



# POU CHEN Corporation 2016 CSR Report

POU CHEN Corporation

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# Reporting Principles



## Basis of Report

This report was compiled in accordance with the “Core Option” defined in the 4<sup>th</sup> edition of the Sustainability Reporting Guidelines (GRI G4) issued by the Global Reporting Initiative (GRI).

## Interval, Boundary and Scope of Report

The contents of this report cover the period from January 1, 2016 to December 31, 2016. The information in some categories is presented alongside data disclosed for 2015.

Pou Chen Corporation (hereinafter referred to as “Pou Chen” or the “Company”) and its subsidiaries are collectively known as the Pou Chen Group. The Company's businesses include footwear and apparel manufacturing, sporting goods retailing and brand licensing, real estate development and hotel management. Economic performance mentioned in this report is consistent with the contents of Pou Chen 2016 consolidated financial report and its boundary that includes Pou Chen and its subsidiaries; in terms of financial significance and industry relevance, the social and environmental activities mentioned in this report mainly reflect the performance of Pou Chen's footwear manufacturing business during the course of 2016; for the sporting goods retailing and brand licensing business, please refer to the “Environmental, Social and Governance Report” chapter of the 2016 Annual Report released by Pou Chen's subsidiary Pou Sheng International (Holdings) Ltd. Unless otherwise specified, most of the indicators encompass the performance of Pou Chen's main operating sites in Taiwan, China, Vietnam and Indonesia.

## Report Data and Verification

The data in this report was calculated and analyzed using the Company's internal management system. The financial information mentioned in this report is consistent with the contents of Pou Chen 2016 consolidated financial report which was audited by the accounting firm Deloitte & Touche; all of the statutory reporting data were measured or verified by independent organizations then presented using accepted numerical formats. All of the information contained in the report is from actual measurements.

Independent third-party assurance of this report was conducted by SGS Taiwan Ltd. The report was determined to conform to the GRI G4 Core Option and AA1000 Assurance Standard (2008) Type 1, Moderate level assurance.

## Report Management Procedure

The editing of the Pou Chen Corporate Social Responsibility (CSR) Report is the responsibility of the Company's Sustainable Development Department. Preparations for the CSR Report commence in the 4<sup>th</sup> quarter of each year and involve the following: Convening meetings for CSR reporting, review and discussion of additions to the previous report, communication and exchange of information with factories, compilation of stakeholder issues and business performance for the year from each region, and discussions of material aspects. These are compiled into a report for the year and submitted to the internal management for review. Once the contents of the report have been reviewed and approved it is then published on the Pou Chen website.

## Reporting Cycle

The CSR report for the preceding year is regularly published by Pou Chen in June of each year.

Publication date of the previous report: June 27, 2016.

Publication date of current report: June 26, 2017.

## Contact Information

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

If you have any questions or suggestions regarding the CSR issues of Pou Chen, please do not hesitate to contact us at any time.

Contact Information: Pou Chen Corporation

Address: No. 600, Sec. 4, Taiwan Blvd., Xitun District,  
Taichung City 40764, Taiwan, R.O.C.

Telephone: (04) 2461-5678 (Main)

E-mail: [ir@pouchen.com](mailto:ir@pouchen.com)

Website: [www.pouchen.com](http://www.pouchen.com)



## Notice to readers

***This English version of PCC 2016 CSR Report is translated from the Chinese version. If there is any discrepancy between the English version and the Chinese version or any difference in the interpretation of the two versions, the Chinese version shall prevail.***

# Building a Future Together with Sustainable Development

As a corporate citizen that is accountable to society and the environment, Pou Chen not only seeks to grow the scale and quality of business but also actively embraces and responds to sustainable development trends around the world. We are committed to fulfilling our corporate social responsibility by continuing to strengthen our corporate governance, support social welfare, build a sustainable environment, and cultivate our competitiveness in sustainable development.

## Strengthening Corporate Governance and Disclosure

Ethical management is the top guiding principle at Pou Chen. To protect the interests of shareholders and continuous improving standards of corporate governance, the improvements that Pou Chen made in 2016 include: amended “Articles of Incorporation”, specifying the election of directors shall be conducted in accordance with the candidate nomination system to facilitate the exercising of shareholders’ rights; provided English version of annual report and other information relating to shareholders’ meeting to improve the quality of disclosure; appointment of three independent directors and the establishment of an Audit Committee to strengthen the structure and effectiveness of the Board; formulated specific and explicit dividend policy to enhance information transparency. Having been previously ranked in the top 5% and top 20% of the 1<sup>st</sup> and 2<sup>nd</sup> TWSE Corporate Governance Assessments for listed companies, Pou Chen was ranked in the top 5% once again of the 3<sup>rd</sup> TWSE Corporate Governance Assessment for listed companies in 2016.

## Building a Healthy Workplace and Practicing Social Welfare

Pou Chen is committed to providing its employees with a safe and healthy working environment as well as the establishment and maintenance of an effective internal communication platform to further mutual understanding and interaction between management and employees. Events such as family days, karaoke competitions, sporting competitions and celebrity lectures were hosted during the course of 2016 so that employees can enjoy a healthy balance between work and life. Under the philosophy of “giving back to society”, Pou Chen not only looks after the welfare of its employees but has also extended outreach efforts and services to include employees’ families and local communities. In 2016, we organized the “Mountain Clean-up for a Clean Homeland” to help rehabilitate the ecological damage at Taomi Community in Puli, Nantou, Taiwan; we also partnered with the Maria Social Welfare Foundation on “Magic Box of Love” and other activities to sow the seeds of goodness; Pou Chen also made efforts to assimilate into the local culture and lifestyle at our major overseas operating sites. This included the hosting of summer and winter camps in China, participating in the Ramadan in Indonesia, and establishing the “Seeds of Hope Scholarship” in Vietnam. We also made donations, charity clinics and visits to disadvantaged groups to strengthen our connection with the local community.

## Promotion of Clean Production for Environmental Sustainability

Apart from establishing an effective environmental management system to balance the needs of environmental protection and production, we are continuing to move forward on the implementation of a factory energy management system to conserve energy and reduce carbon emissions through more effective use of resources and energy. In response to increasingly stringent international environmental regulations, we conducted self-inventories and improved the quality of our pollution prevention and management measures in 2016 so that we can more effectively control and reduce the environmental impact of our production activities. Pou Chen’s Pouyuen Vietnam and Pou Sung Vietnam factories were even recognized with the “2016 Green Environmental Enterprise Award” and “2016 Sustainable Development Enterprise Award”, respectively, by the government of Vietnam. Pou Chen also works closely with brand customers and strategic suppliers to implement green management as well. In October 2016, we completed Taiwan’s first set of Sporting Footwear Category Rules to serve as a basis for calculating the product carbon footprint and environmental footprint of sporting footwear products. The Company is now promoting a long-term carbon reduction plan for suppliers to ensure that all of our products can conform to the principles of “environmental friendliness” and “human health.” We hope that this will lead to new innovations from our partners and the building of a sustainable green supply chain together.

## Vision for a Sustainable Pou Chen

As the Company has become a multinational enterprise with started in Taiwan, and expanded its business from footwear manufacturing into retail services, Pou Chen needs to take international trends, local cultural differences, the expectations of brand customers, and its own business plans into account to ensure the sustainable development and to maximize the benefits for all stakeholders. Pou Chen understands the expectations of the international community on corporate social responsibility. We will continue to strengthen our internal sustainable development organization and structure, improve the functionality of our e-management systems, and to systematically promote sustainable development-related measures at all our factories in Taiwan and overseas. Although Pou Chen now faces an increasingly complex business environment, we believe that the possession and upholding of a core philosophy is the key to the sustainable growth of a company. By continuing to communicate and outline the core values of “Professionalism, Dedication, Innovation and Service” through our internal communication platform, we make all employees support and identify with Pou Chen. We can then work as one to realize the vision of sustainable operations at Pou Chen together. By progressively expanding beyond basic requirements such as conformity to specifications, Pou Chen strives to become the industry-leading footwear manufacturer and distributor for sporting and casual products. We will continue to create sustainable value for all stakeholders and lay down a solid foundation for the sustainable development of the Company.

Chan, Lu-Min, Chairman of Pou Chen Corporation



## 1.0

# Company Profile and Corporate Governance



## 1.1 Introduction

Pou Chen Corporation was founded in September 1969, and is involved in two core businesses: “footwear business” and “retail business”. Footwear business focuses mainly on the development and manufacture of athletic and casual shoes. Pou Chen started out as a pure original equipment manufacturer (OEM) before becoming an original design manufacturer (ODM) for international brand names. With the development of the whole industry, Pou Chen gradually expanded its operational sites beyond Taiwan to China, Indonesia and Vietnam as part of risk diversification strategy and to take advantage of favorable production conditions overseas. Pou Chen is now the largest manufacturer of athletic and casual shoes in the world. It can manufacture more than 300 million pairs of shoes per year, which accounts for approximately 20% of the global athletic and casual footwear market by wholesale prices. Retail business began with brand licensing in 1992 and has expanded to retailing of sporting goods. The Company has built up a significant sales network in the Greater China region and is one of the top retailers in the China sportswear market .

<b>Company Name</b>	Pou Chen Corporation
<b>Date Established</b>	September 4, 1969
<b>Paid-in Capital</b>	NT\$29.468 billion (as of 2016/12/31)
<b>Chairman</b>	Mr. Chan, Lu-Min
<b>President</b>	Mr. Lu, Chin-Chu
<b>Core Business</b>	Footwear and apparel manufacturing (hereinafter referred to as the “Footwear Business”) Sporting goods retailing and brand licensing (hereinafter referred to as the “Retail Business”)
<b>Headquarter</b>	No. 600, Sec. 4, Taiwan Blvd. , Xitun District, Taichung City 40764, Taiwan, R.O.C.
<b>Operational Presence</b>	Taiwan, Hong Kong, Macau, China, Indonesia, Vietnam, USA, Mexico, Cambodia, Bangladesh and Myanmar
<b>Employees</b>	Pou Chen Corporation and its subsidiaries employ a total of 358,977 people (as of 2016/12/31)
<b>Company Website</b>	<a href="http://www.pouchen.com">www.pouchen.com</a>

## Membership in External Organizations

External Organizations	Status
Taiwan Footwear Manufacturers Association	Member
Chang Hwa County Industrial Association	Member
Chang Hwa Importers and Exporters Chamber of Commerce	Member
Fair Labor Association (FLA)	Participating Supplier

Pou Chen complies with the requirements of related industry associations. It also supports the 2011 FLA Workplace Code of Conduct by actively building a fair and friendly workplace.

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



### 1.1.1 Core Business

Pou Chen reported consolidated revenue of NT\$274.895 billion for 2016. Footwear business accounted for 70.9% of total revenue, Retail business accounted for 28.7%, while others accounted for just 0.4%.

Unit: Millions of NTD

Business Segment	2016		2015	
	Amount	%	Amount	%
<b>Footwear Business</b>	<b>194,830</b>	<b>70.9 %</b>	<b>195,313</b>	<b>72.6 %</b>
<b>Retail Business</b>	<b>78,880</b>	<b>28.7 %</b>	<b>72,927</b>	<b>27.1 %</b>
<b>Others</b>	<b>1,185</b>	<b>0.4 %</b>	<b>841</b>	<b>0.3 %</b>
<b>Total</b>	<b>274,895</b>	<b>100.0 %</b>	<b>269,081</b>	<b>100.0 %</b>

#### Footwear Business

Pou Chen initially produced rubber shoes for export. In 1978 it entered the athletic footwear OEM business and thus began focusing on the development and manufacture of athletic, casual and outdoor shoes. Today, Pou Chen is the largest branded athletic and casual/outdoor footwear manufacturer in the world. The Company's major customers include: Nike, adidas, Asics, Under Armour, Reebok, New Balance, Puma, Converse, Crocs and Timberland. A total of 322.0 million pairs of shoes were produced in 2016. China, Vietnam and Indonesia continued to be main production locations by volume, accounting for 20%, 44% and 34% of total shoe production respectively.

For more information about footwear operations as well as its environmental, social, and governance report, please refer to the 2016 Annual Report of Pou Chen and its subsidiary Yue Yuen Industrial (Holdings) Limited (hereinafter referred to as "Yue Yuen") as well as the 2016 environmental, social and governance report of Yue Yuen. Yue Yuen Industrial (Holdings) Limited website: [www.yueyuen.com](http://www.yueyuen.com).

#### Retail Business

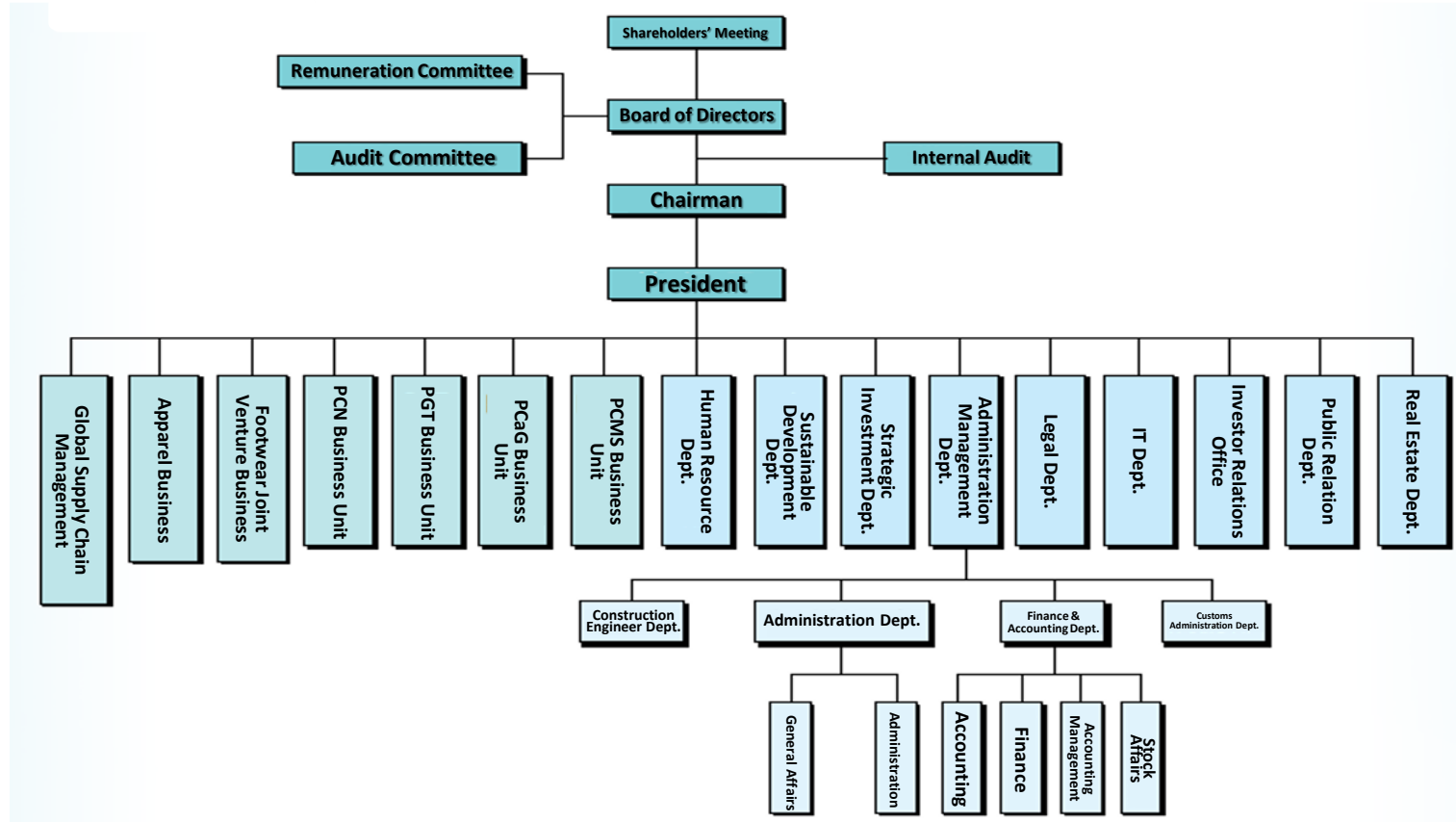
Retail business started with the launching of brand licensing operations in 1992. It has now established a sizable sales network in the Greater China region. As of December 31, 2016, Pou Chen had 8,759 stores in the Greater China region. Apart from 5,560 directly operated stores that sell various international brand products including footwear, apparel, and accessories to consumers, the Company also sells on a wholesale basis through 3,199 stores operated by sub-distributors. Pou Chen is currently the brand licensee for certain international brands in Taiwan and China as well.

For more information about retail business model as well as its environmental, social, and governance report, please refer to the 2016 Annual Report of Pou Chen and its subsidiary Pou Sheng International (Holdings) Limited (hereinafter referred to as "Pou Sheng"). Pou Sheng International (Holdings) Limited website: [www.pousheng.com](http://www.pousheng.com).

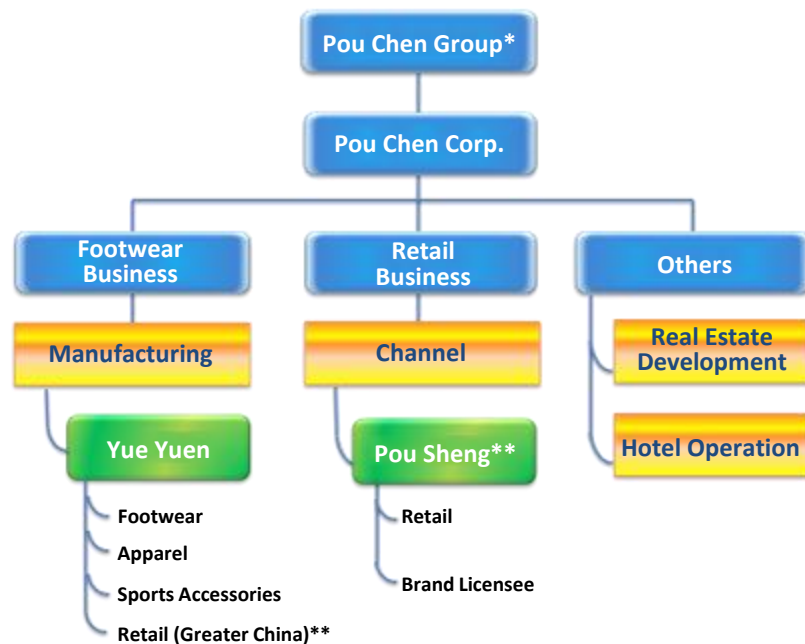


## 1.1.2 Organizational and Operational Structure

### 1.1.2.1 Organizational Chart



### 1.1.2.2 Affiliated Enterprises



\* The Pou Chen Group is not a formally registered business entity.

\*\* Pou Chen Corp. indirectly invests in the retail business of Pou Sheng via Yue Yuen.

Apart from focusing on the 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, apparel, sports accessories and other related business through its affiliated enterprises to build a complete supply chain. Pou Chen has also diversified into real estate development and hotel operations to increase and boost its profitability.

For more information about Pou Chen's affiliates, please refer to the 2016 Annual Report of Pou Chen.



### 1.1.2.3 CSR Operational Structure

A set of "Pou Chen Corporate Social Responsibility Best Practice Principles" has been developed and approved by the Board of Directors after taking into account domestic and overseas trends on CSR development, their relevance to core operations and the overall impact of Pou Chen operations on stakeholders. The half-yearly business performance report is used to examine and review the effectiveness of related CSR measures. Goals and methods are adjusted as necessary to conform to the CSR requirements for sustainable development.

The "Pou Chen Corporate Social Responsibility Best Practice Principles" is available from our corporate website [www.pouchen.com](http://www.pouchen.com).

#### Pou Chen CSR Policy

As the leading enterprise in footwear manufacturing, Pou Chen is committed to setting an example on CSR policies. We therefore not only pursue sustainable development and profits but also take an interest in protecting stakeholder rights, the environment and social welfare. Pou Chen's fulfillment of its corporate social responsibility shall be governed by the following principles:



## CSR Structure

The Company has established a Sustainable Development Department (SD) responsible for the integration, management and implementation of CSR policies at all regional factories. These include the requirements of brand customers' sustainability guidelines, compliance with local laws and regulations, employee relations management, and external audits of the Company's factories by NGOs. SD is also required to provide Company management with regular reports on CSR performance and recommendations.

### Headquarters Sustainable Development Dept. (HQSD)

Define the Company's sustainable development policy and system based on the operational strategy and requirements. Integrate and optimize the allocation of human resources for the sustainable development of the Company.

Review and make continuous improvements to the sustainable development guidelines and processes of the Company.

### Administrative Center SD (ACSD):

The effective integration of resources and management of routine SD operations in each country.

