Regulatory Compliance

The Company's management priority goal is compliance with local regulations on respecting and protecting the environment. Plant production and operations are equipped with pollution emissions collection and treatment facilities, and are regularly subjected to inspection and supervision to ensure proper management and compliance with local regulations before emission. Mid and long term environmental management goals include optimizing manufacturing process, promoting carbon reduction projects, increase resource use efficiency or recycling and reuse rate.

### Indonesia

On November 2015, the Company's environmental management performance in the Indonesia PGS plant was awarded the green factory Blue Certification (High Standard) by the local environmental protection department.

In 2015, the Company's plant did not have any major incident of emission violation or leak that resulted in serious environmental pollution. Occasional administrative violations are managed as described below:





## China

Since China's new Environmental Protection Act was decreed to strengthen environmental monitoring and management efforts, the Company's China plants have made improvements according to the audit recommendations of relevant authorities. However, some of the improvement projects were in progress, and therefore could not meet the approval of the "three simultaneous " inspections. Hence in 2015, the Company received one improvement and fine notification from the competent authority. The fine totaled 60,000 RMB. In addition to paying the fine, the Company has stepped up on the progress in relevant operating procedures, and expects to complete application for Environmental Impact Assessment (EIA) in the second quarter of 2016.

In September 2015, the Gaobu Industrial Park in Dongguan City received an administrative penalty from the Dongguan Environmental Monitoring Center. The penalty was due to Nitrogen dioxide and Sulfur dioxide concentrations in the exhaust of the steam supplier's boiler exceeding emission Standards. The fine was 60,000 RMB. The Company's local administrative center has already supervised the supplier in fine payment and improvement project.

## Vietnam

In October 2015, local authorities found minor changes in the location of the plant's production (the building used for production was inconsistent with original application) during an inspection of the Company's Plant in Vietnam's Dong Nai Province Bien Hoa District. Environmental impact assessment (EIA) was conducted according to regulations, and a fine and improvement notification were also issued. The fine was VND 80 million (equivalent to USD 3,555). Following the oversight notification from the plant inspection, the Company has promptly implemented EIA tasks and paid the fine according to regulations. On November 27, 2015, the local government issued the EIA approval.

## Environmental Assessment for Plant Construction

In the early planning stage of the Company's operations bases, multiple assessments of environmental and relevant laws on industrial land use are conducted. Selected production bases are in local government approved economic development regions that are not protected or reserved biological habitats and do not contain international conservation or endangered species. Impact on local biodiversity environment is avoided as much as possible.

## Air Pollution Source Management

Currently, the primary sources of air pollutants in the footwear manufacturing plants are volatile organic compounds (VOC), flue gas from fuel boilers, emissions from generator room and kitchen exhaust. To manage air pollution prevention and control , the Company has formulated the Air Pollution Control Management Regulations that prioritize compliance with local emission standards, followed by clean production process assessment and finally, requirements for proper treatment.

In 2015, in responses to new legal standards, the Company's plants in China actively expanded EIA tasks and improved pollution prevention projects for fugitive VOCs to meet environmental assessment requirements. Except for China, pollutant tests of emissions in other operations and production bases met local emission standards.



## Waste Management

### Waste Management Policy

The Company's management strategy for waste management emphasizes legal waste removal, waste reduction and reuse. According to local laws and regulations, all waste must be transported and treated by government certified vendors. Recyclable and reusable waste are sorted and collected according to brand customer categories .

### Classification and Management

Plant waste are divided into four major categories: general waste (domestic trash), general industrial waste (industrial waste), hazardous industrial waste (hazardous waste), recyclable and reusable waste (available resources waste). General waste and general industrial waste are collected, transported and treated by local certified vendors. Legally defined hazardous industrial waste and available resource waste are stored in the Recycle Materiel Control Center in the plants for combined collection, classification, required measurement and reporting. Hazardous industrial waste are identified according to regional or national ordinances, classified and collected in designated temporary hazardous waste storage and managed by designated personnel. Local environmental protection companies that are certified to handle hazardous waste are commissioned to transport and dispose of the waste. Depending on feasibility, available resources waste are recycled or re-used through the assistance of vendors.