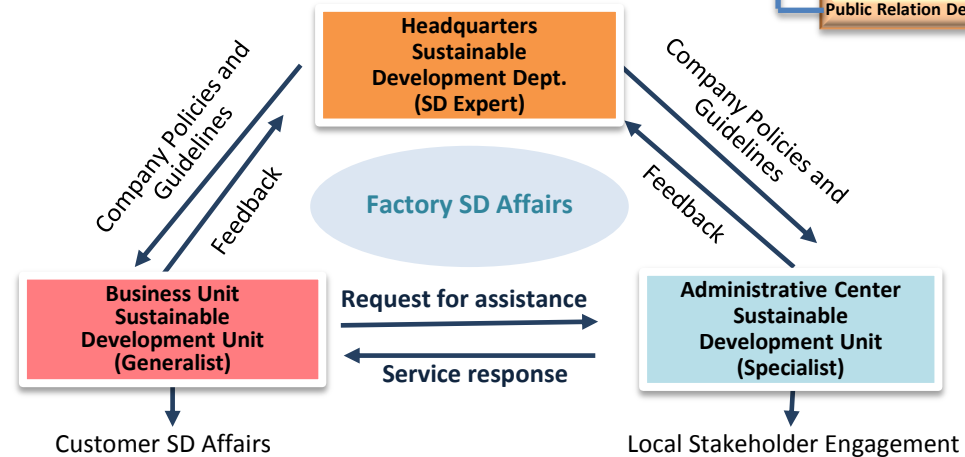
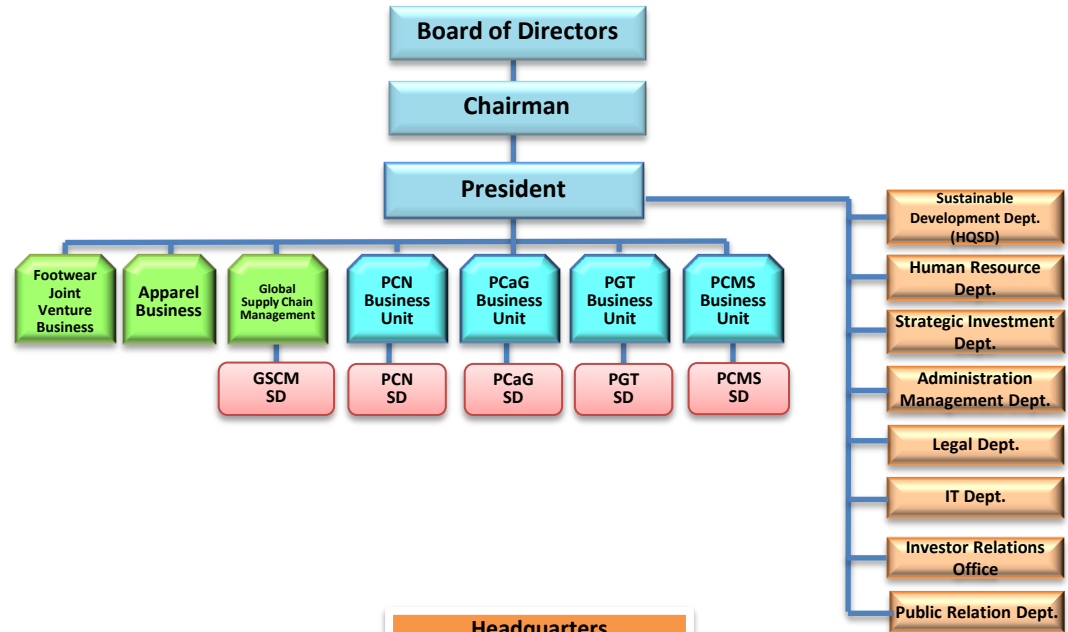
Regional integration based on Company policies .

Assist Business Unit SD with resolving customer needs.

### Business Unit SD (BUSD):

Develop an in-depth understanding of the BU's needs and build a partnership for providing essential consulting and other value-adding services.

Assist with the communication and implementation of Company policies and guidelines; integration of SD action plans/performance targets at the corresponding BUs.



## 1.2 Core Values and Vision

Pou Chen is committed to becoming the world's leading manufacturer of sports and casual footwear. The Company has followed our core values of "Professionalism, Dedication, Innovation and Service" since its founding to overcome all sorts of difficulties and challenges while continuing to grow and surpass itself by embracing the spirit of innovation. A variety of internal communication channels are employed to boost employee identification and implementation of our core values. Employees are therefore not only proud of being a part of the Pou Chen family. They also bring to the sustainable development program of Pou Chen their enthusiasm and sense of ownership.



### Four Major Strategies

- Treasure talent, follow a people-centric strategy, and become the industry role-model on CSR.
- Business model based on optimization of existing capacity.
- Extensive and innovative supply chain integration service.
- Business model that integrates retail and production.

### Four Major Goals

- Become the industry leader.
- Preferred workplace.
- Soft power based on sustainable production.
- Community partner for prosperity.

### Pou Chen Sustainability Vision

To become the best manufacturer and retailer of sports gear in the industry.  
 Continue to deliver world-class products, services and solutions.  
 Be a socially and environmentally responsible corporate citizen.  
 Create value for our customers, employees, investors, suppliers and communities.

## 1.3 Corporate Governance

Pou Chen continues to pursue the goal of protecting the rights and interests of shareholders and the sustainable development of the Company in keeping with the highest principles of ethical management. We believe that the foundation of solid corporate governance is to establish an effective corporate governance structure. In addition to being ranked in the top 5% and top 20% of the TWSE Corporate Governance Assessment for listed companies in 2014 and 2015, respectively, we continued to strengthen corporate governance to achieve the following items in 2016, and was ranked in the top 5% once again of the 3<sup>rd</sup> TWSE Corporate Governance Assessment for listed companies.

- (1) Amended the Company's "Articles of Incorporation" so that the election of directors shall be conducted in accordance with the candidate nomination system to facilitate the exercising of shareholders' rights.
- (2) Provided English version of annual report and other information relating to shareholders' meeting to meet demands of foreign institutional investors and to treat all shareholders equitably.
- (3) Appointment of three independent directors and the establishment of an Audit Committee to strengthen the structure and effectiveness of the Board.
- (4) Formulated specific and explicit dividend policy to enhance information transparency.
- (5) Disclosed the carbon emissions of CO<sub>2</sub> or other GHGs in the past two years, and complied CSR Reports and obtained third-party certification as a means of integrating CSR in the Company's core values.

### 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 the establishment of independent directors, functional committees and internal audit mechanisms, as well as 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 is also responsible for the assessment of management performance and the appointment/dismissal of executives. The performance of the whole Board, individual Board member and functional committees are evaluated at least once a year to strengthen the Board's operations and governance systems.

#### Board Composition

The composition of Pou Chen's Board of Directors is determined by an appropriate policy on diversity based on the Company's business operations, business models and development needs. It includes but not limited to gender, age and educational background. Following the diversity policy, the 22<sup>nd</sup> Board of Directors was elected at 2016 Shareholders' meeting with 9 directors of the term of 3 years (June 15, 2016 ~ June 14, 2019). The current Board members comprises 2 female directors, and 3 independent directors; the professional backgrounds of the directors include the industry, finance, technology, management and law. They also possess the necessary knowledge, skills and capabilities to carry out their duties.

#### Board Election

Under the Company's "Rules for Election of Directors", the election of directors shall follow the candidate nomination system in accordance with Paragraph 1, Article 192 of the Company Act. Any shareholder holding 1% or more of the total number of outstanding shares issued by the Company may nominate a candidate for election. This provision enables shareholder participation in the nomination process for Board directors.

#### Mechanisms for Avoiding Conflicts of Interest

The Company's "Rules of Procedure for Board of Directors' Meetings" has explicit provisions for avoiding conflicts of interest by directors. Directors are required to recuse themselves from discussing and voting on issues in which a conflict of interest exists. Nor may they vote on behalf of another director. Pou Chen has also appointed 3 independent directors. The opinions of the independent directors are taken into consideration during the discussion of any proposal to effectively protect the interests of the Company.

All Board operations in 2016 complied with the procedure for preventing conflicts of interest and there were no related violations.



## Board details as of December 31, 2016

Title	Nationality or Place of Registration	Name	Gender	Date of Appointment	Date of First Appointment	Education (Experience)
Chairman	Panama	PC Brothers Corporation	-	2016.06.15	1992.08.08	N/A
	R.O.C.	Representative: Chan, Lu-Min	Male	2016.06.15	1992.08.08	Statistic Department, National Chung Hsing University Executive Director of Yue Yuen Industrial (Holdings) Ltd.
Director	R.O.C.	Tsai, Pei-Chun	Female	2016.06.15	2016.06.15	Economic and Finance Department , Wharton School of the University of Pennsylvania, USA Managing Director and Executive Director of Yue Yuen Industrial (Holdings) Ltd. Non-executive Director of Pou Sheng International (Holdings) Ltd.
Director	R.O.C.	Tzong Ming Investments Co., Ltd.	-	2016.06.15	2013.06.14	N/A
	R.O.C.	Representative: Tsai, Min-Chieh	Female	2016.06.15	2013.06.14	Economic and Finance Department , Wharton School of the University of Pennsylvania, USA Financial Analytics, Financial Department at Bloomberg News
Director	R.O.C.	Ever Green Investments Corporation	-	2016.06.15	2007.04.24	N/A
	R.O.C.	Representative: Lu, Chin-Chu	Male	2016.06.15	2011.03.07	Department of Mechanical Engineering, Oriental Institute of Technology Chairman and Executive Director of Yue Yuen Industrial (Holdings) Ltd.
Director	R.O.C.	Sheachang Enterprise Corporation	-	2016.06.15	2003.10.03	N/A
	R.O.C.	Representative: Tsai, Ming-Lun	Male	2016.06.15	2015.06.12	Master Degree of Design, Harvard University, USA Executive Director of Yue Yuen Industrial (Holdings) Ltd.
Director	R.O.C.	Lai Chia Investments Co., Ltd.	-	2016.06.15	2007.04.24	N/A
	R.O.C.	Representative: Ho, Yue-Ming	Male	2016.06.15	2016.06.15	Master Degree of Laws Department , National Taiwan University Vice President of HTC Corporation
Independent Director	R.O.C.	Chen, Bor-Liang	Male	2016.06.15	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	2016.06.15	2013.06.14	S.J.D.,Tunghai University Managing Partner, Chiu & Chien, Attorneys at Law Adjunct Assistant Professor of the Department of Financial and Economic Law, Chung Yuan Christian University Adjunct Assistant Professor of the Department of Business Administration, National Central University
Independent Director	R.O.C.	Chen, Jung-Tung	Male	2016.06.15	2016.06.15	Master Degree of Economic and Taxation Department, Jinan University, Guangzhou, China Chairman of Tung-Jung accounting firm

### 1.3.2 Remuneration Committee

The election of the 3<sup>rd</sup> Remuneration Committee took place in June 2016 to coincide with the elections of the 22<sup>nd</sup> Board of Directors. All members of the Remuneration Committee are made up of independent directors and their term is the same as the 22<sup>nd</sup> Board.

The purpose of the Remuneration Committee is to evaluate the compensation policies and system for Pou Chen's directors and executives in a professional and objective manner then provide its recommendations to the Board as a reference.

The Remuneration Committee was convened three times during 2016 with an attendance rate of 100%.

Title	Name	Actual attendance	Proxy attendance	Actual attendance rate (%)
Convener	Chen, Bor-Liang	3	0	100
Committee Member	Chiu, Tien-I	3	0	100
Committee Member	Chen, Jung-Tung	2 <sup>(note)</sup>	0	100

Note: New appointment to the 3<sup>rd</sup> Remuneration Committee, which was convened twice after the election held in June 2016.

### 1.3.3 Audit Committee

Pou Chen appointed 3 independent directors in June 2016 and the role of supervisors was replaced by the Audit Committee. The Audit Committee can communicate independently with certified public accountants, Company executives and internal auditors at any time in order to oversee the proper expression of the Company's financial reports, the appointment/dismissal and independence and performance of the certified public accountants, the effective implementation of internal controls, compliance with the relevant laws and regulations, management of existing or potential risks, due diligence, and the faithful execution of responsibilities defined in the Audit Committee's organizational charter. The Audit Committee reports to the Board of Directors, and its proposals are submitted to the Board for determination.

### 1.3.4 Internal Audit

Internal Audit is an independent unit within Pou Chen that reports directly to the Board of Directors. It is responsible for auditing all units of the Company as well as the supervision and management of its subsidiaries. These include assurance audits and project consultation services, regular assessment of internal control's effectiveness in terms of design and execution, reasonable assurance on operational outcomes and efficiency (including profitability, performance, and asset security), as well as the reliability, timeliness, transparency and compliance of reporting. Internal Audit helps the management identify existing or potential risks and provides suggestions for improvement.

The results of 2016 risk assessment were used to draw up an annual audit plan with 40 audit items, which included the mandatory monthly, quarterly and annual audit items of the internal control systems by public companies and other material operational matters. The audit plan was implemented with the approval of the Board. Aspects including compliance, operating procedure, process control, expense review and financial records were examined on a continuous basis. Audit notices, unit self-assessments, on-site inspections and random inspection results were compiled into monthly reports and submitted to each independent director for review by the end of the following month. The Board was also kept up to date on the actual progress of the audit plan. Material issues were immediately reported to independent directors. Random inspection and verification of each unit's internal control self-assessments and audit results for 2016 found no serious anomalies.

### 1.3.5 Moral Integrity and Anti-Corruption

#### Establishing Standards

An internal control system has been established by the Board of Directors and managers. Operational effectiveness and efficiency (including profit protection and asset security) are ensured through a continuous and effective management process. Reports are compiled in accordance with the requirements on reliability, timeliness, transparency and compliance with relevant laws and regulations.

The components of our internal control system include the “Corporate Governance Best Practice Principles” and the derived “Ethical Conduct Standards”, “Ethical Corporate Management Best Practice Principles”, “Procedures for Ethical Corporate Management and Conduct Guidelines”, and other management regulations.

Pou Chen has taken a range of actions toward morality integrity and anti-corruption, including: an employee code of conduct and the signing of the “Code of Ethics and Integrity”; requiring key suppliers to comply with our transaction integrity system through the signing of the “Undertaking of Ethics and Integrity” or providing their integrity statement or system documentation for our reference. To enforce Article 8 of our “Ethical Conduct Standards” and Article 23 of the “Ethical Corporate Management Best Practice Principles”, we encourage whistle-blowers to report all illegal behavior. The “Regulations Governing the Reporting of Unethical Conduct” was approved by the Board on December 23, 2016, to improve our supervisory and management mechanisms through the strengthening of our internal whistle-blower channels, procedures, protections and conflict-of-interest prevention system.

#### Preventive Action

Company regulations are aimed at preventing the following behaviors based on an analysis of business activities that are more susceptible to unethical conduct:

- (1) The giving or taking of bribes.
- (2) Making illegal political contributions.
- (3) Making inappropriate charitable donations or sponsorship.
- (4) Giving or accepting unreasonable gifts, hospitality or other inappropriate benefits.
- (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 stakeholders during the development, procurement, manufacturing, provision or sale of products and services.

#### Preventing Bribes Disguised as Donations or Sponsorship (Monetary or Goods)

Charitable donations or sponsorship of activities by Pou Chen are conducted in accordance with the following principles. Board approval is required for large donations.

- (1) Must comply with the local laws of the operating site.
- (2) Keep a written record of the decision.
- (3) Charitable donations must be to charities and must not be a bribe in another form.
- (4) Consideration in exchange for sponsorship must be clearly defined and reasonable. The recipient of sponsorship cannot be a business partner or person with interests in the Company.
- (5) Confirm that the flow of donated or sponsorship funds is consistent with the intended purpose.

## Communication and Training

The Company's policy on ethical operations is disclosed on the Company's internal website, annual report, corporate websites and other company literature to help employees, suppliers, customers and other relevant organization or personnel clearly understand our ethical management philosophy and standards.

Company employees are required to explain the Company's ethical management policy and relevant regulations to the trading partners during business transactions. They must also explicitly reject any direct or indirect offers, promises or requests of improper benefits in any form or on anyone's behalf. These include rebates, commissions or facilitation payments, or any other improper benefits provided or received through other avenues.

Education and training on ethical behavior was conducted for 39 Taiwan-based planning and purchasing personnel by the Legal Dept. in April 2016. All new employees (including Taiwanese personnel at domestic and overseas sites) joining the Company after July 2016 must now undertake the online course on "Ethical Trading and Protection of Group Interests." The course has been taken by 240 people by the end of December, 2016. Employees who joined the Company before July 2016 will progressively take the course as well during 2017 to further promote the ethical management philosophy and standards of Pou Chen.

## Inquiry, Complaints and Reporting Principles/Channels

To respond to employee suggestions and complaints, Pou Chen has established the following five internal complaints and reporting channels in accordance with our "Work Rules." If any Company employee is suspected of engaging in illegal or unethical behavior then they can be reported through any of the following channels:

- (1) The employee's direct superior;
- (2) HR department of each factory;
- (3) The complaints mailbox managed directly by the HR or Sustainability Department of each factory.
- (4) Headquarter's e-mail: [HQ@pouchen.com](mailto:HQ@pouchen.com).
- (5) Internal website: <http://website.pouchen.com/integrityadmin/tw/>.

Stakeholders can make inquiries or reports through the Investor Relations section and contact e-mail ([ir@pouchen.com](mailto:ir@pouchen.com)) on the Pou Chen website. These will be processed by dedicated personnel at Pou Chen then forwarded to the relevant units based on the issue of concern's scope and nature for action and response. Please refer to "2.1 Stakeholder Engagement" for more information.

## Legal Measures Against Unethical Conduct

Legal action will be taken by Pou Chen against any incidents of corruption based on the level of severity and the actual circumstances to protect the interests of the Company. One incident of unethical conducted by an employee was discovered and verified by Pou Chen in 2016. The employee was dismissed and a criminal suit filed. The defendant was found guilty by the court of first instance and was sentenced to imprisonment for 40 days which may be suspended for 2 years.



# 1.4 Operational Risk Identification and Response

The internationalization of operations means the impact and challenges from changes in the global economic climate have become increasingly complex as well. By identifying the risks to sustainable development in our routine operations, Pou Chen has now developed corresponding management strategies and response measures to reduce the risk from interruptions to continuity of operations.

## Risk Identification

The following major categories of overall risk to the Company have been identified:

1. Operational and management risk: The impact and influence of changes in the domestic/overseas economy, technology, environment and consumer sports gear market.
2. Strategic investment risk: Fluctuations in the market price for short-term securities investment and operational management of long-term investments.
3. Credit management risk: Risk of losses resulting from the failure of the counter-party to fulfill their contract or obligations.
4. Operational risk management: Losses due to mistakes in internal business processes or failures and errors in the information system.
5. Legal management risk: Legal management risk: Where the counter-party cannot be compelled to fulfill their contractual obligations due to weaknesses in the contract terms, lack of authority, weak regulations or the counter-party not being a legal entity or other factors, resulting in risk of financial losses or lost business reputation.

## Risk Process Management Mechanism

### 1. Risk Management Mechanism

Risk management at Pou Chen is divided into three levels (mechanisms):

- (1) "Mechanism 1" is the risk identification, assessment and reporting of preliminary operating risks by the organizer or person-in-charge.
- (2) "Mechanism 2" consists of the president and heads of departments conducting a general analysis of all risks and their corresponding management measures.
- (3) "Mechanism 3" is the audit unit's supervision and control of the Board of Directors upon arrival.

## Risk Management Organization and Roles

Organization Name	Responsibility and Operations
Board of Directors	<ul style="list-style-type: none"><li>● The Board is the Company's top supervisory body for risk management. Its goal is to ensure compliance and effective risk management. The Board must understand the risks connected with Company operations, ensure the effectiveness of the risk management mechanism, and take ultimate responsibility for risk management.</li></ul>
Functional Committees	<ul style="list-style-type: none"><li>● Each type of risk is to be carefully evaluated in an independent and professional manner in accordance with the organizational regulations then submitted to the Board for decision-making.</li></ul>
President	<ul style="list-style-type: none"><li>● Carry out the risk management policy set by the Board and manage inter-departmental interactions, communications and liaisons.</li><li>● Review the risk assessment for all planned strategies and projects.</li></ul>
President of Administration Management Dept. and the heads of other departments	<ul style="list-style-type: none"><li>● Supervise and assist with the risk management activities of subordinate department and units.</li><li>● Determine the type of risk based on changes in the environment and recommend a response.</li><li>● Compile the results of risk management activities.</li><li>● Performance evaluation and coordination after making adjustments to risk.</li></ul>
Individual Departments and Units	<ul style="list-style-type: none"><li>● Carry out routine risk management activities.</li></ul>

## 2. Risk Identification and Control Measures in 2016

Aspect	Risk identification	Risk Management Measures
Economic	Change in Corporate Image.	Continue to implement sustainable development, uphold the operational principles of professionalism and integrity, emphasize corporate social responsibility, corporate governance and environmental protection as well as other types of risks and risks control.
	Moral integrity and Anti-corruption	Internal rules such as the "Corporate Code of Conduct", "Ethical Conduct Standards", "Ethical Corporate Management Best Practice Principle", and "Procedures for Ethical Corporate Management and Conduct Guidelines" have now been drawn up by the Company. In 2016, the "Regulations Governing the Reporting of Unethical Conduct" were approved by the Board to strengthen internal/external complaints channels, the complaints processing procedure, whistle-blower protection and avoiding conflicts of interest with the report. These help improve the completeness of our supervisory and management mechanisms.
	Increase in Manufacturing Costs	Leverage the production advantages of each region to retain a production configuration that optimizes output; continue to promote supply chain integration and manufacturing excellence so that the level automation can be gradually increased.
	Financial Risk	Continue to observe market changes and general economic indicators, select appropriate interest rates and currency hedges, aggressively manage customer risks, and engage in careful investment evaluation and management.
	Information Risk	Establish a comprehensive information management system with multiple controls and network data security measures to strengthen our active protection and warning capability on cyber security.
	Legal Risk	Continue to inventory and collate the latest regulatory changes, and host educational awareness and training events to ensure compliance; provides legal advice and contractual reviews to reduce license.
Environmental	Climate Change Risk	Energy resource use investigations and source management will hopefully lead to the use of better-learning, push for the adoption of clean low-alcohol fuels; promote the continued search for low-canyon Company rules through energy use inventory and source management.
	Increasingly Rigorous Environmental Regulations	In 2016, compliance inspections in each region were strengthened. We invested aggressively in prevention control facilities and monitoring, boosted compliance management for the discharge of polluting substances, and continued to push for clean production and waste reduction.
Social	Infectious Disease Control Risk	Measures to prevent the spread of infectious diseases were strengthened including access control at factories, incident response measures, factory disinfection measures, employee self-health management and health exams, epidemic reporting mechanism and hospitalization mechanism, inspection and storage of quarantine supplies.
	Fire Safety Management	Continued to enforce fire prevention measures, strengthen fire prevention awareness and firefighting training among employees, rigorously enforce fire source control and internal safety inspections, and conduct regular thermal imaging scans of electrical equipment.
	Health and Safety Risk	Conducted occupational safety and health education for employees; strengthened protective measures and operational controls for potential hazards to ensure the safety and order of production activities; establish workplace safety and health committee to conduct regular inspections of potential workplace hazards and improvements.
	Human Resources Risk Management	The focus in 2016 was on the optimization of recruiting channels and processes, improvements to performance evaluation skills, synchronization of compensation with market rates, investment in management and specialist courses, regulatory compliance in each country and strengthening of employee care activities. We also continued to manage risks on recruiting operations, performance management, compensation management, training development, changes to labor laws and employee management.
	Product Quality Management	Launched comprehensive push on product quality-related policies and measures with strict adherence to international regulations and brand customers' requirements from product development and prototyping to manufacture and production; implemented "broken needle" protection and "metal testing inspection" during the production process to ensure consumer safety during product use.
	Product Safety Management	Product safety management rules were defined and employee training strengthened in accordance with the product safety management guidelines set by brand customers and the Company. These start with product development and design, and go on to include design management, materials management, production safety management, factory safety management, IT system safety management, transportation safety management, business secret safety management, IP protection, and crisis management. Production safety audits are continuing to be held at our design center and overseas factories so that problems can be actively identified and resolved as part of our continued push to realize the goals of "zero leaks", "zero accidents" and "zero loss."

## 1.5 LEAN Production and Manufacturing Excellence

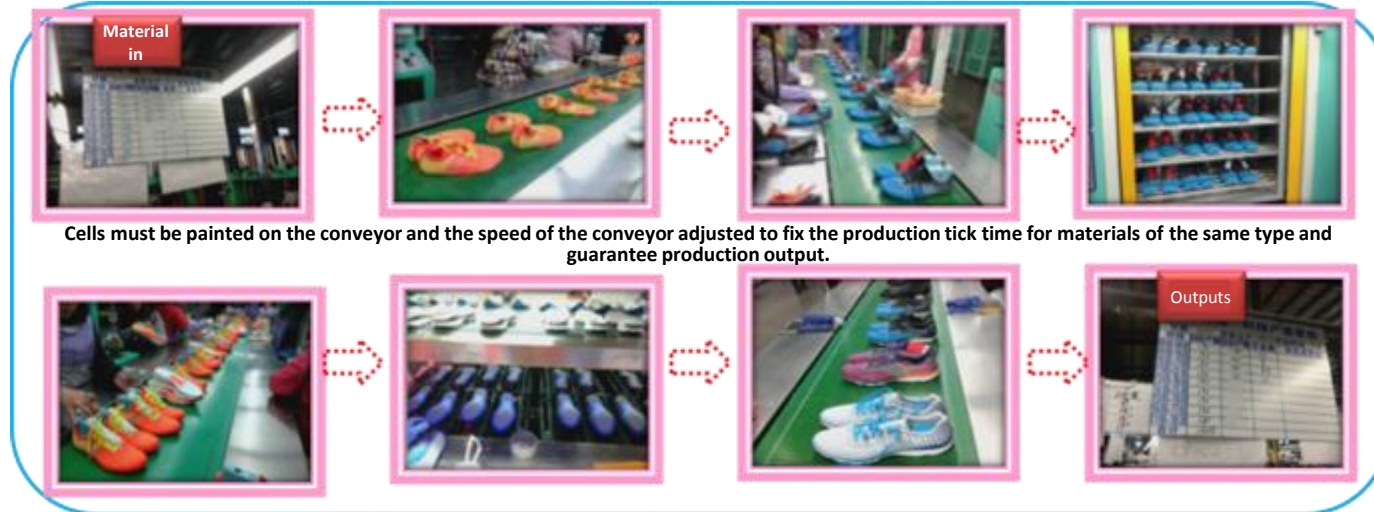
To meet the regional logistic management needs of the footwear industry and to improve our business performance, Pou Chen has continued to invest resources into innovative R&D and the introduction of smart manufacturing techniques to set up more flexible production methods so that we can actively assist brand customers with developing footwear products that meet the needs of the market. On the production side, we are aggressively moving ahead with LEAN Production and Manufacturing Excellence projects. Pou Chen has continued to integrate our supply chain resources, developed automated footwear production machines and process improvements, launched a distributed introduction program, and accelerated the replacement of energy-intensive processes and equipment. The smart production model is gradually improving our production efficiency along with the energy and chemical use per unit of product.

### LEAN - Key Improvement Areas

Pou Chen is incorporating LEAN 2.0 requirements into our production process through continued adjustments and improvements to related processes. In-depth improvements were conducted for new employee training, use of visual signage, setting of production tick time as well as finding and correcting the cause of quality issues.

### Flexible Production Model

The layout of existing production sites and manpower have been optimized and integrated to complement new concepts in product design. The traditional line production layout has been changed to a flexible production layout to support a rapid production model for high-mix, low-quantity orders. The implementation of lean and improvement activities, the development of Internet-of-Things (IoT), equipment pre-diagnostics, and introduction of new equipment that use less materials and energy at the same time is expected to improve direct production efficiency to over 90% while reducing by more than 50% the waste from work in process.

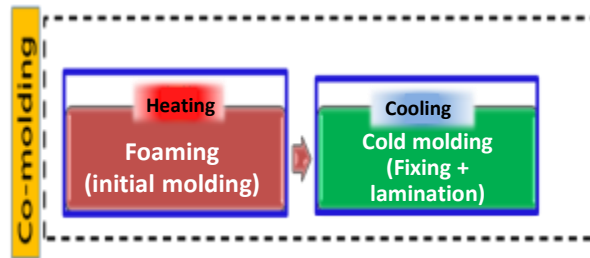


## Footwear Production Process Innovation and Automation

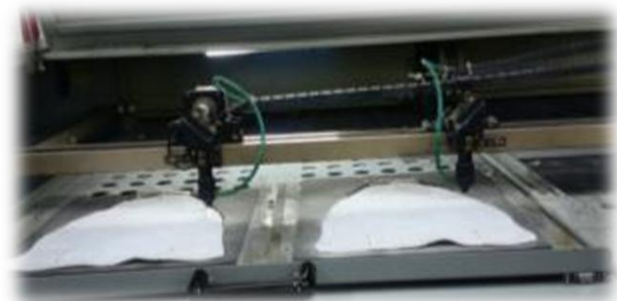
Pou Chen has formed inter-disciplinary partnerships to actively participate in the Smart Footwear Alliance. We also cooperate with academic research units and supply chain vendors on the research and development of new materials as well as the improvement and automation of footwear manufacturing. We are continuing to accumulate joint development experience on core technologies while combining all types of digital management tools together with on-site knowledge-based integrated hardware-software systems to optimize the production process flow. Our goal is to improve product efficiency and flexibility.

Automated manufacturing is being progressively introduced in response to changing footwear designs. We have now developed a 3D /2D vision technology that can be used by robotic arms for gluing soles. Production automation is now being realized using vision technology and digitally controlled processing equipment through rapid identification of materials / work areas and generation of the work path. The introduction of new machines including automatic adhesive spraying, tongue labeling, layer coating and label cut and fold machines will improve efficiency and quality while reducing the amount of materials and energy used. In the EVA process, co-molding is used to complete EVA molding and RB lamination in just two steps. This is in contrast with the previous production process which required heating/strong light/freezing and re-processing, reducing energy consumption by 16%. The process also reduces manpower requirements by 7%.

The future of the footwear industry lies in automation. This includes everything from design to manufacturing including 2D / 3D digital geometry construction, database systems integration, production equipment series and the output of the final product. System integration experience is required at each critical point with innovation and efficiency taken into account as well. The Company has been successful in using our extensive experience with integration projects to cultivate a professional integration capability on software-hardware integration, on-site process series integration, as well as linked computing of the OEM computing center and type database. In addition to product quality improvements, these can create opportunities for overall development in the future while also providing customers with products and services of greater value.



Testing of automatic gluing machine

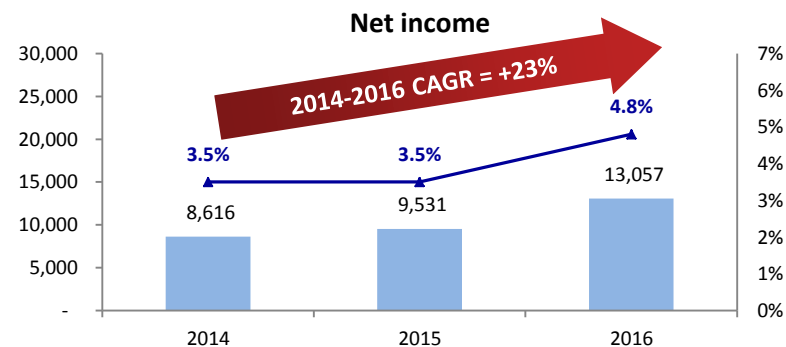
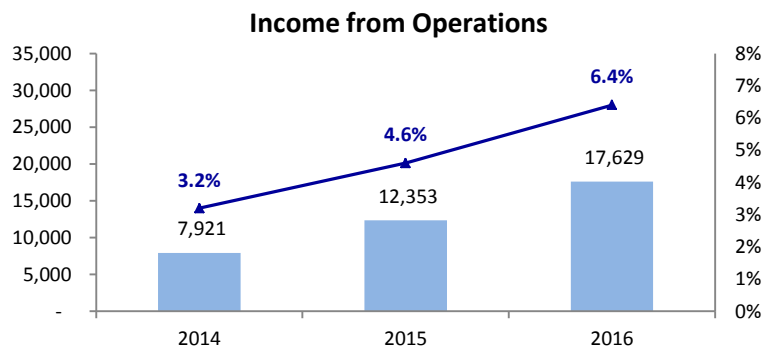
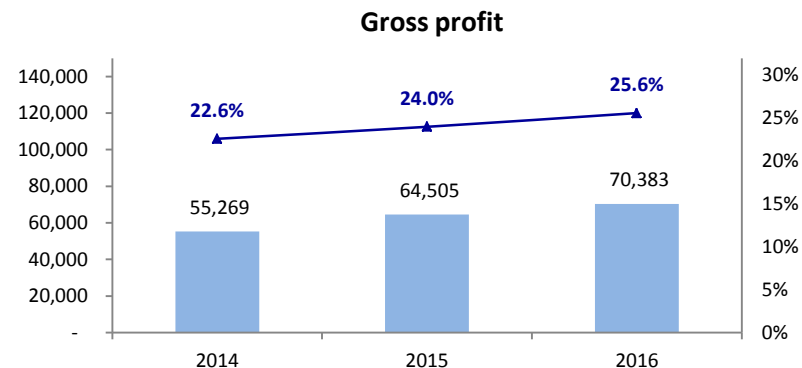
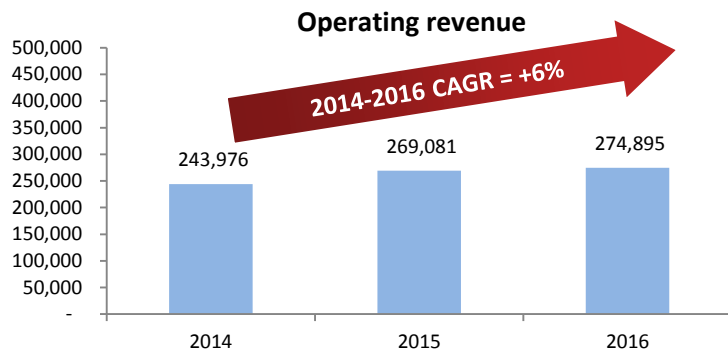


Automatic laser cutting

## 1.6 Operating Performance

The 2016 consolidated revenue for Pou Chen amounted to NT\$274.895 billion, an increase of 2.2% over 2015. This could be attributed to the steady growth of the footwear business as well as the expansion of its sales network and improved operational efficiency of retail business. The continued growth in consolidated revenue as well as internal efforts at boosting overall operating efficiency is now beginning to bear fruit, consolidated gross profit and consolidated income from operations in 2016 amounted to NT\$70.383 billion and NT\$17.629 billion, respectively, up 9.1% and 42.7% from 2015. Pou Chen's footwear and retail businesses both improved their performance in 2016 compared to 2015. Non-operating income also made a significant contribution. Hence, Pou Chen's 2016 net income attributable to owners of the Company reached NT\$13.057 billion, an increase of 37.0% over the NT\$9.531 billion in 2015, and the EPS in 2016 was NT\$4.43.

Unit: Millions of NTD



Note: Net income attributable to owners of the Company.

Pou Chen distributed 2015 earnings in 2016 with NT\$1.50 cash dividend per share. The Company's Board of Directors convened on April 28, 2017 resolved for the distribution of 2016 earnings with NT\$1.50 cash dividend per share, which was approved at 2016 shareholders' meeting held on June 15, 2017.

Unit: Millions of NTD; except Earnings per share was NTD

Consolidated report	2016		2015	
	Amount	%	Amount	%
<b>Operating revenue</b>	274,895	100.0 %	269,081	100.0 %
<b>Gross profit</b>	70,383	25.6 %	64,505	24.0 %
<b>Income from operations</b>	17,629	6.4 %	12,353	4.6 %
<b>Income before income tax</b>	26,280	9.6 %	20,240	7.5 %
<b>Income tax expense</b>	3,278	1.2 %	3,639	1.4 %
<b>Net income</b>	23,002	8.4 %	16,601	6.1 %
<b>Attributable to: Owners of the Company</b>	13,057	4.8 %	9,531	3.5 %
<b>Earnings per Share</b>	4.43		3.24	
<b>Employee benefits expense</b>	71,111		70,009	
<b>Quantity shipped (millions of pairs)</b>	322.0		317.5	

### Sales of Products and Services by Region

Unit: Millions of NTD

Region	2016		2015	
	Amount	%	Amount	%
Asia	134,418	48.9%	129,988	48.3%
USA	79,484	28.9%	80,752	30.0%
Europe	54,210	19.7%	52,111	19.4%
Others	6,783	2.5%	6,230	2.3%
<b>Total</b>	<b>274,895</b>	<b>100%</b>	<b>269,081</b>	<b>100%</b>

Pou Chen website ([www.pouchen.com](http://www.pouchen.com)) includes an investor relations section featuring regular financial updates for investors' reference. Shareholders and investors can also send their questions and suggestions to the contact e-mail ([ir@pouchen.com](mailto:ir@pouchen.com)).

## 2.0

# Stakeholder Engagement and Material Aspects



## 2.1 Stakeholder Engagement

### Stakeholder Engagement

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, customers, authorities, employees, suppliers, community, media and non-government organizations (NGOs).

### Stakeholder Dialog

Pou Chen solicits the opinions and suggestions of stakeholders on topics of concern through regular and ad hoc meetings as well as positive, transparent interactions with the relevant business windows. The collected feedback is reported and discussed at internal meetings to serve as an important reference for the Company's sustainable development strategy. Full-time SD units have also been established at the administrative centers of Pou Chen's main production to coordinate and manage shareholder communications and feedback on environmental, human rights and community impact issues.

The Investor Relations section and contact e-mail ([ir@pouchen.com](mailto:ir@pouchen.com)) is provided on the Pou Chen website. E-mails will be processed by dedicated personnel at Pou Chen then forwarded to the relevant units based on the issue of concern's scope and nature for action and response. Correspondence received through the above communication channel in 2016 included: business proposals, shareholder/investor services, media affairs, research and study requests. There were no complaints from stakeholders regarding social impact and related issues.



Identification criteria:  
Frequency of interaction

To strengthen the effectiveness of stakeholder communication channels, the Company established following communication windows to provide stakeholders with more timely and accurate information.

#### Taichung Office

Address: No. 600, Sec. 4, Taiwan Blvd., Xitun Dist., Taichung City, 407  
Telephone: (04)2461-5678 (Main)

#### Customer Relations

Mr. Hsu E-mail: [shoe.business@pouchen.com](mailto:shoe.business@pouchen.com)

**Recruitment** E-mail: [recruiting@pouchen.com](mailto:recruiting@pouchen.com)

#### Chang Hwa Office

Address: No. 2, Fu-Kung Rd., Fu Hsin Hsian, Chang Hwa, 506  
Telephone: (04)769-5147 (Main)

#### Employee Relations

Ms. Hsu E-mail: [care4u@pouchen.com](mailto:care4u@pouchen.com)

#### Supplier Management

Mr. Chu E-mail: [GSCM@pouchen.com](mailto:GSCM@pouchen.com)

#### Investor Relations & Spokesperson

E-mail: [ir@pouchen.com](mailto:ir@pouchen.com)

#### CSR

Mr. Niu E-mail: [sd@pouchen.com](mailto:sd@pouchen.com)

#### Share Transfer Agent

Name: Grand Fortune Securities Co., Ltd.  
Address: 6F, No. 6, Sec. 1, Zhongxiao W. Rd., Zhongzheng Dist., Taipei City  
Website: [www.gfortune.com.tw](http://www.gfortune.com.tw)  
Telephone: (02)2371-1658

Stakeholder	Issue of Concern	Communication Channel and Method	Frequency
Shareholders/ Investors	<ul style="list-style-type: none"> <li>Economic Performance</li> <li>Corporate Governance</li> <li>Market Presence</li> </ul>	<ul style="list-style-type: none"> <li>Information posted to MOPS and corporate website</li> <li>Convene shareholders' meetings</li> <li>Participate in investor conferences</li> <li>Response via spokesperson</li> </ul>	<ul style="list-style-type: none"> <li>Ad hoc</li> <li>At least once a year</li> <li>At least twice a year</li> <li>Ad hoc</li> </ul>
Customers	<ul style="list-style-type: none"> <li>Product Quality</li> <li>Restricted substance management</li> <li>Environmental safety and health performance</li> <li>Code of conduct enforcement</li> <li>Transparency and reliability of disclosure</li> </ul>	<ul style="list-style-type: none"> <li>Business visit/Routine meeting</li> <li>Ad hoc communication meeting</li> <li>Audit feedback/Internal management performance feedback</li> <li>Contact via e-mail and phone</li> </ul>	<ul style="list-style-type: none"> <li>Monthly</li> <li>Ad hoc</li> <li>Monthly</li> <li>Ad hoc</li> </ul>
Authorities	<ul style="list-style-type: none"> <li>Corporate Governance</li> <li>Compliance</li> </ul>	<ul style="list-style-type: none"> <li>Mandatory safety inspections</li> <li>Regular report (monthly/quarterly)/Official correspondence</li> <li>Information seminar/symposium</li> </ul>	<ul style="list-style-type: none"> <li>Ad hoc</li> <li>Monthly/Quarterly</li> <li>Ad hoc</li> </ul>
Employees	<ul style="list-style-type: none"> <li>Company status (business stability)</li> <li>Salary and benefits</li> <li>Labor relations/Labor rights/Time management</li> <li>Workplace safety/Reasonableness of regulations and systems</li> <li>Feedback channels</li> </ul>	<ul style="list-style-type: none"> <li>Internal website/E-mail/Employee suggestion box/Questionnaire survey</li> <li>Employee Welfare Committee/Occupational Safety and Health Committee/Union</li> <li>Complaints and Disciplinary Committee</li> <li>Internal employee publication</li> <li>Employee-management meeting</li> <li>Counseling services at overseas production sites</li> </ul>	<ul style="list-style-type: none"> <li>Ad hoc</li> <li>Monthly</li> <li>Ad hoc</li> <li>Monthly/Bi-monthly</li> <li>Monthly/Quarterly</li> <li>Daily</li> </ul>
Suppliers	<ul style="list-style-type: none"> <li>Restricted substance management</li> <li>Fair competition/Quality and price</li> <li>Supplier evaluation</li> </ul>	<ul style="list-style-type: none"> <li>Procurement contract</li> <li>Business communication/Contact via e-mail and phone</li> <li>Supplier evaluation system</li> </ul>	<ul style="list-style-type: none"> <li>Ad hoc</li> <li>Ad hoc</li> <li>Ad hoc</li> </ul>
Community	<ul style="list-style-type: none"> <li>Environmental issues/Compliance</li> <li>Transportation</li> <li>Employment opportunities</li> <li>Community outreach</li> </ul>	<ul style="list-style-type: none"> <li>Proactive visit</li> <li>Feedback window for outside units</li> <li>Sponsorship of community charity activities/Community interview</li> <li>Company website</li> </ul>	<ul style="list-style-type: none"> <li>Ad hoc</li> <li>Ad hoc</li> <li>Ad hoc/Quarterly</li> <li>Ad hoc</li> </ul>
Media	<ul style="list-style-type: none"> <li>Business performance</li> <li>Stoppage</li> </ul>	<ul style="list-style-type: none"> <li>Statements on issues of concern/Press releases</li> <li>Coordination of media interview requirements and information requests</li> </ul>	<ul style="list-style-type: none"> <li>Ad hoc</li> <li>Ad hoc</li> </ul>
NGOs	<ul style="list-style-type: none"> <li>Labor relations/Labor rights</li> <li>Compliance</li> <li>Environmental issues</li> </ul>	<ul style="list-style-type: none"> <li>Improve and respond to FLA audit outcome/NGO cooperation plan</li> <li>Statement on issues of concern</li> <li>Meetings/Contact via e-mail and phone</li> </ul>	<ul style="list-style-type: none"> <li>Annual</li> <li>Ad hoc</li> <li>Ad hoc</li> </ul>

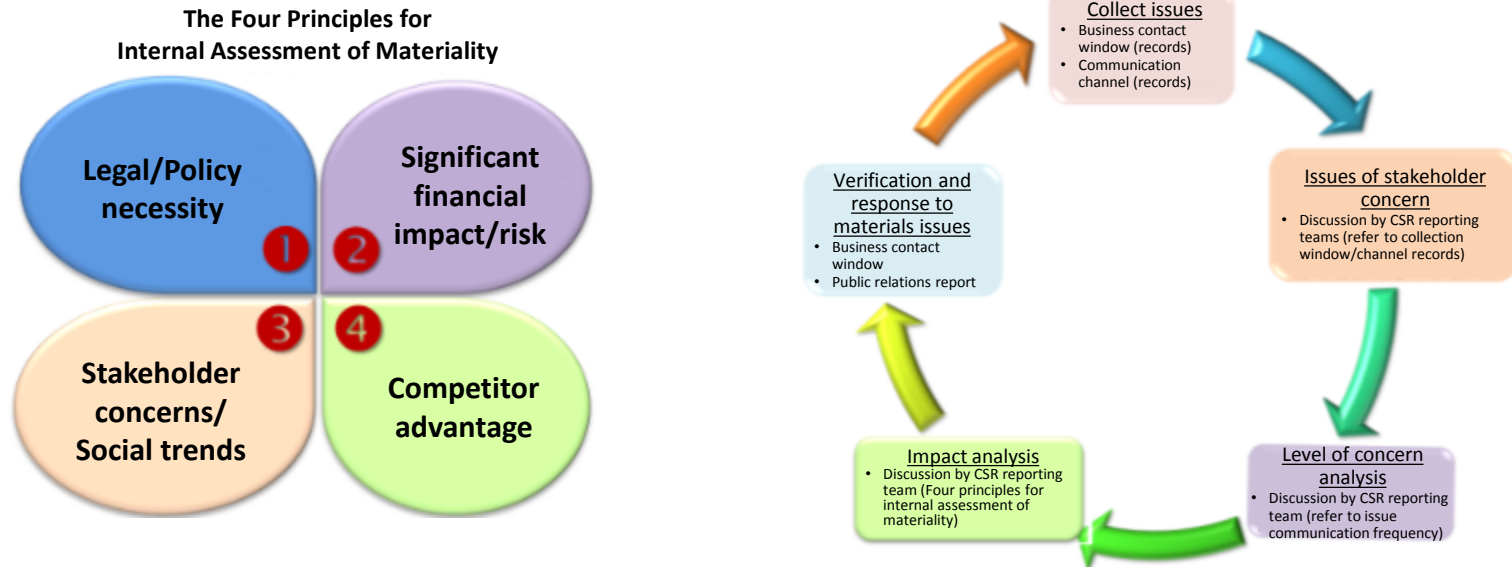
\* NGOs refers to FLA, Greenpeace and other similar organizations.