# 6.0

## Customer Service and Supplier Management

### 6.1 Customer Service

Pou Chen is committed to becoming an industrial leader in sports and recreation goods manufacturing and retailing, and continues providing first-class products, services and solutions and creating a higher value for customers, employees, investors, suppliers and the community. The Company has established long-term cooperative relationships with numerous international brands, and strives to offer the best services for all brands. The Company provides customized design and production, established a R&D center exclusively for customers, segments production and operating standards according to strict customer distinction, and closely protects the privacy and trade secrets of brand customers. Therefore, the Company has become brand customers' best manufacturing partner in commercial design technology, and has established a solid foundation of trust with various brand customers.

Today's global sports footwear, casual shoes and outdoor footwear market has gradually transformed into small quantity, greater diversity and customization trend, and product life cycles have shortened. Through production process reconstruction and jointly developing e-mechanisms, the Company has increased the sophistication and efficiency of production management. Research and development capabilities are strengthened, and together with innovative design and logistics management teams, front-end designs are developed for brand customers to enhance closer cooperation and mutual benefits. In addition, through footwear material selection mechanisms, brand customers are offered innovative materials. Pou Chen continues to improve service quality in delivery, product quality and price, and responds promptly to customer demand, thereby furthering the relationship through strengthening brand customer reliance on the Company's product development and excellent services.

Customer supervision and audit of overall production processes are accepted, and customer recommendations for improvements are promptly incorporated and the results communicated to satisfy customer demand.

### Product Quality Management and Service

The Company is committed to providing customers with top quality and safe products, and highly regards any customer requirement in product quality. From product development and design to manufacturing, the Company adheres strictly to international standards and brand customers' Restricted Substances List (RSL) and Sustainable Chemistry Guidance (SCG) in the selection and use of raw materials. Products manufactured from the fully controlled process are consistent with environmentally friendly and human health principles. Before being officially produced, products developed by the Company must be put through standardized production processes and pass rigorous physical and chemical inspection standards.



In mass production, all material entering storage must be randomly selected for testing to prevent problematic materials from being used in footwear production. Before packaging, all finished footwear are subjected to scanning or metal detection by specialists to ensure no residual metal or sharp objects in the footwear. All qualified footwear are loaded under the supervision of trained personnel, sealed and shipping status recorded to prevent placement of dangerous substance during transportation.

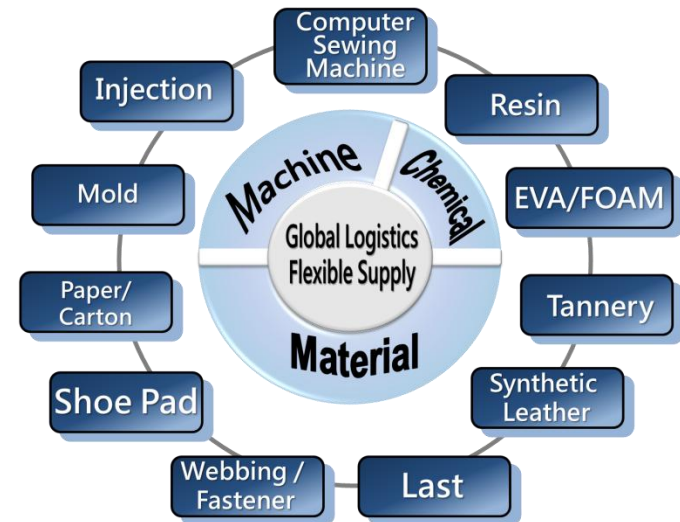
The Company's manufacture of supply products does not directly involve consumers, and therefore does not include mechanisms for scrap or packaging material recycling. However, the Company maintains close business cooperation with brand customers. All products meet the high quality inspection standards of customers, and in accordance to customer demand and international export regulations, are reasonably packaged and labeled with detailed product specifications such as product dimension, materials, components and instructions. In addition to obtaining product information and services through brand customers, consumers can also obtain manufacturing plant code found on product labels, and contact the manufacturing plant for product information

## 6.2 Supplier Management

### Industrial Vertical Integration

Pou Chen suppliers can be divided into four major categories: material suppliers, machinery and equipment suppliers, engineering contractors, outsourcing service providers. Through vertical integration and horizontal labor division policies for integrating industrial knowledge and skills, the Company connects upstream, mid-stream and downstream industries in the footwear manufacturing industry, including machinery, chemical and material arena, thereby forming a complete supply chain.

The Company strives to quickly respond to customers. The Company continues to improve its manufacturing process, enhance production flexibility, and build a quick response and material supply system that is close to the market, thereby developing long-term corporate value.