## 2.2 Material Aspects Identification and Boundaries

### Material Aspects Identification Process

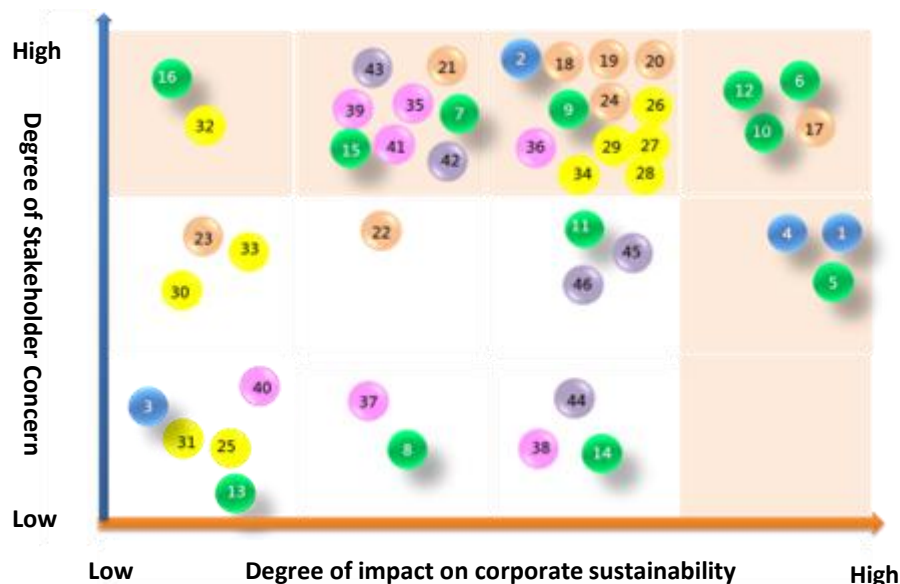
Pou Chen conducts self-reviews of routine operations to identify potential impact issues then discuss and assess them based on specific aspects of GRI G4 guidelines and the sustainability\* issues of concern to the industry. We also continue to monitor other issues of concern to stakeholders as well. These issues of concern are compiled by the relevant internal units based on their recorded communications with stakeholders. Due to the high degree of similarity between issues, 46 issues from GRI G4 were used as the overall list of issues.

Footwear business, Pou Chen's core business, is considered as the labor-intensive manufacturing industry that attracts continuous scrutiny from international labor organizations. Brand customers also view related issues to be an important criteria in business collaboration. These are the reasons why Pou Chen considers most of the requirements set by brand customers and the Fair Labor Association (USA) to be material issues. The CSR reporting task force consults with the relevant business units on the collated issues of concern to stakeholders and the code of conduct items requiring compliance. The four principles for internal assessment of materiality were then applied to arrive at the 29 issues chosen for disclosure in this report.



\*See GRI sustainability-topics-19—Textiles, Apparel, Footwear and Luxury Goods—59 Topics ◦

Issues within this region are considered material.



Indicator priority assessment diagram

### List of Issues of Concern

G4.0 SSD			2016 CSR Report	G4.0 SSD			2016 CSR Report
Category	Aspect		Material Aspect	Category	Aspect		Material Aspect
Economic	1	Economic Performance	Yes	Social - Human Rights	25	Investment	
	2	Market Image	Yes		26	Non-discrimination	Yes
	3	Indirect economic impact			27	Freedom of association and collective bargaining	Yes
	4	Procurement practices	Yes		28	Child Labor	Yes
Environmental	5	Materials	Yes		29	Forced or compulsory labor	Yes
	6	Energy	Yes		30	Security practices	
	7	Water	Yes		31	Indigenous rights	
	8	Biodiversity			32	Assessment	Yes
	9	Emissions	Yes		33	Supplier human rights assessment	
	10	Effluents and waste	Yes		34	Human rights grievances mechanism	Yes
	11	Products and services		Social - Society	35	Local communities	Yes
	12	Compliance	Yes		36	Anti-corruption	Yes
	13	Transport			37	Public policy	
	14	Overall situation			38	Anti-competitive behavior	
	15	Supplier environmental assessment	Yes		39	Compliance	Yes
	16	Environmental grievances mechanism	Yes		40	Supplier assessment for impact on society	
Social - Labor Practices and Decent Work	17	Employment	Yes	Social - Product Responsibility	41	Grievance mechanism for impacts on society	Yes
	18	Labor/Management relations	Yes		42	Customer health and safety	Yes
	19	Occupational health and safety	Yes		43	Product and service labeling	Yes
	20	Training and education	Yes		44	Marketing communications	
	21	Diversity and equal opportunity	Yes		45	Customer privacy	
	22	Equal remuneration for women and men			46	Compliance	
	23	Supplier assessment for labor practices					
	24	Labor practices grievance mechanism	Yes				

## Material Aspects Identification and Boundaries

☑: Full disclosure ☆: Partial disclosure ○: Impact not included in disclosure

G4.0 SSD			Internal	External			
Category	No.	Material Aspect	Pou Chen	Suppliers	Customers	Community	NGOs
Economic	1	Economic Performance	☑				
	2	Market Image	☑				
	4	Procurement practices	☑	○	○		
Environmental	5	Materials	☑	○	○		
	6	Energy	☑	○	○		
	7	Water	☑			○	
	9	Emissions	☑	○			
	10	Effluents and waste	☑	○		○	
	12	Compliance	☑				
	15	Supplier environmental assessment	☆	○	○		
	16	Environmental grievances mechanism	☑			○	○
Social - Labor Practices and Decent Work	17	Employment	☑				
	18	Labor/Management relations	☑				
	19	Occupational health and safety	☑	○			
	20	Training and education	☑				
	21	Diversity and equal opportunity	☑				
	24	Labor practices grievance mechanism	☑				○

☑: Full disclosure ☆: Partial disclosure ○: Impact not included in disclosure

G4.0 SSD			Internal	External			
Category	No.	Material Aspect	Pou Chen	Suppliers	Customers	Community	NGOs
Social - Human Rights	26	Non-discrimination	☑				
	27	Freedom of association and collective bargaining	☑	○			
	28	Child Labor	☑	○			
	29	Forced or compulsory labor	☑	○			
	32	Assessment	☑		○		○
	34	Human rights grievance mechanism	☑				○
Social - Society	35	Local communities	☆			○	
	36	Anti-corruption	☑	○			
	39	Compliance	☑				
	41	Grievance mechanism for impacts on society				○	○
Social - Product Responsibility	42	Customer health and safety	☑		○	○	
	43	Product and service labeling	☑		○	○	

❖ Pou Chen includes the footwear business and production regions of Yue Yuen

## 2.3 Key Events during the Year

As a responsible corporation, to comply with local laws and regulations is the basic management requirement at Pou Chen. Every year, the Company's administrative centers at key operating sites together with legal department and relevant personnel to conduct an inventory of the new laws, regulations and compliance matters. The Company will hold training and meetings if necessary to ensure that each business unit enforces compliance management.

With regards to compliance management in 2016, the Company's environmental incidents are explained in "5.3 Pollution Prevention and Management." There were no fines or administrative penalties imposed for serious breaches in the economic and social aspects. However, the incident at our factories in Vietnam in the first quarter of 2016 resulted in social concern, and the incident is outlined below.

### Vietnam Stoppages

Two footwear factories, under Pou Chen's material subsidiary Yue Yuen, located in Vietnam's Dong Nai Province and Tien Giang Province experienced stoppages in February and March, 2016. The cause of these stoppages was associated with the misunderstanding of the Company's new HR policies.

### Response

The Company intensified communication with employees through Labor Union to resolve the misunderstandings of the new HR policies and to ensure the factories could return to normal production as soon as possible. The incident was successfully resolved after several days of active communication.

### Impact and subsequent improvements

1. In consideration of the scale of the two factories and the duration of the stoppages, the incident did not cause significant impact on the Company's overall operation or business .
2. The Company has always pays lots of attentions to employees' rights in every regions. The welfare measures of all employees at Vietnam factories are in accordance with local regulations.
3. The Company shall continue to strengthen its internal channels of communication to provide prompt response to employees' suggestions and complaints. This will reduce misunderstandings due to information asymmetry, enhancing internal cohesion and identification with the Company.

## 3.0

# Social Outreach and Community Engagement



Since Pou Chen was founded 45 years ago we have worked closely with local governments and organizations to realize the localization of production sites and the sustainable development of our factories. There are outreach programs in all of our factories although these are rarely advertised. To enhance the integrity of our sustainability operations, Pou Chen examined and took part in Civil Society Organization (CSO) activities at each factory in 2015 and 2016. The core values of service, respect and caring were combined with the vision of a happy enterprise to define the social engagement direction and principles of Pou Chen Group. We hope this will ensure the sustainable development and promotion of our partnerships with CSOs. All units within the Group must follow the principles below when contacting or participating in local community activities or when collaborating with civil organizations.

1. Compliance management: Headquarter examined deficiencies identified by the internal and external compliance audits at factories under the Group in recent years and found that the root cause for non-compliance was lack of understanding of local labor regulations. All units shall therefore actively reach out to local civilian organizations that advocates of labor and environmental laws. By understanding the requirements of local labor and environmental laws as well as the government's policy directions, Pou Chen hopes to reduce risks and impacts through timely responses.
2. Health: Footwear manufacturing is considered as the labor-intensive industry. Most of the Group's overseas factories are located in developing or under-developed countries with limited medical resources. Diseases such as cholera and dengue fever therefore have a very significant impact on employee health. Active efforts must therefore be made to educate employees on environmental hygiene and disease prevention. As women account for the majority of employees, educating employees about proper reproductive health and family planning are particularly important as well. All units shall therefore work with local civilian organizations involved in health education and use the provided information to promote employees' health.
3. Education: As previously mentioned, the nature of the industry means that the Group's overseas factories are located in countries that lag behind in economic development. The local populations tend to be less well-off or educated. To establish the Group's factories in the local community, we must work with local civilian organizations by offering scholarships and financial assistance that encourage schooling and talent development among disadvantaged groups. Such assistance will help cultivate future talents.
4. Local relations: The Group's factories employ large numbers of local people. We must therefore engage in active dialogue with the local community organizations to understand the local culture and become a part of the local society. By understanding the needs of the local community, supporting local development, and caring for local residents, we can build a harmonious relationship with the local community and become partners for growth and prosperity.



### 3.1 Outreach Activities in Taiwan

Pou Chen embraces the spirit of “giving back to society” by organizing carefully-planned social outreach activities focusing on “education, philanthropy and promotion of local community development” every year; employees make a contribution to environmental protection and in supporting the disadvantaged through partnerships with a variety of organizations.

#### Mountain Clean-up for a Clean Homeland

Only when people approach the nature, will they love the nature, and then protect the environment. Pou Chen encourages employees to “clean up mountains”, “keep mountains quiet” and “respect mountains” so that they relax in the great outdoors. We also work to raise employee awareness on “being a friend of the mountains by taking the trash home with you.” Our company is in the sports industry so the promotion of regular exercise and a healthy lifestyle reflects positively on our company image.

#### Volunteering at Taomi to Discover the Beauty of Ecology

In view of ecological damage’s impact on the environment, Pou Chen invited employees to visit the town of Pouli in Nantou and assist with the rehabilitation of the ecological damage at Taomi Community. This included the removal of invasive species and the digging of a green waterway to provide a place for the Green Pond Frog to breed. This helped to preserve the habitat of native species; working together to protect the land and build a sustainable future inspired employees to “love the environment and protect the planet” as well.

#### Companionship for the Handicapped at Maria Social Welfare Foundation

The needs of disadvantaged groups came to the attention of Pou Chen during the planning of its annual charity volunteering activities. Ordinary children may make swallowing, sitting up and calling “mom” look easy, but children with learning difficulties may take years to master these simple acts. Pou Chen therefore partnered with the Maria Social Welfare Foundation to let employees participate in their learning program and interact with the handicapped. Together, they made the “Magic Box of Love” to experience a different perspective on life and learn the magic of giving through people with very different lives. Pou Chen hoped that the crafting of these small boxes will have an effect on society.



## 3.2 Community Engagement at Key Operating Sites

Pou Chen works actively to integrate with the local culture and community. 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 disabled Vietnam War veterans and the poor by funding the construction of Friendship Houses to give them a warm and safe place to live. In China, the Company organizes annual summer and winter educational camps every year for the children of our employees; we also visit nursing homes and orphanages to deliver our respect for the elderly and love of children. Due to the lack of medical resources in our production sites, Pou Chen partners with professional medical organizations to provide charity clinics and medical care at remote rural communities in Indonesia and Vietnam to do our part for public health.

### Vietnam Pou Chen's "Seeds of Hope Scholarship"

The "Seeds of Hope Scholarship" was established to support children's education and to improve the local teaching environment. Outstanding students are encouraged to continue with their studies and improve their competitiveness so that they can lead a better life in the future. This in turn contributes to social progress and economic development; in 2016, Vietnam Pou Chen's "Seeds of Hope Scholarship" was disbursed to 547 students at 37 schools in Vietnam; we also sponsored community learning organizations.



### Eid al-Fitr

The Eid al-Fitr is the Muslim equivalent of the New Year. The festival marking the end of the Ramadan is celebrated at our factories in Indonesia and Bangladesh. We also joined local orphanages and communities in Indonesia in celebrating the Eid al-Fitr to welcome the Indonesian New Year.



### Contribution to Development Award for Zhongxiang-Yusheng in Hubei

The Zhongxiang-Yusheng factory has upheld the Company values of "Professionalism, Dedication, Innovation and Service" in engaging with the city of Zhongxiang in Hubei Province since it was established in 2013. The factory now employs more than 3,000 people with an annual output in excess of RMB 10 million and actively channels its surplus earnings into employee benefits. The People's Government of Zhongxiang Municipality was impressed by this gesture and presented Yusheng with an award for its development contribution in 2016.



## Local Community Charity Activities

**Environment Day:** Events include the donation of saplings, tree plantings, community and school clean-ups, environmental education, creative recycling, and eco-friendly handicrafts.

**Charity Clinic and Blood Donation:** Voluntary blood donations are held on a regular basis. We also partner with local medical resources to provide free charity clinics and donations of supplies to remote rural communities.

**Donation of Friendship Houses:** Donations to poor disabled veterans living in the local community in Vietnam.

**Materials Donations:** Donations of food, everyday necessities, old clothes and gifts are made to local communities depending on their needs; we also help repair and paint local schoolhouses, and donate goods to local holiday celebrations.

**Community Scholarships:** Vietnam Pou Chen “Seeds of Hope Scholarship” provided scholarships for 547 students from 37 schools. Our factories in China donated around 100 computers to the Shanggao Special School in Jiangxi; a further 40 computers were also donated to the Zhongshan Village Primary School in Yangxing County. The school’s computer classroom was repainted as well.

**Community Visits and Disadvantaged Outreach:** Outreach visits to local nursing homes, disabled people and children, and orphanages as well as community accessibility volunteering service.

### SUMMARY OF OUTREACH ACTIVITIES

**Community Environment Day:** 98 people.

**Donation of Saplings and Tree Planting:** 197 people.

**Blood Donation:** 1,999 people.

**Community Charity Clinic:** 2,466 people.

**Donation of Friendship Houses in Vietnam:** 42 houses

**Materials Donations:** Computers (140 units), painting services (70 people), old clothing (2,500 pieces), cotton clothing (90 pieces), goats (19 animals).

**Scholarships:** Bien Hoa City Community School (VND 200 million), Association for Advancement of Learning (VND 200 million), Qi Xiu Chinese Center (VND 220 million), Federation, People’s Committee and Ting Long An Labor Federation (VND 140 million), donation of 1,500 notebooks to 150 primary school students in Huyen Cam My.

**Senior Outreach:** 75 people.

**Disabled Adults and Children Outreach:** 642 people.

**Community Accessibility Volunteer Service:** 61 people.



Donation of essential community supplies



Assistance with community clean-up, farm work, repairs and humanitarian care services

## 4.0

## Preferred Workplace



The Pou Chen human resources strategy is based on the corporate development strategy. We believe that employees are the Company's most important asset under the philosophy of "respect for talent and a people-centric approach." With the laws and regulations of the country where employees are located as the foundation, we combined our development strategy with the core values of "Professionalism, Dedication, Innovation and Service" to develop a comprehensive set of standards that govern our recruitment, employment, development and retention efforts. Internal and external audits are used for risk control, continuous improvement of working conditions and the continued promotion of harmonious labor relations so that we can become a quality enterprise based around "respect for talent and a people-centric approach."

To attract and retain quality talent, the Company offers comprehensive talent development programs, competitive compensation and diversified communication mechanisms to boost the professional abilities of employees and their passion for work; the organizing of team-building activities is used to enhance employee identification with the core values of the company. A performance management system also effectively inspires continuous development and assists employees with their career path planning. The transfer of know-how and fulfillment of social responsibility contributes to the sustainable development of Pou Chen.

## 4.1 Recruitment and Employment

### Diversified Recruitment Channels

Pou Chen actively recruits people of all nationalities, gender, ages and religion through a fair and equal process. Apart from talent agencies, campus recruiting drives, professional training organizations, social networks, campus interns, group visits and consulting companies, Pou Chen also encourages employees to join the recruiting activities through the "Finding Your Perfect Partner" initiative. A variety of marketing efforts are also launched through social networks to attract talented people from different fields through different channels. The cultivation of talent is valued by Pou Chen as well so we participate in universities' campus recruitment and training organization's matchmaking events every year. Campus job expos, seminars, corporate interns and management associates help graduates connect with the industry.

Pou Chen strengthened our social network recruiting channel in 2016. The latest job openings and footwear manufacture training programs are posted on the social network. Ad hoc events are also held to increase interaction with external job seekers. Now that we are in the information age, the same platform is used to share information about the basic footwear manufacturing process in the hopes of attracting more people interested in the footwear industry to Pou Chen.

Campus recruitment



Matchmaking by professional training organizations



Promotion of internal referral



Recruiting through social networking platform

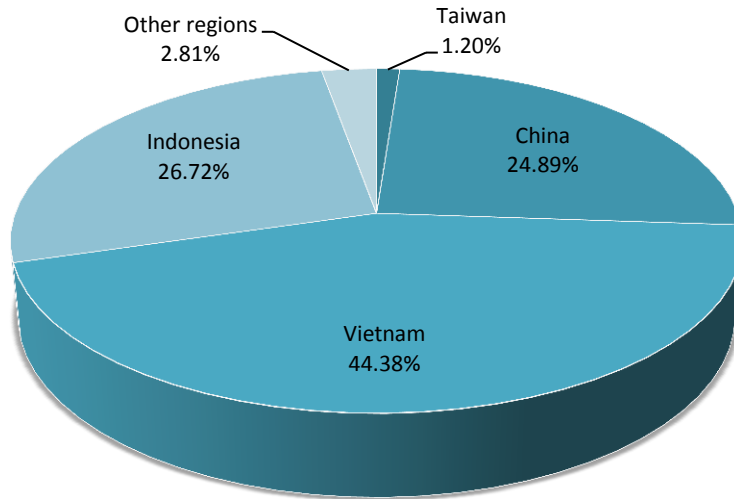
## Gathering of Diversified Talent

Pou Chen welcomes talented people from all fields to continue building up our pool of professional expertise. Function managers may also submit manpower requests to the HR department. The recruitment procedure complies with local regulations and adheres to the principle of transparency. New blood from different industries is screened to find the right people and join us in developing new innovations. The following manpower structure is based on the “Footwear”, “Retail” and other businesses within the Pou Chen portfolio.

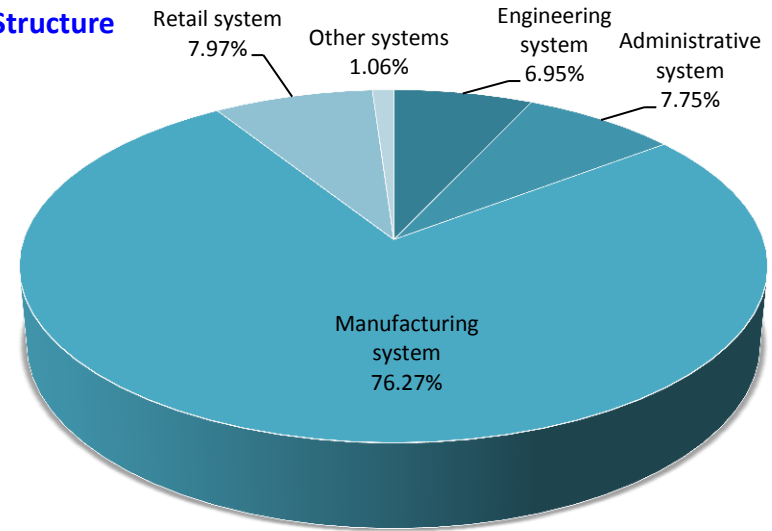
Pou Chen’s globalized operations include sites in Taiwan, China, Vietnam, Indonesia, Hong Kong, USA, Mexico, Bangladesh, Cambodia, and Myanmar. As of December 31, 2016, all of our employees in every region are permanent employees except for China where we employ a small number of casual cleaners (approximately 232 people). We employ 358,977 permanent employees with 330,350 people in the “Footwear” business (including the manufacturing, engineering, administrative and other systems), and 28,627 people in the “Retail” business (Retail system). 1.20% of our employees are based in Taiwan, 24.89% in China, 44.38% in Vietnam, 26.72% in Indonesia and 2.81% in other regions.

Specialists in each field are our most important assets. When sorted by the nature of their work, 76.27% of all employees are in the manufacturing system, 7.75% are in the administrative system, 6.95% are in the engineering system, 7.97% are in the retail system and 1.06% are in other systems (other systems including secretaries and drivers).

### 2016 Pou Chen Manpower Structure

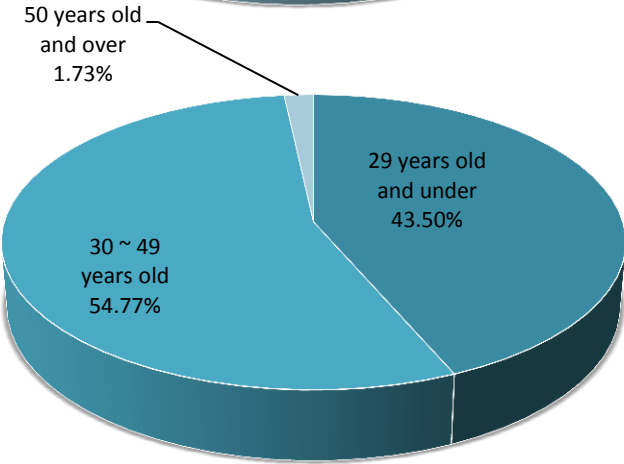
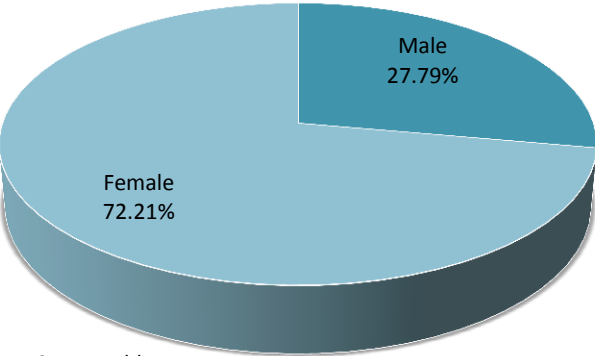


**Distribution by Nationality**



**Distribution by Job Type**

Due to the nature of the industry, over 70% of Pou Chen’s employees are female. Fair and transparent channels for career advancement are offered by Pou Chen regardless of gender and nationality. The average percentage of local employees in management positions at all of our key operating sites is over 79% and more than 50% of management personnel are women as well to ensure the diversity and localization of our human resources.

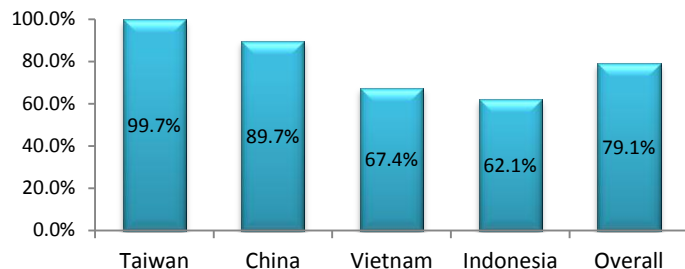


Pou Chen employee age and gender distribution

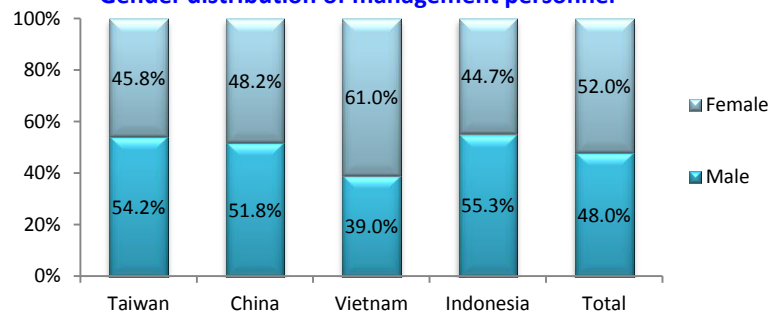
Employee gender and age distribution in each region

Region	Gender	29 years old and under	30 ~ 49 years old	50 years old and over
Overall	Male	49.75%	48.00%	2.25%
	Female	41.09%	57.39%	1.53%
Taiwan	Male	17.00%	68.27%	14.73%
	Female	21.78%	67.31%	10.91%
China	Male	37.82%	57.33%	4.85%
	Female	26.40%	71.98%	1.62%
Vietnam	Male	49.50%	48.55%	1.94%
	Female	39.49%	58.57%	1.94%
Indonesia	Male	56.47%	43.12%	0.41%
	Female	59.29%	40.53%	0.18%
Others	Male	79.14%	20.37%	0.50%
	Female	66.37%	32.93%	0.70%

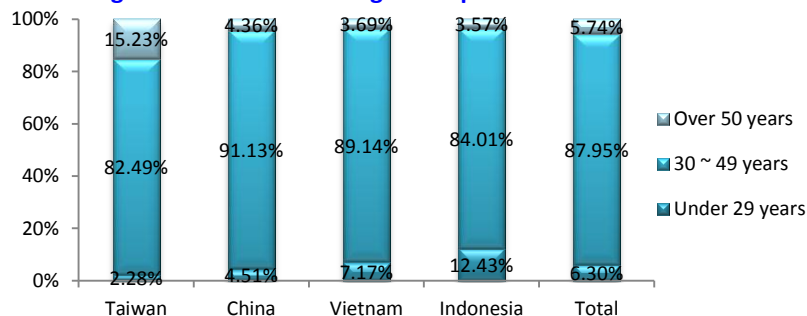
### Percentage of local nationals in management positions



### Gender distribution of management personnel



### Age distribution of management personnel



Note 1: The above only includes data from the four main production regions of Taiwan, China, Vietnam and Indonesia.

Note 2: Management personnel refer to section or higher level supervisors.

## 2016 Employee Turnover

Pou Chen welcomes talented people from within the industry to continuing building up our pool of professional expertise. New blood from different industries is screened to find the right people and join us in developing new innovations.

### Voluntary separation rate - By gender and age

Region	Gender		Age		
	Female	Male	29 years old and under	30 ~ 49 years old	50 years old and over
<b>Overall</b>	12.2%	4.6%	9.9%	6.5%	0.4%
<b>Taiwan</b>	7.9%	6.5%	5.9%	8.1%	0.4%
<b>China</b>	20.9%	10.3%	16.6%	13.8%	0.9%
<b>Vietnam</b>	7.6%	2.2%	6.2%	3.5%	0.2%
<b>Indonesia</b>	7.8%	0.8%	6.0%	2.6%	0.0%
<b>Others</b>	23.6%	8.4%	23.9%	6.5%	1.6%

Note 1: Voluntary separation rate = Number of voluntary separations / (Total number of employees on December 31, 2016 + Number of voluntary separations).

Note 2: Other regions include: Production sites in Cambodia, Bangladesh and Myanmar.

Note 3: Voluntary separation refers to those who leave the Company normally. It does not include retrenchments, retirements and death.

### New Employment Rate - By gender and age

Region	Gender		Age		
	Female	Male	29 years old and under	30 ~ 49 years old	50 years old and over
<b>Overall</b>	71.3%	28.7%	70.9%	28.8%	0.2%
<b>Taiwan</b>	54.0%	46.0%	56.4%	41.5%	2.1%
<b>China</b>	68.4%	31.6%	61.2%	38.5%	0.3%
<b>Vietnam</b>	75.6%	24.4%	77.6%	22.1%	0.2%
<b>Indonesia</b>	76.3%	23.7%	89.3%	10.7%	0.0%
<b>Others</b>	73.0%	27.0%	81.9%	18.0%	0.1%

Note 1: New employees refer to those with less than one year of service by the end of December 2016.

Note 2: New employee rate = Number of new employees of all genders, ages and categories in each region/ Total number of new employees in each region.

Note 3: Other regions include: Production sites in Cambodia, Bangladesh and Myanmar.

## 4.2 Education, Training and Career Path Development

### Education and Training Policy

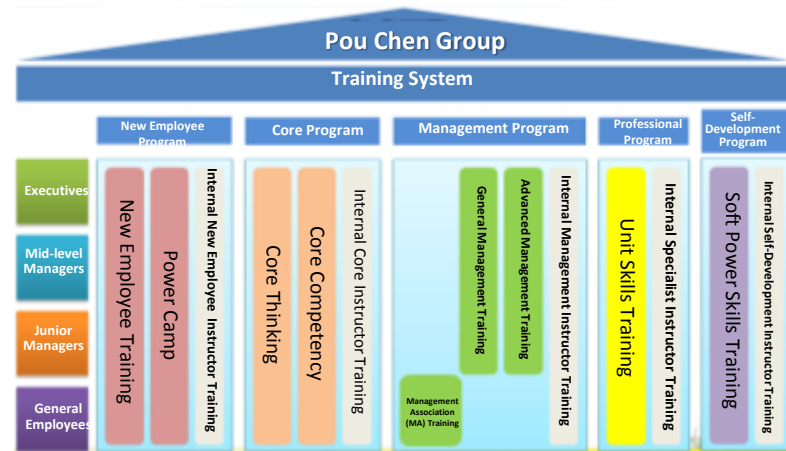
Talent is the cornerstone of corporate sustainability. Pou Chen is the top strategic partner for world-famous sports brands so we strive to be the top choice for business talent and to actively cultivate our core business expertise. We develop the international horizons and strengthen professional skills of our employees through a systematic, multi-disciplinary and comprehensive talent development mechanism. The cultivation of a solid corporate culture and creation of competitive talents provide the foundations for our sustainable development.

- Develop an HR strategy that integrates the company mission, vision, business strategies and goals. Work actively to cultivate a pool of leaders and specialists for the Company.
- Build up the corporate talent pool by identifying key talents through systematic and professional techniques. Develop a comprehensive talent development program and training road-map based on the needs of organizational and individual development.
- Strengthen the corporate vision as well as shape the corporate culture and values to create soft power that makes the Company irreplaceable.
- Continue to innovate and introduce new technologies, concepts or tools; promote individual growth and organizational learning to help achieve company and individual goals.
- Value employee self-development by providing a diverse range of learning channels; encourage self-motivated learning to inspire employee potential and the achievement of their personal accomplishments.

### Education and Development Plan

The goal of training and development is to continue improving the quality of personnel and their work skills in a systematic manner. Employees are encouraged to be enthusiastic about their work and to welcome new challenges company value can be enhanced to achieve business goals and future development plans.

To achieve the company strategies and goals, training and development planning must not only take the business vision and goals into account but also evaluate employee performance outcomes and competency gaps. The company training system is then used to develop a training framework for developing the new employee program, core program, management program, professional program, and self-development program. Physical or e-learning methods are used to provide employees with a comprehensive development program that helps them continue improving their professional and management skills, find their true calling, and become a long-term partner for company growth.



## Training Courses

The annual training program for talent development at Pou Chen incorporates the company mission, vision, business strategies and goals. The development focus and training requirements of each business unit are also compiled. Through continuous innovation and the introduction of new techniques, concepts and tools, Pou Chen promotes individual growth and organizational learning. A variety of learning channels are provided and self-motivated learning encouraged. Professional certification courses related to employees' personal development plans, the competency training system for each level, and government regulations were also taken into consideration for the formulation of the "Education and Training Management Regulations" that guide our training activities.

To enhance the skills of employees in each position and realize the vision of life-long learning, Pou Chen has developed tiered training curricula based on our core values and competencies. Pou Chen provides employees with skills training on a continuous basis from on board through retirement in the hopes of strengthening their continued employ-ability. We hope that the employee training courses provided can help maximize the Company's business performance through the building of internal consensus and employee identification with organizational values.

- New Employee Program: This training program is organized for new employees. Since November 2016 new employees from each quarter are arranged to join the power camp.
- Core Program: A series of core training courses based on the Company's core thinking and core competencies.
- Management Program: Management courses are developed for each level of management based on the development of management competencies. Different types and levels of management programs are offered to meet the needs of management associates and company managers.
- Professional Program: Professional programs have been developed based on the competency and specialist requirements of each specialization.
- Self-development Program: A series of courses focusing on the soft power needed by employees in their work. Employees are encouraged to engage in self-learning to improve their personal ability.



## Education and Training Implementation

In 2016, Pou Chen's investment in education and training amounted to 31,464 classes, a total of 8,635,012 training hours, and a total employee participation of 1,684,748 people. Each employee received on average 26.14 hours of training. The aforesaid figures exclude those in the Retail business.

Total training classes	Total training hours	Total number of trainees (persons)	Average hours of training per employee
31,464	8,635,012	1,684,748	26.14

Note: Total training hours =  $\Sigma$  (Training hours per class \* Number of trainees per class);

Average hours of training per employee = Training hours / Total number of employees for that year (excluding those in the Retail business)

A breakdown of company training by gender, grade and key operating site is provided in the table below.

Region	Grade	Gender	Number of trainees	Total training hours	Region	Grade	Gender	Number of trainees	Total training hours
Overall	Junior-level	Male	293,785	1,489,242	Vietnam	Junior-level	Male	161,484	993,323
		Female	1,356,662	6,942,567			Female	704,359	5,270,719
	Middle-level	Male	10,873	82,866		Middle-level	Male	3,079	18,789
		Female	22,121	111,183			Female	14,501	56,338
	High-level	Male	856	6,513		High-level	Male	154	532
		Female	451	2,641			Female	88	269
Taiwan	Junior-level	Male	3,639	40,915	Indonesia	Junior-level	Male	70,894	342,321
		Female	3,725	39,758			Female	302,681	1,395,885
	Middle-level	Male	1,234	22,761		Middle-level	Male	4,521	34,329
		Female	1,066	18,584			Female	4,647	30,734
	High-level	Male	245	4,395		High-level	Male	34	99
		Female	79	1,402			Female	23	28
China	Junior-level	Male	52,213	108,527	Others	Junior-level	Male	5,555	4,157
		Female	343,118	234,235			Female	2,779	1,970
	Middle-level	Male	1,953	6,793		Middle-level	Male	86	195
		Female	1,878	5,460			Female	29	67
	High-level	Male	408	1,458		High-level	Male	15	30
		Female	261	942			Female	-	-

Note: Junior level includes grades 1 ~ 6. Middle level includes grades 7 ~ 10. High-level is grade 11 and above.

Other regions include production sites in Cambodia, Bangladesh and Myanmar.

## Talent Management and Succession

Employee cultivation and development is important to Pou Chen so we strive to improve the competency and competitiveness of our employees. Different types of training programs are developed based on the employee roles. For talent development, Pou Chen continues to promote a talent management and succession program. Competency evaluations and individual development plans are conducted for key talent. A talent management system has also been introduced to track talent development and management indicators, boosting the effectiveness and efficiency of our talent development and succession program.



**Core Program –  
Systematic Thinking Course**



**New Employee Program –  
Power Camp**



**Management Program –  
Management Associate Training**



**Corporate Seminars –  
Training seminars for leaders at all levels**



**2016 Executive Strategic Team Building Camp**



**Footwear Production Course –  
Pattern-Making**

## Employee Career Path Development

### (1) Performance Management System

Pou Chen has implemented a performance management system to meet our business targets and improve our employees' working ability. The system covers all employees regardless of age and gender at our key operating sites in China, Hong Kong, Macau, Vietnam, Indonesia, Myanmar and Cambodia. Monthly evaluations help low-level employees improve their everyday work performance. For middle-level and higher managers, their performance in meeting organizational and personal goals are assessed at the middle and end of the year. Formal performance interviews help managers and employees understand the expectations on organizational goals and personal development. This clarifies and connects organizational and individual job direction. The organizing of performance management courses and the embedding of individual learning activities in the program help participants learn from their observations, analyses and sharing of activity experiences. The knowledge and insights they gain can then be applied to their work and everyday lives.

The performance management system is implemented to measure employee's ability to meet targets and their work performance. The end results are used as a reference to employee promotions, awards, training and individual development plans. A sound performance management system can be used to shape a performance-oriented corporate culture as well as inspire employee performance and competency. This can then in turn be used to cultivate and development the personal abilities of employees.

### (2) Individual Development Plan

The results of competency evaluations and the annual performance evaluation can be used to draw up an individual development plan for employees and the annual unit training program. In addition to enhancing the professional knowledge of employees, training resources are also provided on management ability, self-management soft power and common job skills to improve employee know-how, overall employee standards, and business performance; it also provides advice and assistance on employee career progression or change of career track.



Goal Management MBO Mentoring Plan



Performance Interview Instructor Training

4.3. Comprehensive Remuneration and Benefits

Competitive Remuneration System

Pou Chen considers employees to be our greatest assets. To attract, inspire and retain talented personnel, we offer very attractive and competitive compensation packages. All employees are also treated equally and there is no difference in remuneration on the basis of gender, race, religion, political affiliation, sexual orientation and marital status. We adhere to the principle of equal pay for equal work regardless of gender. Salaries are based on employees’ experience, position and professional skills. Incentives are based on employee attitude, professionalism and overall performance. Pou Chen also regularly reviews our remuneration policy to ensure that we offer competitive salaries. Performance management is also linked to differences in incentives to facilitate the recruitment and retention of talented personnel. As a trans-national enterprise, the design of the remuneration system at overseas sites is also tailored to the local government laws, industry standard and job market. This is to encourage our local employees overseas to focus on their work and grow with the company. Apart from the distribution of monthly bonuses based on work performance, a set proportion of surplus earnings are also allocated towards annual bonuses and employee bonuses based on the Company’s profitability for that year. These reward employees for their contribution, encourage their enthusiasm at work and let employees share in the Company’s business performance.

The ratio between the starting salary of low-level employees in Pou Chen’s key operating regions and the local minimum wage

Region	Taiwan	China	Vietnam	Indonesia
Ratio	1.4	1.0	1.3	1.0

Note 1: The above information covers only the four main production sites of Taiwan, China, Vietnam and Indonesia.  
Note 2: Low-level personnel refer to direct employees in each region.  
Note 3: Salary ratio - (Minimum starting salary of low-level personnel/Statutory minimum wage for each region).

Secure Retirement Protection

The Pou Chen retirement system complies with the local laws and regulations of our operating sites around the world. Regular pension contributions and payments are made to protect employees’ lifestyles after retirement. In Taiwan for example, 33 employees applied for retirement in 2016. NT\$120 million in pension payments under the old system and NT\$180 million under the new system were paid to ensure a smooth transition to retirement life.

Region		Taiwan		China	Vietnam	Indonesia	
Pension system		Pension under the old system	Pension under the new system	Social security endowment insurance	Social security old-age pension	Social security	
						Endowment insurance	Retirement insurance
Contribution ratio	Employer	3.29%	6%	13%~20%	18%	3.7%	2%
	Employee	Employee contribution not necessary	Voluntary 0~6%	8%	8%	2%	1%

Note: The above information covers only the four main production sites in Taiwan, China, Vietnam and Indonesia.

## Balancing Work and Family

The Company encourages employees to balance work and family, and protects the employment rights of employees who take time away from work. Employee can schedule their own holidays as long as they follow policy. In Taiwan for example, female employees are entitled by law to menstrual leave, maternity leave and pre-natal exam leave; male employees are entitled to paternity leave. Employees with childcare requirements may apply for childcare or unpaid childcare leave. They can then apply for reinstatement or an extension at the end of the leave period to balance their personal and family needs. In 2016, 43 employees in Taiwan applied for unpaid childcare leave; the majority of applicants were women with a total of 39 applications from female employees. A total of 35 employees applied for reinstatement in 2015 and have worked for one year after their return; the retention ratio was 77.8%. In 2016, 25,427 female employees at Pou Chen's other key overseas sites applied for maternity leave. 19,356 returned to work after their leave so the reinstatement rate was 76.1%.

The attendance system and overtime policy at Pou Chen are based on the local labor laws of each region. In Taiwan for example, overtime applications must be submitted in advance by employees. Those who worked overtime may opt for make-up leave or overtime pay. Pou Chen is also progressively revising our internal regulations based on the recommendations of labor inspections in 2016 in order to follow the spirit of the law.

### Unpaid childcare leave applications and reinstatement statistics for Taiwan in 2015 and 2016

Item	Male	Female	Total
Number of employees expected to be eligible for unpaid childcare leave in 2016	405	301	706
Number of applications for unpaid childcare leave in 2016 (A)	4	39	43
Number of employees returning from unpaid childcare leave in 2016 (B)	1	20	21
Rate of reinstatement after unpaid childcare leave in 2016 (C=B/A)	25%	51.3%	48.84%
Number of applications for unpaid childcare leave in 2015 (D)	7	42	49
Number of employees returning from unpaid childcare leave in 2015 (E)	5	40	45
Number of employees still with the company one year after reinstatement in 2015 (F)	4	31	35
Rate of reinstatement after unpaid childcare leave in 2015 (G=E/D)	71.4%	95.2%	91.8%
Retention rate of employees returning from unpaid childcare leave in 2015 (H=F/E)	80.0%	77.5%	77.8%

## Diverse Employee Benefits

Pou Chen provides a wide range of flexible benefits based on the circumstances of each region. These include monetary gifts for weddings, birthdays and childbirths, funeral subsidies and condolence money for hospitalization. An emergency assistance fund has also been set up to provide timely assistance of employees in an emergency. Other benefits include holiday bonuses (coupons), Labor Day gifts or bonuses, travel subsidies and special contract stores, employee dormitories, employee cafeterias, shuttle buses, and breast-feeding (pumping) rooms. The comprehensive employee welfare system lets employees concentrate on their work.

### Benefits Policy and Measures at Key Overseas Regions

- Employee dormitories, employee cafeterias and shuttle buses.
- Establishment of employee reading rooms where books and magazines can be borrowed for free.
- Establishment of basketball courts, football fields, gyms, tennis courts and employee recreation centers.
- Kindergartens attached to factories. Selected regions also have attached clinics to provide appropriate medical services.
- Organizing various activities (singing, sports, movie screenings, club activities)
- Employee holidays in selected regions.