## Supplier Management

To help customers develop unique and innovative quality products and also fulfill the Company's responsibility as a global citizen, quality and green raw materials are a priority in supplier management. Through supplier selection processes, quality and green indicators, industry-specific risk assessment mechanisms, criteria for risk levels and appropriate corresponding risk response are delineated. Professional audit of the plants ensures that raw material suppliers have the ability for systematic quality control and green supply chain construction. In addition, based on product characteristics, vendors for the Company are assessed annually or quarterly to ensure that the production and supply of daily raw materials can maintain the level of quality required and meet green regulations, thereby safeguarding quality for customers and fulfilling green development trend.

In 2015, the Company publicly recognized suppliers with outstanding green performance. According to severity, suppliers falling short in green performance are offered improvement measures or notifications are issued to customers and improvement performance tracked. It is hoped that suppliers can be prompted to optimize green production cycles and fulfill corporate social responsibility and sustainable development.

## Quality and Green Management Focus

The supplier audit mechanism of the Company's supplier chain management headquarters includes 11 topics of quality control assessment and 3 topics of green management assessment.

### 2015 Execution Quality Management Priorities

In accordance with ISO 9001: 2008 quality management system based on the establishment of requirements and evaluation criteria for selecting suppliers, and apply the questionnaire to understand their business conditions, quality management systems, quantity supplied, service and delivery capabilities.

1. To effectively manage suppliers, and to ensure that the procurement quality can meet the company and brand requirements, requirements that audit the supplier in accordance with PDCA (Plan, Do, Check, Action) principle Reply deletion improvement measures, in order to strengthen the supplier's quality management operation, reduce the cost of quality loss suppliers to ensure that all of the feed factory quality control comply with brand standards.



## 2015 Execution Green Management Priorities

1. With increasing international, government environmental agencies and brand customers concern for green environmental protection, Pou Chen has progressively promoted green supply chain management policies for the green performance of supply chains. In 2015, green supply chain management was promoted by fully implementing green management concepts, requirements and management indicators with cooperating suppliers, and defining environmental protection and banned / restricted substances control as basic control items.
2. Stable supply chain is an important lifeline for maintaining the Company's continuous production. Through assessment and improvement tracking mechanisms, Pou Chen's supply chain management headquarters continues to enhance supplier self-management capabilities.
3. Green supply chain management is implemented to encourage excellent supplier green performance (such as green design, green manufacturing, green innovation, green marketing, green procurement, green recycling, green products).

Due to differences in supplier size, management capabilities and level of cooperation, suppliers that cannot meet the Company's quality requirements and green management indicators are first required to improve within a deadline after which if recommended improvements still fail to satisfy the Company's requirements, the Company will replace the supplier to reduce supply chain risk to ensure that the Company's supply chain management can meet the basic requirements of the ISO 9001 quality management and international sustainability trend.

## Supplier Audit Outcome and Improvement Follow-up

### Improvement and Key Item Management of Major Problems

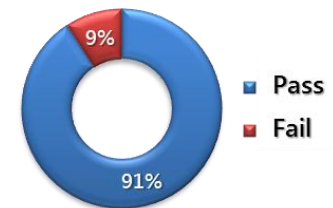
1. Pou Chen's quality management system implements corrective and preventive measures to manage problems, and its green management principles define environmental protection and banned / restricted substances control as basic control items. Suppliers are audited by a professional team. Items that fail to meet audit standards are pointed out and recommendations for improvement are given. Suppliers are expected to implement the improvements within a deadline or provide an actual improvement plan. Follow-up on improvement begins 14 days after the audit team issued the audit outcome to suppliers.
2. Supplier audit outcomes includes Fail, Need to improve and Pass. Suppliers not meeting Pouchen's quality and green management indicators are required to improve within a deadline. Based on the importance and proportion of trading involved in the raw materials, the Company implements key item management. In Stage 1, all 271 suppliers are audited for quality, and 9% failed to meet audit criteria. For green management, 344 vendors were audited, and 7% did not meet audit criteria.

The supplier management mechanism adjusts ratio of procurement from suppliers who fail the audit, thereby constituting a quality supply chain management system.

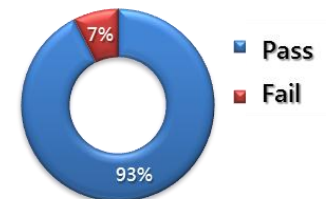
### Green Supply Chain Management Audit Focus



### Quality Audit Results



### Green Audit Results





## Supplier Development

Pou Chen views suppliers as cooperative partners, and in 2015, respectively organized a supplier material exhibition in China and Vietnam to provide customers, suppliers and Pou Chen R&D teams with an exchange platform for sharing product and material needs and development trend. In addition, lectures and seminars were held to exchange new technology and future vision and trend.

Pou Chen's operations mission is meeting customer need, supplier development and social responsibility. Based on the vision of resource integration and value increase, the Company hopes that through joint innovation with suppliers, a sustainable green supply chain can be established to satisfy customer demand and fulfill corporate social responsibility.



2015/2/3 to 2/4 Held in Gaobu, China. A total of 29 suppliers participated.



2015/9 / 23-9 / 24 Held in Bình Chánh Vietnam. A total of 34 suppliers participated.

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		G4-EN29	5.4 Loss Prevention Management	75	
Environmental Grievance Mechanisms	DMA	G4-EN34	5.4 Loss Prevention Management	75	
Category : Social -Labor Practices and Decent Work					
Employment	DMA			35	
		G4-LA1	4.1 Ability and Job Compatibility	40	
		G4-LA2	4.3 Comprehensive Remuneration and Benefits System	46	
		G4-LA3	4.3 Comprehensive Remuneration and Benefits System	46	Parental leave data in the Indonesia plant is currently unavailable, and will be disclosed in 2016.
Labor/Management Relations	DMA			52	
		G4-LA4	4.4. Employee Relations	51	
Occupational Health and Safety	DMA			63	
		G4-LA6	4.7.1 Health and Safety Management	64	
Training and Education	DMA			41	
	G4-LA9	G4-LA11	4.2 Education, Training and Career Development	42	
	G4-LA10		4.2 Education, Training and Career Development	43	
Diversity and Equal Opportunity	DMA			35	
		G4-LA12	4.1 Ability and Job Compatibility	39	
Labor Practices Grievance Mechanisms	DMA	G4-LA16	4.4.2 Communication Mechanisms	54	



特定標準揭露					
重大考量面			chapter	page	Omissions
Aspects	DMA/Indicator				
Category : Social - Human Rights					
Non-discrimination	DMA			52	
	G4- HR3		4.4.1 Respect for Labor Rights	53	
Freedom of Association and Collective Bargaining	DMA			52	
	G4- HR4		4.4.1 Respect for Labor Rights	53	
Child Labor	DMA			52	
	G4- HR5		4.4.1 Respect for Labor Rights	53	
Forced or Compulsory Labor	DMA			52	
	G4- HR6		4.4.1 Respect for Labor Rights	53	
Human Rights Grievance Mechanisms	DMA			52	
	G4- HR12		4.4.2 Communication Mechanisms	55	
Category : Social - Society					
Local Communities	DMA			32	
	G4- SO1		Chapter 3 Social Contribution and Community Participation	32	
Anti-competitive Behavior	DMA			17	
	G4- SO4	G4- SO5	1.3.5 Moral Integrity and Anti-Corruption	18	
Compliance	DMA	G4- SO8	2.3 Major Annual Events	31	
Grievance Mechanisms for Impacts on Society	DMA	G4- SO11	2.1 Stakeholder Engagement	26	
Category : Social - Product Responsibility					
Customer Health and Safety Compliance	DMA	G4- PR1	6.1 Customer Service	78	
	G4- PR3		6.1 Customer Service	79	



## ASSURANCE STATEMENT

### SGS TAIWAN LTD.'S INDEPENDENT ASSURANCE REPORT ON SUSTAINABILITY ACTIVITIES IN THE POU CHEN INDUSTRY CORPORATION'S CORPORATE SOCIAL RESPONSIBLE REPORT OF 2015

#### NATURE AND SCOPE OF THE ASSURANCE/VERIFICATION

SGS Taiwan Ltd. (hereinafter referred to as SGS) was commissioned by POU CHEN INDUSTRY CORPORATION (hereinafter referred to as PCC) to conduct an independent assurance of the Corporate Social Responsible Report (hereinafter referred to as CSR Report) of 2015. The scope of the assurance, based on the SGS Sustainability Report Assurance methodology, included the text, and data in accompanying tables contained in this report.

The information in the PCC's CSR Report of 2015 and its presentation are the responsibility of the Sustainable Development Department and the management of PCC. SGS has not been involved in the preparation of any of the material included in the PCC's CSR Report of 2015. Our responsibility is to express an opinion on the text, data, graphs and statements within the scope of assurance set out below with the intention to inform all PCC's stakeholders.