**Shuttle bus**



**General clinic in the factory and celebrations**



**Kindergarten**



**Christmas card design competition**



**Basketball court**



**Employee hobby farm**



**Graduation performance at kindergarten**



**Tug-of-war competition**



Benefits Policy and Activities in Taiwan

Subsidies	
Weddings, funerals and celebrations/ Childbirth/ Hospitalization	Total of 540 subsidy applications. Total amount of subsidies was NT\$810,000.
Birthday coupons/gifts	4,653 people were eligible for this benefit. A total of NT\$4,464,000 was distributed.
Holiday festival coupons/bonus	4,653 people were eligible for this benefit. A total of NT\$4,425,500 was distributed
Employee travel subsidy	4,653 people were eligible for this benefit. A total of NT\$9,679,700 was distributed

Sports and Recreation		Participants/Sessions
Pou Chen Family Day	The 2016 Family Day held at Janfusun Fancyworld strengthened family ties by promoting parent-children interaction.	6,737
Singing Competition	The first “Beautiful Voice of Pou Chen” employee singing competition gave employees with a love for singing the chance to compete against each other on stage.	36
Company Sporting Events	Clubs and company competitions were organized for badminton, 3-on-3 basketball and ten-pin bowling. Employees were also encouraged to enter the Changhua County Labor Sports Carnival to provide employees with a variety of sporting activities and more channels for interaction.	277
Health Promotions Activities	Health seminars and on-site blood donations are hosted on a regular basis to emphasize the importance of preventive healthcare and enhance the well-being of employees.	38 sessions

Singing Competition



Basketball Competition



Ten-pin Bowling Tournament



Family Day



Others		Participants/Sessions
Celebrity Lectures	<p>Celebrities from different fields were invited to share their philosophy of success and life with employees. A total of 3 celebrity lectures were held in 2016.</p> <ul style="list-style-type: none"> <li>➤ Tan, Tui-tzu: Eating for Health and Happiness</li> <li>➤ Ryan Hsieh: A Journey from the Heart</li> <li>➤ Mai, Jue-Ming: The Black Bear is Coming</li> </ul>	506 people
In-house Blind Masseur Service	Pou Chen provides employees with blind masseur services at set locations at fixed times. Employees can therefore take a break from their work to relax while helping disadvantaged groups.	40 sessions
Pou Chen Library	Employees can borrow a wide range of books and magazines for free and cultivate the habit of reading.	5,100 people



Celebrity Lectures

Celebrity Lecture -  
Eating for Health and  
HappinessCelebrity Lecture - The  
Black Bear is ComingCelebrity Lecture - A  
Journey from the Heart

## 4.4 Labor Relations

Pou Chen is committed to providing employees with a fair, safe and healthy working environment. We comply with the laws and regulations of the host country and strive to create a happy workplace through the promotion of harmonious labor relations. Pou Chen became a member of FLA in 2011 and a compliance inspection report is now submitted to the FLA every year. We also undergo Sustainable Compliance Initiatives (SCI) assessments from the FLA for selected regions and factories each year. A root-cause analysis report is then uploaded to the FLA website after the assessment. Factories carry out improvements based on the report recommendations and provide regular feedback on action plans. They also accept regular and systematic human rights inspections and evaluations/oversight from NGOs. The annual assessment reports are available to the public on the FLA website. <http://www.fairlabor.org/transparency/assessments>

### Notice Period for Major Operational Changes

To safeguard the employment rights of employees, notice is given on all major operational changes at Pou Chen in accordance with local laws and regulations. Briefings and labor-management meetings are also used to communicate with employees in good faith. Pou Chen has not signed any collective bargaining agreements with unions in Taiwan. Employees sign individual employment contracts with the Company. If a contract must be terminated under Article 11 or Article 13 of the Labor Standards Act then the following rules on minimum notice periods apply:

- 10 days' notice for employees with more than 3 months but less than 1 year of service.
- 20 days' notice for employees with more than 1 year but less than 3 years of service.
- 30 days' notice for employees with more than 3 years of service.

For key operating sites out of Taiwan, a collective bargaining agreement is signed between local employee unions with the Company. The agreement explicitly spells out all related labor conditions, rights and notice periods for major operational changes. Signed agreements are then submitted to local authorities for their records. Approximately 297,437 employees are voluntary union members and covered by collective agreements signed with their unions at Pou Chen's key operating sites (Taiwan, China, Vietnam, Indonesia); these amount to around 83% of the Group's employees.

Key Operating Regions	China	Vietnam	Indonesia	Taiwan
Proportion and number of employees with voluntary union membership (Average)	66.5% (59,539 people)	97% (154,254 people)	83% (79,353 people)	100% (4,291 people)
Notice Period for Major Operational Changes	30 days' notice	30 days' notice	Not specified so labor laws apply	In accordance with Article 11 or Article 13 of the Labor Standards Act

Note: The Myanmar (PMA) factory does not currently have a union. An "Employee Liaison Committee" made up of 6 employee representatives have been set up as required by local law. The Cambodian and Bangladeshi factories do not currently have a union.

#### 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 principles of equality and human rights policies.

## Pou Chen Group Code of Conduct

The Pou Chen Group (hereinafter referred to as "The Company") is committed to the fulfillment of corporate social responsibility by adhering in an open and transparent manner to the laws and regulations of our host country. If there are any discrepancies or conflicts between different standards, then the more rigorous standard is adhered to. The Company also refers constantly to the codes of conduct developed by large non-government organizations and our many brand customers to make them the core standards for our employees in the performance of their work; internal and external audits are also used to identify potential problems so that we can make continuous improvements to the working environment and control risks; we strive to build a happy enterprise through the promotion of harmonious labor relations. The Pou Chen "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.

#### **Non-discrimination**

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. No personal, sexual, mental or verbal harassment or abuse of employees is allowed.

#### **Forced Labor**

The use of forced labor is not allowed. This includes prison labor, indentured labor, bonded labor and all other forms of forced labor.

#### **Child Labor**

No employment of those under the age of 15 or those who have not exceeded the age of compulsory education. The higher standard applies.

#### **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 the Environment**

Employers shall provide a safe and healthy working environment prevent employees from suffering harm or accidents while engaged in work-related activities or using tools provided by the employer.

Employers shall adopt responsible measures to mitigate the negative environmental impacts of their workplace.

#### **Working Hours**

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 must allow workers at least 24 consecutive hours of rest in every seven-day period. All overtime work must be by mutual consent only. Employers may not ask employees to work overtime on a frequent basis. Overtime must also be paid at the corresponding rate. The total number of regular and overtime work hours in one week may not exceed 60 hours except under extreme circumstances.

#### **Remuneration**

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); employers must comply with all legal requirements on wages, and provide any fringe benefits required by the law or contract. Where the compensation is insufficient to meet workers' basic needs and provide some discretionary income, each employer shall take appropriate actions that seek to progressively realize a level of acceptable compensation.

#### **Community Outreach**

Pou Chen shall actively participate in charitable activities to promote community development and create a harmonious society together.

## Pou Chen Recruitment Policy

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

### Implementation:

New employees are required to sign a labor contract upon arrival specifying the rights, responsibilities and obligations of both parties. All employees have the right to terminate their employment with the factory. All labor contracts, changes, cancellations and terminations strictly adhere to the relevant laws and regulations.

There were 7 suspected incidents of discrimination in 2016. Internal investigations determined these to be misunderstandings during internal communications and statutory benefits. These have since been explained to the employees and internal awareness efforts strengthened.

## Freedom of Association and Collective Bargaining

Pou Chen upholds and respects employees' rights to freedom of association and collective bargaining. We recognize legal labor organizations set up by employees of their own free will, and engage in active communications and interactions with these labor organizations.

### Implementation:

Employee unions with voluntary membership have been set up by Pou Chen at our key operating sites in Taiwan, China, Indonesia and Vietnam. The unions represent employees in communicating with the Company on labor-management issues. These include the signing of collective bargaining agreements, review of labor-management rights in the employee handbook, confirmation of labor standards, and participation in labor-management negotiations or such activities.

Regional unions also assist the Company with the handling of employee outreach and support activities to improve employee communication and identification with the Company.



## No Child Labor Policy

In accordance with the "Pou Chen Group Code of Conduct" and local laws, there is to be no use of child labor. Juvenile (underage) workers must be registered for review and approval. Related protection policies must also be put into place to ensure that their work hours and roles comply with local laws.

### Implementation:

The HR Department requires applicants to provide effective personal identification documents at their interview to verify their actual age. If child labor is mistakenly hired, employment is immediately suspended upon discovery and the child is returned to his or her parents/guardians. The child is paid for the actual work performed, while any necessary food, accommodation and transportation expenses are paid for by the Company.

No such incidents were discovered in 2016.

## No Forced Labor

Pou Chen does not use any workers subjected to forced imprisonment or bound by illegal contracts. All work is performed on a voluntary basis and employees have the right to work overtime or quit their job with reasonable notice.

### Implementation:

A variety of recruitment channels is used by Pou Chen's factories. During the interview, the HR department verifies the provided documentation, checks if the applicant is of legal working age under local law, and that they are applying of their own free will. Those that satisfy the criteria are employed. Employees are not required to hand their identification or work permit documents over to the Company for safekeeping.

Employee working hours strictly adhere to the relevant national laws, company regulations and brand agreements. The employee's personal consent is required if overtime work must be scheduled due to the demands of work. Overtime and overtime pay must comply with local laws.

There were employee complaints in 2016 of having to apply for permission to leave their post to use the washroom. All such management practices have now been banned. Further training and communication on the Company's management principles are being conducted to ensure appropriate management and a friendly workplace.

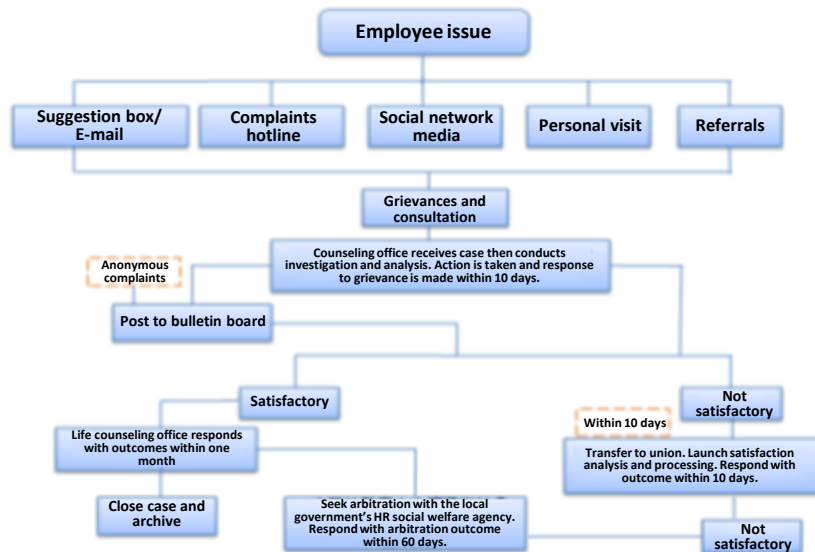
## 4.4.2 Labor-Management Communications

### Strengthening Grievance and Consultation Mechanism

Pou Chen encourages dialog between management and employees. Employee opinions collected through different channels as well as regional employee grievances channels are used to regularly analyze, identify and solve employee problems. In 2016, we established employee consultation offices in Vietnam and held regular employee seminars along the on-site inspections to provide suggestions for improvement. Internal and external employee relations activities during the year were also used to gradually build internal consensus and organizational cohesion. Our efforts are aimed at achieving harmonious labor relations and to realize the goal of becoming our employees' preferred employer.

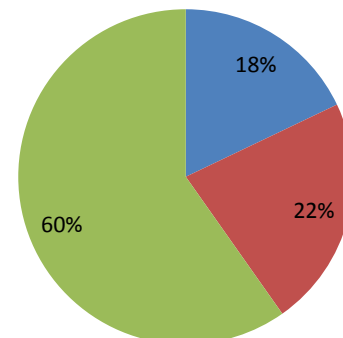


### Factory Grievance and Consultation Process



### 2016 Distribution of Complaints and Consultation

■ Complaints ■ Grievances ■ Suggestion/Inquiry



Total number of cases in 2016:  
4,154 cases

## Social networking platform

Facebook: "Pou Chen Group" <https://www.facebook.com/pouchengroup/>

LinkedIn: "Pou Chen Group" <https://tw.linkedin.com/company/pou-chen-group>

Pou Chen has set up the "Pou Chen Home WeChat Platform" in China and the "Pou Chen Group Indonesia/Vietnam Home" Facebook platform in Indonesia and Vietnam to provide local news and information. These provide the latest Pou Chen developments, upcoming employee activities, cultural information and lifestyle tips.

- "Pou Chen Group Vietnam Home" website: <https://www.facebook.com/pouchengroup/>
- Indonesia: "Pou Chen Group Indonesia Home" website: <https://www.facebook.com/pouchengroup/>
- China: Pou Chen Home WeChat ID: POUCHENHOME.



## 4.5 Employee Care and Health Promotion

### Employee Care

Pou Chen consistently complies with local laws medical insurance contributions and health exams. We also provide employees with medical services (such as factory infirmaries/employee hospitals) to provide unwell employees with timely medical attention. In Vietnam, we have a longstanding partnership with the local Marie Stopes International (MSI) organization on hosting employee health clinics and expos. These activities include health education, medical assistance, medical consultations and women's health education. Infirmaries have also been established at our factories in Taiwan staffed by hospital doctors. A variety of health promoting activities are provided including screening for 4 types of cancer, eye care, blind masseurs and bone density exams. There are also seminars on workplace relaxation and food nutrition.

In addition to health exams and medical care services, Pou Chen frequently organizes activities in each region to enrich employee life outside of work and look after their well-being. These activities comprise of clubs and competitions for ball sports, skipping rope and aerobics. Carnivals and seminars are used to promote knowledge on mental health, make employees feel a part of the team, and promote friendly working relationships among employees.

## Employee Support and Outreach Activities

Home visits have always been one of the employee outreach methods used by Pou Chen. Local managers visit employees at their homes to see how they are doing. Employees are provided with immediate assistance on home repairs and cleaning when necessary to improve their quality of life and feeling of happiness.



Looking after employee families through regular visits

## Factory Employee Outreach Initiatives

- **Networking Forums:** Employee forums, management forums, new employee social events, lifestyle counseling office etc.
- **Employee Recognition Ceremony:** Model employees, employees who outstandingly demonstrate corporate core values.
- **Health Care Measures:** Health exams and special health exams, factory infirmaries and ambulances, health education, employee health management system, visiting of sick/injured employees and provision of emergency assistance, organization of health promoting activities (cancer screening, fitness, weight loss, health seminars, relaxing massages) etc.
- **Female Employee Health Care Initiatives:** Gynecological health exams and consultations, pregnancy education and pre-natal exams, work management for pregnant women, consultations on child-care knowledge, health expo and other activities.
- **Recreational Activities:** Provision of employee recreation centers and equipment, organization of ball sports competitions, club activities, secondary skill courses (computers, make-up, cooking etc.), singing competitions, dance competitions, tug-of-war competitions, carnivals, employee holidays, mountain climbing, etc. for Pou Chen Employee Day activities etc.
- **Festival Activities and Gifts:** Includes monthly birthday parties, Children's Day, Women's Day, Ramadan Iftar, Dragon Boat Festival, Mid-Autumn Festival, Creative Lantern Competition, National Day celebrations, End-of-Year Thanksgiving Banquet and lottery draw, New Year couplets giveaway and get-together, tickets for returning home, and Lantern Festival riddles.
- **Other Amenities:** Employee dormitory, commuter shuttles, in-house shuttle bus stops, swimming pools, sports courts, sporting equipment, commissaries.

As most Pou Chen employees are female, particular attention is paid to women's health child care and child care in our in-house employee support measures. Apart from establishing a factory to provide local residents with job opportunities and promote the economic development of the local community, we also actively visit employee homes, conduct regular charity clinics in remote areas, assist with home repairs, scholarships and assist local disadvantaged groups to express Pou Chen's commitment to looking after the families of local employees. We also contribute to the social welfare resources of the local community to strengthen the mutually beneficial relationship between the two.

### Employee home visits

- Regular home visits, donations of everyday necessities, financial support for the family of employees who pass away.
- Scholarship for employees' children, child care (kindergarten), and recognition of outstanding performance by employees' children.
- Relief funds and Friendship House for impoverished employees to help them build a safe and comfortable 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 Key Activities



Home visits: 1,167 families  
 Scholarship for employee children: 4,785 people  
 Recognition of outstanding employee children: 7,965 people  
 Donation of Friendship Houses in Vietnam: 42 houses  
 Family activities: 995 people



Female employee health care activities



Employee home visits and donation of goods



Celebrating special holidays with employees

## Summary of Key Activities

- Recognition of outstanding employees: 354 people
- Health exam and health promoting activities: 17,239 people
- Female employee health care (special exams and health consultation) activities: 11,990 people
- Health promoting activities: 1,200 people; in-house Environmental Day activities: 3,578 people
- Language skill training, iCARE professional knowledge and communication skills: 5,603 people
- Visiting sick or injured employees: 95 people; Assistance for impoverished employees: 23 people
- Pou Chen Employee Day activities: 8,507 people; Birthday party: 16,706 people; Communication forums: 546 sessions
- Recreational activities (Mountain climbing/Tug-of-war/Cycling/Cooking) and ball sports competitions (Basketball/ Football/ Table tennis/ Badminton): 8,278 people
- Festival activities: Dragon Boat Festival (20,224 people), Women's Day (31,507 people), Mid-Autumn Festival (26,411 people), Lantern Festival (255 people), New Year celebrations (18,080 people), Christmas (37,701 people)
- Arranging transportation for employees returning home over the Chinese New Year: 494 people



Visiting and assisting of sick and injured employees



Factory children's summer camp



Hosting of Employee Day as an incentive to outstanding employees



Factory sports carnival - Tug-of-war competition

## 4.6 Employee Participation

### iCARE Program

iCARE <sup>(Note)</sup> is a culture of caring and a platform for communicating the Company's core values. Local talent who reflect the core values and spirit of the Company are recruited and cultivated through a set of supporting activities to encourage all employees to take an interest in activities beneficial to the factory and the organization. This in turn inspires the spirit of accountability in every person so they can find the best team, the most effective solutions, benefit from the synergies of cross-department integration and strengthen the employer brand. In 2016, the execution of the iCARE program continued to promote the theme of “self-management.” Participating factories incorporated this theme with their own operating goals.

The SUKABUMI factory in Indonesia for example integrated iCARE and core values into everyday training; the SERANG factory used the systematic methods and tools of CARE to organize themed workshops, core value team development and Quality Star (a system for employees to give positive evaluations of each other) activities. These gradually improved the quality awareness of all employees on the demonstration production line and made good use of iCARE's local influence.



(Note) “iCARE” used techniques such as integration , communication, alignment, responsive and expressive to encourage everyone to actively participate in matters that benefit the factory and the organization. This in turn helped cultivate accountability in every employee. This created a cultural atmosphere of collective responsibility/sharing by inspiring managers to make good use of praise and encouragement, and employees to engage in active participation and contribution. In this way, the optimum teams and most effective solutions can be identified so that the synergies of functional integration can be realized.

## Pou Chen Square Dance

A second square dance competition was hosted by Pou Chen in China's Huanan region. More than 200 people in 9 teams competed in 2016. The competition was very festive and colorful on the day. More than 800 people in the audience cheered the teams dancing in this year's competition.



## Beautiful Voice of Pou Chen

The "Beautiful Voice of Pou Chen" singing competition held by the Huanan region in China marked its 6<sup>th</sup> year in 2016. It is one of our popular cultural competitions spanning multiple regions. The event involves competitions, training, exchanges and tour performances. A total of 300 employees took part in the competition in 2016. The 13 finalists toured the three factories in China's Huanan region and attracted audiences of up to 3,000 people.



## Summer Camp

In the summer of 2016, Pou Chen held annual summer camps for the children of employees in the living area of our Gaobu, Huangjiang, Zhongshan and Zhuhai factories in China's Huanan region. The camp activities attracted nearly 500 children from 13 provinces.



## Pou Chen Employee Family Day Activities:

To foster employee loyalty, Pou Chen's key production factories organize Employee Day or factory tours to have fun with employees' families and promote mutual understanding.



員工報名參加家庭日可享有活動手冊乙份、入園餐券300元乙張、排對禮乙份、摸彩資格乙次

請同仁踴躍參加

汽車停車費：100元/輛

機車停車費：30元/輛

地 點：雲林劍湖山世界

日 期：2016/09/24(六)

注意事項：

●參加家庭日請攜帶員工識別證、身分證、活動手冊

●凡報名的員工可免費攜帶2位眷屬入園

●福委會可代購入園票

1.身高超過120CM以上(7歲以上含大人)350元。



[Event Name] Outstanding Employee Family Day

[Event Frequency] Regular selection

[Event Content]

Pou Chen regularly hosts Outstanding Employee Family Day events where employees and their families are treated with a visit to a popular local recreational destination so they can share in the glory.



## 4.7 Safe Workplace

### 4.7.1 Safety and Health Management

#### Occupational Safety and Health Management Policy

Pou Chen's safety and health management policy is to "provide a safe and healthy workplace that protects employees from occupational hazards." To fulfill this commitment to providing employees with a safe and healthy workplace, the Company progressively established a standardized management system that is implemented through organizational structure, horizontal inter-departmental cooperation and from the top-down.

#### Safety and Health Management System

In addition to complying with relevant regional regulations and customer requirements, the Company's occupational safety and health management are also based on the OHSAS 18001 International Standards and FLA Workplace Code of Conduct. A series of management practices has been devised for all units to follow to ensure effective implementation and harm prevention. Pou Chen has adopted a progressive approach to the implementation of the safety and health management system based on government laws and internal standard operating procedures. An Environmental and Energy Safety and Health Committee has been established at all Pou Chen factories and administrative centers. The Committee, made up of fixed representatives, meets regularly for each unit to review their safety and health management affairs. The defining of safety and health management guidelines for factories is used to establish a system for implementing and tracking safety and health management performance. An online abnormal incident management system has also been set up to help prevent major risks through data analysis.

According to the Environmental and Energy Safety and Health Committee Management Regulations of the Company, the Committee must be made up of at least 7 members including the chairman, executive secretary, secretary and at least 4 ordinary members. The chairman of the Committee shall be the head of the unit or their designated representative. This is a fixed assignment and may not be changed without good reason.

The executive secretary shall be the head of SD and the secretary shall be the ESH owner. If the unit does not currently have any ESH personnel assigned then the employee assigned to ESH activities shall be designated as the secretary. The executive secretary and secretary are fixed assignments and may not be changed without good reason.

At least four members of the factory ESH Committee shall be appointed or elected from supervisors or employees of each unit. At least 50% must be local employees. Committee members should be re-appointed or re-elected at least every two years. If a committee member is transferred or leaves the Company then a replacement must be chosen within one month.

#### Factory Environmental Safety and Health Management

The self-management system of Pou Chen factories includes not only full-time ESH personnel (or SD personnel) but also a tiered enforcement structure with regional supervision. Regular inspections are used to enforce fire, safety, health and protection management in each workshop. Supervisors are immediately notified of any violations for action to be taken; SD specialists in each business unit and SD units at each regional administrative center conduct inspection programs to check on compliance with customer or local regulatory requirements. Headquarters also arranges for ad hoc audits each year. A systematic approach to following up on defects is used to ensure the effective implementation of corrective actions and continuous improvements to all safety and health management issues.



## Standardized Management Measures

Pou Chen is strengthening our safety and health management in phases. Previous phases covered fire safety, chemical safety, special hazardous operations, and occupational injury investigation management. The following areas were strengthened in 2016:

### Safety and health organization capability development

Establishment of internal development program and hosting of professional instructor courses to strengthen the professional ability of safety and health management personnel

### Improvement Proposal System

Pou Chen is gradually introducing total employee participation in safety and health management activities along with active involvement from the top-down. A safety and health improvement proposal campaign has been organized to look for creative and practical improvement proposals from low-level employees. Suitable incentives are also offered to promote employee awareness on safety and health.

### Abnormal Incident Management

The occupational incident investigation management has been standardized to ensure the proper reporting and tracking of incidents. The capability to investigate factory accidents and verify improvements will also continue to be strengthened to prevent recurrence and ensure that corrective actions are rolled out.



Basic SD knowledge training for shift, team, and section supervisors in each unit  
(Basic life counseling knowledge/ HSE management/ ES management/ EC management/ Fire safety knowledge)

### Example of Factory Improvement Proposal



Before improvement: Cutting with scissors required four cuts for one roll. Hourly production was approximately 1,444 pairs.



Improvement measure: Cutting blade installed on EVA.  
After improvement: Only one cut required per roll. Hourly production increased to 11,157 pairs.

**Efficiency improvement: 7.7 times.**

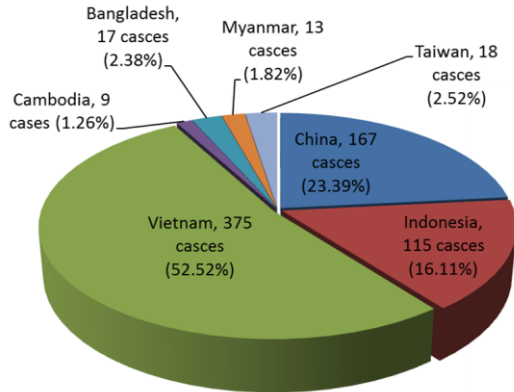
Pou Chen has established an internal occupational injury information management system to track safety and health management performance indicators. These include the number of the occupational injuries, number of lost days, disabling frequency rate (FR), disabling severity rate (SR) and other performance indicators.

The occupational injury management statistics for 2016 recorded a total of 714 occupational injury cases. Cumulative lost days amounted to 21,477 days (based on days lost due to disabling injury). If traffic accidents are excluded then there was one case of work-related employee death.

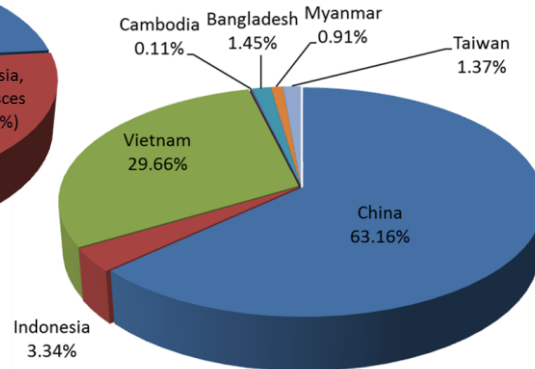
Item	Frequency of Occupational Injuries			Proportion of Lost Days (%)		FR			SR			AR(%)	
Category Region	Overall	Male	Female	Male	Female	Overall	Male	Female	Overall	Male	Female	Male	Female
Overall	714	283	431	33.93	66.07	0.96	0.38	0.58	29	9	19	2.21	2.93
China	167	87	80	31.54	68.46	1.03	0.54	0.49	84	26	57	1.76	7.53
Indonesia	115	33	82	29.01	70.99	0.65	0.18	0.46	4	1	2	3.06	2.25
Vietnam	375	137	238	36.88	63.12	0.99	0.36	0.63	16	6	10	2.18	2.15
Cambodia	9	1	8	16.67	83.33	1.50	0.16	1.33	4	0	3	0.42	0.12
Bangladesh	17	16	1	97.11	2.89	2.04	1.92	0.12	37	36	1	0.69	0.50
Myanmar	13	0	13	0.00	100.00	2.05	0	2.05	30	0	30	1.19	0.71
Taiwan	18	9	9	49.83	50.17	3.09	1.54	1.54	50	25	25	1.14	0.85
Note	1. The statistics are sourced from Pou Chen’s internal occupational injury information management system. 2. Disabling Injury Frequency Rate (FR) = Frequency of disabling injuries *1,000,000 /Total working hours. 3. Disabling Injury Severity Rate (SR) = Total working days lost *1,000,000/Total working hours. 4. Absenteeism Rate (AR) = Total absentee hours for the year / Total hours worked by the workforce.												

There were 167 cases of occupational injury in China. Lost days accounted for 63.16% of all days lost by the Company. There were 115 cases of occupational injury in Indonesia. Lost days accounted for 3.34% of all days lost by the Company. There were 375 cases of occupational injury in Vietnam. Lost days accounted for 29.66% of all days lost by the Company. There were 9 cases of occupational injury in Cambodia. Lost days accounted for 0.11% of all days lost by the Company. There were 17 incidents of occupational injury in Bangladesh. Lost days accounted for 1.45% of all days lost by the Company. There were 13 incidents of occupational injury in Myanmar. Lost days accounted for 0.91% of all days lost by the Company. There were 18 incidents of occupational injury in Taiwan. Lost days accounted for 1.37% of all days lost by the Company. The statistics seem to suggest a higher number of occupational injury cases in Vietnam. The FR and SR values are however not significantly higher than other regions. Differences in the size of the parent body means the FR and SR is different in each region as well. Pou Chen however will continue to strengthen our analysis into the causes of occupational injuries in order to reduce the risk of recurrence. The root causes will be targeted for improvement and backed by supporting company policies to continue enforcing routine safety and health management.

**Frequency and ratio of occupational injuries in each region**



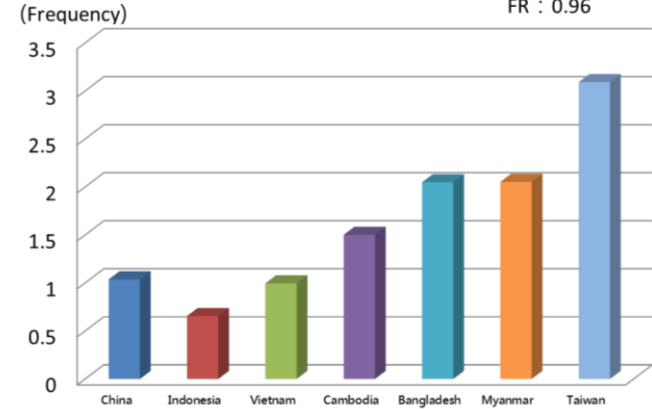
**Regional distribution of lost days (%)**



**FR (by region)**

Footwear Business

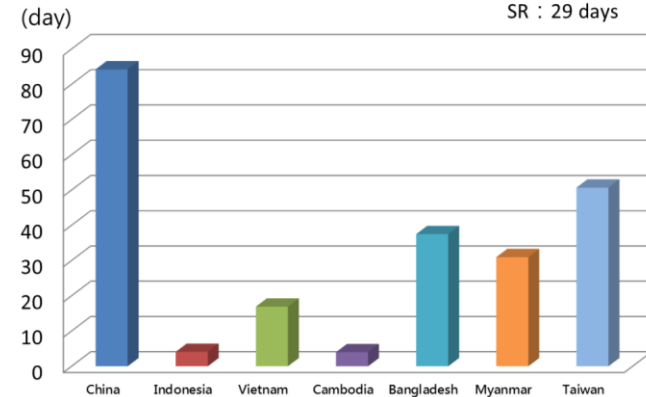
FR : 0.96



**SR (by region)**

Footwear Business

SR : 29 days



The principle of preemptive management for high-risk jobs is used by Pou Chen to prevent and management occupational disease. High-risk job assessment looks at two aspects. One is the identification of exposed jobs based on the laws of the country where the factory is located, as well as hazard assessment of exposure factors (physical and chemical) in the operating process. High-risk operations requiring attention can then be determined. Examples include high-noise operations (buffing area) and organic solvent operations (screen printing area).

The top priorities in internal management are pre-service education on hazard factors, site environmental management, and occupational health exams for employees. Pou Chen provides employees with a safe, hygienic and healthy working environment. The working environment undergoes regular monitoring in accordance with local laws on chemical exposure, hearing and lighting. Engineering improvements are made to areas with abnormal measurements and suitable personal protection gear provided. An internal measurement program as well as guidelines for measurements and frequency were established in 2016. Internal measurement training programs are also provided to improve the professional ability of measurement personnel. Abnormal areas can then detected early and reasonable improvements made to boost preventive management performance.

At the same time, Pou Chen also organizes preventive education on occupational hazards for high-risk positions every year to enhance employee acceptance and cooperation with preventive management measures (such as the use of personal protection). For key operating regions, we set up medical units or cooperate with local hospitals to regularly host health seminars or promote general health knowledge.

The prevention of occupational disease depends on prevention, the progressive implementation of a tracking mechanism. Pou Chen arranges for workers in high-risk jobs to undergo occupational health exams. For those with abnormal outcomes, re-examinations and medical follow-ups are arranged in accordance with the management process. The performance of in-house health exams and the results for re-examinations of those with abnormal results are followed up every month so abnormal cases can be identified early and appropriate assistance given. Employees whose re-examination results are still abnormal and may involve the diagnosis of occupational disease are first transferred to other jobs with no exposure to hazard sources. Once the results of the occupational diseases diagnosis is known their assignment can be confirmed. All occupational disease diagnosis follows the statutory diagnostic procedure. If an employee applies for a diagnosis from the local government then the necessary in-service information is also made available in accordance with local laws.



## 4.7.2 Loss Prevention and Management

The promotion and management of the loss prevention concept is actively promoted by Pou Chen to ensure workplace safety and the protection of company assets. As there have been serious incidents of fire at our factories, the top priorities in the implementation of loss prevention and management measures are ensuring proper fire safety management within the factory and building fire safety facilities.

### Fire Safety Management

Pou Chen actively promotes fire safety through a variety of channels. Funds are invested into improvements such as source prevention, disaster control and emergency response. Related management mechanisms have also been implemented to reduce the risks of fire.



Pou Chen has clearly defined design standards for fire prevention equipment and factory design safety. The design of all new, expanded or re-purposed workshops must follow Company rules on 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 also come under an integrated management mechanism.



Pou Chen has established a total of 13 firefighting teams at our production sites in Vietnam, Indonesia and China. Unified guidelines as well as the duties and training of firefighters are set and regularly verified by Headquarters. The standardization of regulations is expected to optimize firefighter performance.



Factories are required to conduct their own fire inspection each month. Regional administrative centers also conduct fire prevention inspection and evaluations every quarter with a focus on power source management, power switches/outlets, motors, high temperature machines, hot work, fire zoning, firefighting equipment and dust collectors. Particular emphasis is given to daily night-time power source management and inspections to prevent fire hazards.



Electrician training classes have been set up in each region based on the philosophy of the “learning organization.” All factory electricians must take part in the training, networking and examinations to improve their professional skills. Pou Chen hopes that electricians can apply what they learn to improve the factories’ self-management capability and reduce operating risks.





A standardized fire safety equipment maintenance contract and checklist is used to verify the maintenance contractor's capability, improve the quality of maintenance and ensure the normal operation of fire safety equipment in the factory. Random inspections are also conducted to remove sub-standard contractors.



Electrical safety is an important component of fire prevention and Pou Chen has implemented a system for regular IR scanning of electrical equipment by thermal imagers. Most factories are now equipped with a thermal imager with suitable personnel chosen from among specialist electricians for professional training at headquarters. They then can carry out regular IR scans of electrical equipment.

All electrical equipment in the factory are scanned in IR. When problems such as equipment overload, electrical component anomaly, excessively high temperature, short-circuit and tri-phase imbalance are detected the relevant units are ordered to shut down for maintenance and repairs.



A set of standard regulations have been defined by Pou Chen to establish an emergency response and rescue capability among our employees. These help to improve employees' ability to respond to emergencies, prevent disasters from spreading and ensure their own personal safety. All factories have set up an emergency response organization and conducts regular drills. Joint emergency response drills are also conducted in partnership with outside government fighting agencies to develop a joint emergency response capability.



To effectively reduce operating risks for factories, Pou Chen will conduct a comprehensive risk survey for non-fire risks (such as earthquake, typhoon and flooding) in the future. Suitable improvements will be carried out for serious potential risks. A set of factory loss prevention standards have also been devised that will ensure the effective evaluation and prevention of continuity risks at new factories.

## 5.0

# Environmental Conservation and Sustainability



## 5.1 Effective Use of Energy Resources

### 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/Vinyl Acetate copolymer), PU resins (Polyurethane) and rubber. Thermoplastic polyurethane (TPU resin), an environmental-friendly material, has begun to be used for both upper and sole materials in recent years.

Pou Chen has always maintained close communication with brand customers and materials suppliers in the selection of raw materials, and adheres to the standards required by brand customers. The Company complies with the requirements of the Restricted Substances List (RSL) and 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

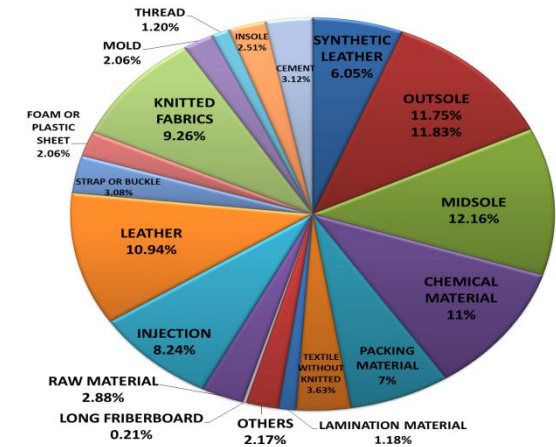
Pou Chen's procurement practices favor local material suppliers to reduce the risk of supply disruption and carbon emissions from the transportation of materials. The Company had business dealings for three consecutive years (2014 ~ 2016) with around 1,803 material suppliers.

With regards to the amount of materials used in footwear products, Pou Chen began integrating the ERP systems of our key operating regions in 2016. We should be able to disclose the amount of raw materials we use in the 2018 CSR Report.

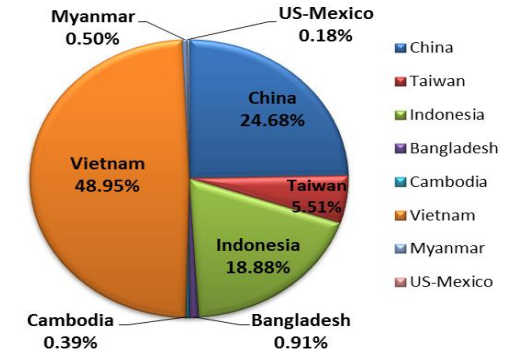
Percentage of local and foreign procurement in each key production region by amount for 2016

Country/Region	Local procurement (%)	Foreign procurement (%)
China	68.70%	31.30%
Taiwan	99.43%	0.57%
Indonesia	54.75%	45.25%
Bangladesh	3.83%	96.17%
Cambodia	5.32%	94.68%
Vietnam	59.54%	40.46%
Myanmar	1.35%	98.65%
US-Mexico	11.99%	88.01%

Distribution of materials purchasing categories at Pou Chen Group by amount



Percentage of total procurement amount in key operating regions



### 5.1.2 Energy Use

Focus of Pou Chen Energy Management Strategy:

- (1) Progressive replacement of pollution/emission-intensive petroleum fuels by electricity or clean fuel.
- (2) Inventory and monitor energy use with targeted equipment upgrades to improve efficiency and reduce energy consumption.
- (3) Introduce the ISO 50001 energy management system for the continuous improvement of energy efficiency.

Pou Chen has also devised the “Energy Management Regulations” based on the principles of reasonable energy use and progressive increase of energy efficiency. Explicit implementation standards have been issued.

In 2016, our footwear business (including Headquarters) used the following types of energy: Electricity, petroleum fuel, coal (including smokeless coal), bio-fuel, natural gas and liquefied petroleum gas (LPG). Bio-fuel comes from the fuel used by external contractors for the supply of steam heat.

Pou Chen’s total energy consumption for 2016 was 5,322.9 TJ.

The types of energy used and the total energy consumption between 2015 ~ 2016 are shown in the table below:

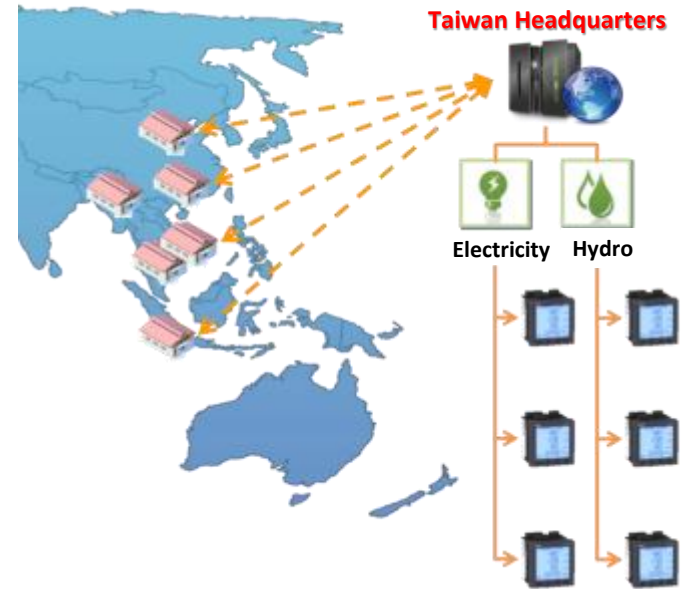
	Electricity	Petroleum Fuel	Coal (Including smokeless coal)	Bio-fuel	Natural Gas (including LPG)	Average electricity consumption per pair
Quantity (2015)	938,739.14	6,894.74	0.8014	5.2584	276.66	2.02 ~ 4.04
	(MWH)	(KL)	(10,000 tonnes)	(10,000 tonnes)	(10,000 M <sup>3</sup> )	(KWH/pair)
	3,380.07	242.87	201.09	792.57	81.20	7.28 ~ 14.56
	(TJ)	(TJ)	(TJ)	(TJ)	(TJ)	(MJ/pair)
Quantity (2016)	1,009,488.59	6,357.30	0.69	8.43	83.45	1.98 ~ 4.12
	(MWH)	(KL)	(10,000 tonnes)	(10,000 tonnes)	(10,000 M <sup>3</sup> )	(KWH/pair)
	3,634.81	219.78	173.66	1,271.33	23.29	8.56 ~ 23.21
	(TJ)	(TJ)	(TJ)	(TJ)	(TJ)	(MJ/pair)
Note	(Grid Power)	(Oil/Diesel Gasoline/Kerosene)	(Boiler)	(Rice Husk/ Palm husks)	(Grid Power)	(Average figure is estimated from China, Indonesia and Vietnam, the top three production regions)

## Energy Management and Monitoring System

The implementation of energy management gives priority to the wholesale introduction of energy monitoring systems. In 2016, energy online systems were installed in China's Huanan (Dongguan), the new Myanmar factory and in some Indonesian factories. More factory systems will be connected in future years to help factories identify abnormal energy consumption early and identify opportunities for energy-savings.

Energy conservation and carbon reduction projects are being aggressively promoted by the Group. Vietnam and Indonesia each had a factory chosen for energy-conservation projects in 2016 and these should be completed in 2017. Key energy-conservation measures being implemented include: Establishment of energy conservation management unit, enforcement of management system, modification of injection-molding machine, checking the compressed air system for leaks and optimizing its operation, installing inverters for motors and water pumps, and rerouting of cooling water pipes. Energy savings of up to 6% are anticipated. Actual energy-saving performance will be stated in the 2018 CSR Report. Energy-saving procurement guidelines have also been set for energy-intensive machinery. Ventilation, cooling and energy-saving design guidelines have also been formulated for new factory construction. The goal is to fulfill the requirements of energy conservation from the construction of the factory to the procurement of machines.

Energy-conservation initiatives will be rolled out across the entire Group in 2017. Training programs will pass on the technologies and experience from energy-conservation projects carried out in the past to the energy-conservation teams of individual factories. Factories will also be mentored on using self-management to realize the goal of continuous improvement in energy conservation. As for source management, energy-conservation procurement controls have been introduced for machines along with design guidelines for factory ventilation, insulation and energy conservation. The Group hopes that energy conservation can be reduced by 8% by 2020.



### 5.1.3 Water Use

#### Water Supply Treatment and Management

Footwear manufacturing is not a water-intensive process so most water consumption in the factories are domestic water consumption by employees with only a minority used by sole processes. In response to stakeholder concern on the safety and health management of employees' drinking water as well as international trends on sustainability, Pou Chen's water resource management policy seeks to ensure the safety and quality of water supply as well as conformity with local discharge standards on sewage treatment. Medium and long-term plans also aim to increase the reuse of water resources within the factory to avoid depleting natural water resources.

For water safety management, factories are provided with large water treatment and reverse osmosis (RO) water purification systems where necessary. Water purification and wastewater treatment regulations as well as access management requirements have also been defined. Internal water quality samples are taken by regional administrative centers each month and the results of water quality testing provided to each factory. External water quality testing is also conducted on a regular basis to ensure the safety and hygiene of all water types within the factory.

The main sources of water in Pou Chen's key operating regions are local tap water, river water and lake water. In 2016, the total water consumption of our footwear production sites was measured to be approximately 18,802,400 M<sup>3</sup>. The water source and water intake both fell within the range approved by the local government and did not have an excessive impact on the water source.

2016 Total water use of footwear production sites									
Footwear production site		China	Indonesia	Vietnam	Bangladesh	USA/Mexico	Taiwan	Other regions (Cambodia, Myanmar)	Total water consumption
Regional water consumption and percentage of total	2015 Year	54.37 % (13,128,100 M <sup>3</sup> )	19.18 % (4,631,700 M <sup>3</sup> )	25.25 % (6,096,800 M <sup>3</sup> )	0.27 % (65,100 M <sup>3</sup> )	0.05 % (12,000 M <sup>3</sup> )	0.59 % (142,600 M <sup>3</sup> )	0.29 % (69,300 M <sup>3</sup> )	24,145,600 M <sup>3</sup>
	2016 Year	44.33 % (8,334,900M <sup>3</sup> )	20.36 % (3,827,200 M <sup>3</sup> )	32.71 % (6,150,200 M <sup>3</sup> )	0.38 % (72,300 M <sup>3</sup> )	0.03 % (5,900 M <sup>3</sup> )	0.95% (178,300 M <sup>3</sup> )	1.24 % (232,500 M <sup>3</sup> )	18,802,400 M <sup>3</sup>
Primary water sources		Tap water	River/Lake Tap water	River/ Tap water	Tap water	Tap water	Tap water	Tap water/ Well water (Myanmar)	Water supplied from legal water sources

## Effluent Discharge Management

Pou Chen's "Effluent Pollution Prevention and Management Regulations" follow a management strategy based on source reduction, prevention of production, followed by recycling and reuse. The ultimate requirement is appropriate disposal. In practice, we not only require compliance with local discharge regulations but have also set an increase in water reuse rate and reduction in discharge targets as our medium and long-term goals.