The SGS Group has developed a set of protocols for the Assurance of Sustainability Reports based on current best practice guidance provided in the Global Reporting Initiative (hereinafter referred to as GRI) Sustainability Reporting Guidelines and the AA1000 Assurance Standard (2008). These protocols follow differing options for Assurance depending the reporting history and capabilities of the Reporting Organization.

This report has been assured using our protocols for:

- evaluation of content veracity at a high level of scrutiny for PCC and moderate level of scrutiny for subsidiaries, joint ventures, and applicable aspect boundaries outside of the organization covered by this report;
- evaluation of the report content and supporting management systems against the AA1000 Accountability Principles (2008);
- evaluation of the report against the GRI Sustainability Reporting Guidelines (G4 2013).

The assurance comprised a combination of pre-assurance research; interviews with relevant superintendents, SDD (Sustainable Development Department) members and the management; documentation and record review and validation with external bodies and/or stakeholders where relevant. Financial data drawn directly from independently audited financial accounts has not been checked back to source as part of this assurance process.

#### STATEMENT OF INDEPENDENCE AND COMPETENCE

The SGS Group of companies is the world leader in inspection, testing and verification, operating in more than 140 countries and providing services including management systems and service certification; quality, environmental, social and ethical auditing and training; environmental, social and sustainability report assurance. SGS affirms our independence from PCC, being free from bias and conflicts of interest with the organization, its subsidiaries and stakeholders.

The assurance team was assembled based on their knowledge, experience and qualifications for this assignment, and comprised auditors registered with ISO 26000, ISO 20121, ISO 50001, SA8000, EICC, QMS, EMS, SMS, GPMS, CFP, WFP, GHG Verification and GHG Validation Lead Auditors and experience on the SRA Assurance service provisions.

#### VERIFICATION/ ASSURANCE OPINION

On the basis of the methodology described and the verification work performed, we are satisfied that the information and data contained within PCC's CSR Report of 2015 verified is accurate, reliable and provides a fair and balanced representation of PCC sustainability activities in 01/01/2015 to 12/31/2015.

The assurance team is of the opinion that the report can be used by the Reporting Organization's Stakeholders. We believe that the organization has chosen an appropriate level of assurance for this stage in their reporting. The report is the first to be assured by an independent assurance team and PCC has taken a bold step by offering the report to evaluation against both GRI G4 guidelines and the AA1000 Assurance standard. This shows a deserved confidence in their reporting process. In our opinion, the contents of the report meet the requirements of GRI G4 Core Option and AA1000 Assurance Standard (2008) Type 1, Moderate level assurance.

#### AA1000 ACCOUNTABILITY PRINCIPLES CONCLUSIONS, FINDINGS AND RECOMMENDATIONS

##### Inclusivity

PCC is committed to being accountable to its stakeholders and to integrating inclusivity into its strategic and management approach. A variety of engagement efforts such as survey and communication to employees, customers, investors, local communities, suppliers and other stakeholders are implemented to underpin the organization's understanding of stakeholder concerns. For future reporting, PCC may proactively consider having more direct involvement of stakeholders during future engagement.

##### Materiality

PCC has established effective processes for determining issues that are material to the business. Formal review has identified stakeholders and those issues that are material to each group and the report addresses these at an appropriate level to reflect their importance and priority to these stakeholders. It is recommended that the process and criteria applied to assess materiality to be formalized and documented to ensure better consistent result in future reporting.

##### Responsiveness

The report includes coverage given to stakeholder engagement and channels for stakeholder feedback. Future reporting would benefit from more reporting on the results of stakeholder feedback from this report.

#### GLOBAL REPORTING INITIATIVE REPORTING GUIDELINES CONCLUSIONS, FINDINGS AND RECOMMENDATIONS

The report, PCC's CSR Report of 2015, is adequately in line with the GRI G4 Core Option. The material aspects and their boundaries within and outside of the organization are properly defined in accordance with GRI's Reporting Principles for Defining Report Content. The address of Disclosure on Management Approach about the mechanisms for evaluating the effectiveness of the management approach may be further enhanced. Meanwhile standardization and formalization of processes and controls for data collection is encouraged in future reporting.

Signed:

For and on behalf of SGS Taiwan Ltd.



**AA1000**  
Licensed Assurance Provider  
000-8

Dennis Yang, Chief Operating Officer  
Taipei, Taiwan  
20 June, 2016  
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