Most of the wastewater in the footwear factory comes from employee's domestic water use while only a small part is industrial wastewater from the cleaning, printing and spraying operations during sole production. All factories have installed chemical coagulation pre-treatment equipment for industrial wastewater to lower the concentration of pollutants to legal levels. The treated wastewater is then channeled to the factory's large-scale sewage treatment plant for secondary bio-treatment. All sewage treatment plants are equipped with dedicated water quality laboratories for water quality testing and monitoring. Approved inspection organizations are also regularly contracted to sample and test the wastewater discharge. Wastewater that meets water quality standards are ultimately discharged through legal outlets. Wastewater from stand-alone factories are all discharged into receiving water bodies (specified in environmental assessment documentation) by the local authorities; factories within local industrial parks discharge their wastewater into the municipal or industrial sewage treatment plant as required by law. There is therefore no direct discharge into nearby water bodies. Some factories are equipped with flood retention ponds that receive the discharge from the sewage treatment plant. These are used as the water supply for the factory's water recycling efforts and to provide employees with an area for rest and recreation.

Pou Chen is planning further measures to improve the reuse of water resources. In 2016, we continued to inventory water use at each production site and a database on the water resource balance of our factories will be developed in 2017. Data on water resource use and ultimate discharge volume will be disclosed in the 2018 CSR Report.

In 2016, a burst sewage pipe at one of our factories in Vietnam led to sewage spilling into the storm drain. The factory took immediate action and passed subsequent testing by the local environmental authorities. There was therefore no significant environmental impact on the receiving water body and surrounding environment from the discharge. Also in 2016, Pou Chen launched a pro-active campaign of self-inventory and drain repairs at our factories. We also studied the feasibility of building additional wastewater treatment plants to complement the expansion of our factories in Vietnam and Indonesia. This will ensure the proper treatment of all wastewater.



Factory sewage treatment plant



Bio-treatment vat



Factory flood retention pond

## Effluent Recycling and Re-use

Each factory is continuing to look for ways of recycling water resources in accordance with company management principles. In 2016, the average effluent recycling ratio at Pou Chen's footwear production sites was 13.19%. Most were used for watering the factory landscaping, flushing the toilets, and topping up the fire hydrant tanks. In more intensive tanning processes the effluent recycling ratio reached 25.53% and 57.20% in Vietnam and China, respectively. The recycled water was used in production workshops and the sewage treatment plant's foam agent system.

### Water reclamation measures for wastewater from footwear manufacturing

#### Recycling and re-use of wastewater from water-based ink screen printing

- The use of gray water instead of fresh water for cleaning printing screens can save 40 tonnes of fresh water a day.
- Treated wastewater from the screen printing wastewater pre-treatment system was previously discharged into WWTP for treatment. After the upgrade, it can be re-used directly for cleaning printing screens to save 338 tonnes of clean water each month.

#### Recycling and re-use of wastewater from sole cleaning

- Wastewater from the cleaning of soles are neutralized before being passed through sand and filter membranes to purify the water quality. The water can then be re-used directly in the production process, leaving only small quantities of concentrated wastewater requiring treatment.

### Water reclamation measures for wastewater from tannery

The importance of sustainable and special water use is gaining increased attention. Tanning involves water-based systems that use water as a transfer media and a thinner for chemical agents to produce durable and fashionable materials that have been used for centuries by mankind. PrimeAsia, a Pou Chen subsidiary, not only conducted water footprint inventories based on the water footprint evaluation manual but also used process management, recycling and re-use measures to gradually increase the ratio of water reclamation and minimize direct water use.

In 2016, PrimeAsia's Dongguan plant (PAC) in China averaged 57.02% water reclamation each year (approx. 580,273 M<sup>3</sup>/year).



Sludge direction system ————— Emergency back-up treatment system

## 5.2 Greenhouse Gases and Carbon Emissions

Pou Chen is a trans-national manufacturing enterprise that has a longstanding interest in international trends in sustainability. To support the call for action on global climate change and its impact made by the United Nations through the “2030 Agenda for Sustainable Development - Sustainable Development Goals” as well as the international push for green production, GHG inventory and carbon reduction management have become an essential part of our manufacturing and production management operations.

Pou Chen’s GHG inventory looks at each production site and is based on the ISO 14064-1 international standard. The inventory focuses on Scope 1 and Scope 2. Scope 3 is not included in the scope of calculations. GHG emissions are calculated using the emission coefficient with the following equation: Activity data x emission coefficient x global warming potential (GWP) = CO<sub>2</sub>e. The unit of measurement is tonnes per year.

The activity data for different GHG emission sources are converted into mass or volume measurement units such as kilogram, kilo-liter or liter based on their source then recorded.

The differences in emission coefficients are due to the coefficients published for different fuel types in the IPCC 2006 report. The heat values of different fuels are substituted into the calculations to derive the coefficient for each emission source; the “Greenhouse Gases Emission Coefficient Management Table (Ver. 6.0.1)” published by the Environmental Protection Administration in Taiwan is used as an auxiliary tool. The calculation method included in the “Ministry of Economic Affairs Industrial Development Bureau Greenhouse Gas Inventory Tool (Ver. 4.1)” is then used for calculating different emission sources.

The emission coefficient for electricity is based on the published local emission coefficients or the coefficient value published in the IEA announcement (2013). The global warming potential (GWP) for all GHGs are based on the 4<sup>th</sup> IPCC announcement (2007).

The footwear business mainly produces three types of GHG emissions such, namely Carbon Dioxide, Methane, and Nitrous Oxide. These come mainly from the consumption of electricity and combustion of petroleum fuels; small amounts of the Methane also come from septic tank emissions. As for Hydrofluorocarbons (HFC), Perfluorocarbons (PFC), and Sulfur hexafluoride (SF<sub>6</sub>), only small amounts of SF<sub>6</sub> are currently used as gas insulation in high-voltage equipment. Vendor data shows that there is very little chance of everyday leaks so carbon emissions from these leaks are only counted when the equipment is refilled, and treated as 0 until then.

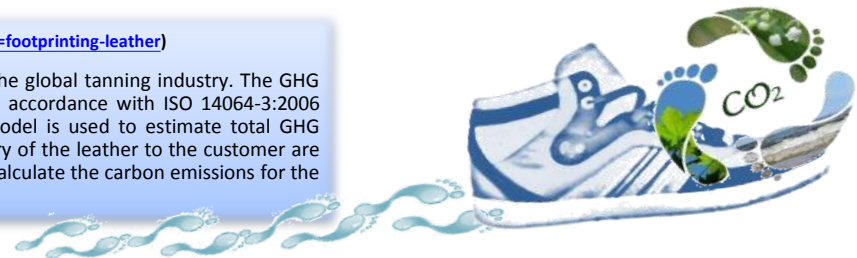
In 2016, Pou Chen’s footwear factories produced a total carbon emissions equivalent to 851,397 tonnes of CO<sub>2</sub>e. Scope 1 carbon emissions amounted to 79,191 tonnes CO<sub>2</sub>e while Scope 2 emissions amounted to 772,207 tonnes CO<sub>2</sub>e. The main sources of carbon emissions were electricity (74.26%) and fuel (18.85%).

Due to differences in production procedures and regional energy carbon emission coefficients, the average carbon emissions per pair of footwear produced by Pou Chen’s factories in China, Indonesia and Vietnam ranged between 1.7737 ~ 4.7732 kg CO<sub>2</sub>e/pr in 2016.

For GHG inventory management Pou Chen continued to strengthen the credibility and integrity of inventory data from all factories in 2016. Apart from conducting random on-site inspections of all factories’ inventory data, we also conducted inventory training and education at new factories (in Indonesia and Myanmar). The new factories were formally included in the scope of the GHG inventory in 2016 as well.

**PrimeAsia Footprint Program** <http://www.primeasialeather.com/environmental.php?lang=tc&page=footprinting-leather>

PrimeAsia, a Pou Chen subsidiary, is a pioneer in product carbon footprint calculations in the global tanning industry. The GHG emissions of leather products from PrimeAsia are verified to PAS 2050:2008 standards in accordance with ISO 14064-3:2006 through our partnership with SGS and Plastics Industry Development Center. The B2B model is used to estimate total GHG emissions. The transportation and injection of raw materials, leather production and delivery of the leather to the customer are all taken into account. Leather is sorted by form, color and thickness. Data was collected to calculate the carbon emissions for the three preceding phases at an average of 5.5 kg per sq. m.



### 5.3 Pollution Prevention and Management

To achieve a balance between the environment and production, Pou Chen 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, regulations and other requirements; 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 ensure thorough implementation of environmental responsibility.

Environmental management guidelines have been drawn up to serve as the operating standard for our factories' everyday operation and management. The ISO 14001 environmental management system was also used as the guide in establishing a self-management system for each factory. Compliance with local environmental requirements is the basic standard. Our medium and long-term goals are clean production and a reduction in the emission of environmental pollutants. ISO 14001 management system was implemented at 64.6% of our factories in 2016. 53.6% of factories continued to refresh their external certification as well.

#### Environmental grievances mechanism

Pou Chen values the rights of surrounding communities and the environmental concerns of stakeholders. The SD unit in the administrative centers of each operating region are responsible for receiving, processing and responding to the social and environmental grievance or feedback from the community. In 2016, the Company's key operating regions received no environmental complaints from community residents. We did however receive four notifications from local authorities (Indonesia, China, and Vietnam) as described below.

#### Environmental Management Compliance

Out of respect and protection of environmental resources, compliance with local regulatory requirements is the top priority in management. All factories have installed facilities for the collection and treatment of pollutants during production of operations. Testing and audits are regularly conducted to ensure that all discharges comply with local regulatory requirements. The medium and long-term environmental management goals are production process optimization, promotion of energy-conservation and carbon reduction projects, improving energy efficiency or recycling.

Production operations at all Pou Chen factories comply with the relevant environmental laws and regulations. The Dongguan-Yu Sheng factory in Huangjiang District successfully passed its acceptance inspection by the Dongguan City Energy Industry Association, Dongguan City Chemical Engineering Association and other experts on December 20, 2016. The "Dongguan City Clean Production Enterprise" certificate was approved and issued by the Dongguan City Energy Industry Association on December 29 of the same year.



## The Pou Sung factory received the Sustainable Development Enterprise Award from Vietnam in 2016.

This was a national award that attracted 400 corporate to participate. The organizer judged the entries on 152 indicators including human resources, environment and finance to select a total of 100 companies for the award. The Company's Pou Sung factory in Vietnam was presented with this honor in 2016.



## 寶松獲得2016年長久發展企業大獎 Pou Sung nhận giải DOANH NGHIỆP PHÁT TRIỂN BỀN VỮNG 2016

Vào tối ngày 8.11.2016, Ông Tạ Chí Minh và ông Tony - đại diện cho Ban giám đốc công ty Pou Sung đã tham gia buổi Lễ công bố bảng xếp hạng 100 doanh nghiệp bền vững Việt Nam năm 2016. Lễ công bố do Hội đồng doanh nghiệp vì sự phát triển bền vững (VBCSD) thuộc Phòng Thương mại và Công nghiệp Việt Nam (VCCI) phối hợp với Phòng Bộ Lao động Thương binh Xã hội, Bộ Công Thương, Bộ Tài Nguyên & Môi Trường, Liên đoàn Lao động Việt Nam và Ủy ban chứng khoán nhà nước tổ chức tại Hà Nội.



đợt này. Để đạt được giải thưởng này, công ty Pou Sung đã chú trọng xây dựng và áp dụng các mô hình kinh doanh sáng tạo, làm ra được nhiều giá trị xã hội. Như lời của ông Nguyễn Quang Vinh - Phó tổng thư ký VCCI tổng kết "Có thể nói, chương trình đánh giá xếp hạng Doanh nghiệp bền vững và Top 100 không chỉ là niềm tự hào của ngày hôm nay mà còn lan tỏa ý nghĩa và động lực cho cộng đồng 500.000 doanh nghiệp Việt Nam phát triển theo hướng bền vững, từ đó hình ảnh và sản phẩm của các doanh nghiệp có thể cạnh tranh được trên thị trường quốc tế và là niềm tự hào của mỗi công dân Việt Nam"

Buổi lễ đã thu hút hơn 250 đại biểu đến từ chính phủ, các ban ngành, doanh nghiệp, hiệp hội doanh nghiệp và các tổ chức trong nước, quốc tế. Bà Đặng Thị Ngọc Thịnh - Phó chủ tịch nước, Ông Vũ Đức Đam - Phó thủ tướng, Ông Đoàn Mậu Diệp - Thứ trưởng bộ LĐ & TBXH, Ông Trần Hồng Hà - Bộ trưởng bộ TN & MT, Ông Vũ Tiến Lộc - Chủ tịch VCCI.

"Doanh nghiệp phát triển bền vững" là một trong những giải thưởng có uy tín được tổ chức thường niên nhằm cổ vũ tổng cộng 400 doanh nghiệp đăng ký tham gia đánh giá xếp hạng trong năm nay. Dựa vào 151 tiêu chí tài chính, lao động, môi trường, trách nhiệm xã hội... ban tổ chức đã chọn ra 100 doanh nghiệp có các hoạt động đủ tiêu chuẩn hướng đến

phát triển bền vững để trao giải. Các tiêu chí này được xây dựng trên cơ sở tham khảo các hướng dẫn và thông lệ quốc tế, đồng thời chúng cũng được điều chỉnh cho phù hợp với bối cảnh trong nước. Công ty TNHH Pou Sung vinh dự là 1 trong 100 doanh nghiệp được chọn là doanh nghiệp phát triển bền vững trong



There were 4 environmental penalties imposed against our factories overseas in 2016. The two cases in China was due to excessive emissions caused by the contractor's improper operation of the factory boiler, and excess VOC emissions from the tannery; one case in Vietnam was due to a burst sewage pipe at one factory which led to small amounts of domestic sewage spilling into the storm drain. The other case was excessive boiler emissions. All anomalies were immediately corrected.

### **China**

Environmental monitoring and target management was strengthened in response to China's new Environmental Protection Law. Improvements have been carried out by Pou Chen's factories in China in response to the review opinions of the relevant authorities. Some improvement projects are still in progress. To support the Guangdong Air Pollution Prevention and Control Plan, the "Dongguan Furniture Industry and Footwear Industry VOCs Remediation Action Plan" was issued by the Dongguan Environmental Protection Bureau in June 2016. Environmental monitoring was ordered at factories within the affected jurisdiction at the end of August. During the monitoring process, a Pou Chen factory in Huangjiang was found to be emitting excessive levels of volatile organic chemicals (VOCs) as it was being evaluated as part of a remediation project. Upon receiving the monitoring report, the factory immediately implemented partial corrective actions and submitted a written appeal. The appeal was not accepted by the city environmental protection bureau, resulting in an administrative fine of 100,000 RMB.

Dongguan Yue Yuen Footwear Products Company Ltd. was fined 60,000 RMB in 2015 due to excessive emissions from the contractor-operated steam boilers and the administrative penalty notice was delivered on January 14, 2016. The contractor was responsible for the payment of the fine and improvements.

### **Vietnam**

The Southern Environmental Protection and Tây Ninh Environmental Police jointly conducted a wastewater audit at Pou Chen's new Baohong factory in January, 2016. Water from the factory's storm drain system was found to be flowing off-site. The authorities ordered an immediate stop to the discharge and Pou Chen was directed to investigate and fix the issue. An inspection by the factory determined that there was a leak in the wastewater pipes. The problem was corrected and verified by the authorities. An administrative fine of 596,700,000 VND (approx. US\$26,794) was imposed.

Pouyuen Vietnam was fined 80,000,000 VND (approx. US\$3,555) in November 2016 when the boiler emissions were found to be more than double the limit. The problem has since been corrected and verified.

### **Environmental Assessment for Plant Construction**

Extensive assessment is undertaken of industrial land's environment and related regulations during the initial planning stage of the Company's operating sites. All production sites are located within the economic development zones approved by the local government. They are therefore not located inside local protected local habitats or reserves, and there are no internationally conservation or endangered species either. All effort is made to avoid impacting on local ecological bio-diversity.



## Air Pollution Source Management

The main sources of air pollution from footwear factories are VOCs, smoke from fuel boilers, exhaust from the generator room, and cooking smoke from the kitchen. The “Air Pollution Control and Management Regulations” devised by Pou Chen makes compliance with local emission standards our top priority, followed by the introduction of clean production processes. Appropriate disposal is the overriding requirement.

In 2016, Pou Chen began conducting environmental impact assessments at our factories in China due to the introduction of new laws. Pollution prevention and control facilities were also upgraded to manage VOCs. The footwear factory at Huajiang Industrial Park went even further in the treatment of VOCs by planning for the progressive installation of low-temperature plasma purification equipment and activated carbon scrubber boxes with a removal effectiveness of over 90%. This will help make a contribution to improving the local air quality. Monitoring of pollutant emissions from exhaust stacks at other production sites outside of China showed that all conformed to local emission standards.

Pou Chen began conducting an inventory of air pollution sources at all of our key operating sites in 2016. We plan to begin implementing air pollution emission source management and emission statistics tracking operations in 2017, carry out alignment of total air pollutant emissions in 2018, and provide disclosure on total emissions in 2019.



(The installation of low-temperature plasma purification equipment and activated carbon scrubber facilities at the Huajiang factory in China improved treatment efficiency of organic emissions)



Installation of cyclone dust collectors provides effective dust collection of dust from sole trimming.



## Waste Management

### Waste Management Policy

Pou Chen's production waste management policy emphasizes legal disposal, waste reduction and recycling. All waste must be disposed of through authorized contractors in accordance with local laws. Waste that can be recycled is sorted for recycling according to the categories set by the brand customer.

### Sorting and Management

Factory waste is sorted mainly into four categories: General waste (domestic waste), general industrial waste (industrial waste), hazardous industrial waste (hazardous waste), and recyclable waste (waste that can be reused). General waste and general industrial waste are disposed of through authorized local waste contractors. A Recycle Material Control Center within the factory is used as the holding area for statutory hazardous waste and recyclable waste. These waste are collected here for sorting, measurement and reporting. Hazardous industrial waste as defined by local regulations is identified and sent to the dedicated hazardous waste holding area managed by dedicated personnel. Local environmental protection companies licensed to handle hazardous waste are then contracted to remove the waste for processing. Contract assistance is sought in dealing with recyclable waste that can be recycled or reused.

Some factories are now trailing the waste barcode system. Instead of logging the weight of waste manually, a system connected to the electronic scales prints out a barcode. This enables waste inventory tracking by scanning the barcode when waste enters or leaves the RMCC. This avoids human error during data-entry while improving the link between waste data and the shop floor. In the future, the waste output of individual units can be displayed in real-time on the online production information displays in each workshop. This can be used as a data management tool for waste reduction that allows everyone to work together to generate synergies in waste reduction.

The environmental and energy reporting system deployed by Pou Chen in 2016 focused on the gathering of energy and water consumption data. We plan to merge waste data collection with the environmental and energy reporting system in 2017 to make the system more complete. Factories should be able to start reporting waste information in 2018. Waste-related data will then be progressively disclosed in 2019.



Barcode system



Recycle Material Control Center and hazardous substance holding area in the factory

## Waste Reduction

The “Zero Landfill” program has been introduced at selected factories in support of brand customers’ sustainable development policy. Waste such as cattle and synthetic leather that can’t be reused and can only be disposed of through landfills are used for fuel during cement production. The conversion into energy not only increases the value of waste but also reduces the environmental impact from sending 507.8 tonnes of cattle leather to landfills each year.

### Example of waste reduction and recycling at footwear factory

- ◆ Used cartons instead of plastic bags were used to package soles at the footwear factory. This was taken a step further in 2016 by using plastic reusable cartons instead. The amount of waste paper was reduced by 1.4 tonnes a month.
- ◆ Die block tolerance reduced from 5mm to 3mm. The modification reduced materials use by an average of 2.6g per pair and rubber (RB) trimmings by 12%.
- ◆ Plastic bag with outside carton used instead of metal barrels for containing chemicals. This reduced the amount of hazardous waste (metal containers) produced by 1,100kg a month.
- ◆ Supplier waste reduction: Foam packaging changed to re-usable materials to reduce the number of plastic bags used by 1,500 a month.
- ◆ Waste pallets converted into cafeteria table/production baskets.
- ◆ Waste re-use - Employee handicraft competition (waste is given new function through careful design and fabrication along theme of “Waste re-use and environmental innovation”), environmental lantern competition, and environmental painting competition. This helped to promote environmental protection.



### Waste Reduction Initiatives at Factories

**Improvement IP ventilation and collection system**

**Before:**  
The exhaust of the cooling tank is capped with a metal mesh. Pellet- and chip-sized cuttings often escape to contaminate the environment and block the mesh. Raw materials often get clogged creating 610g of scrap every day.

**Save money every year USD\$1,886.3**

**After:**  
A blower collector system provided effective cooling without clogging or blockages. The pellet and chip-sized cuttings could also be collected, reducing scrap by 610g a day.

**Before** **After**

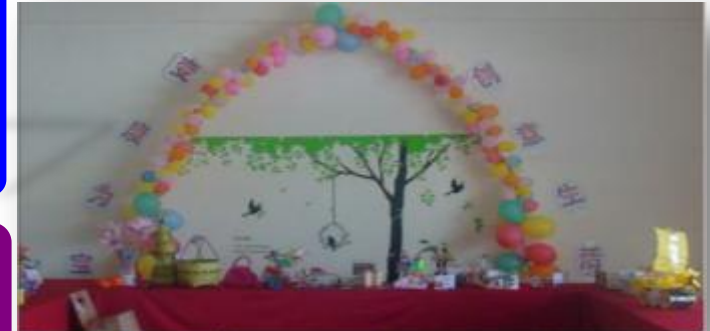


## Environmental Protection Education

The Environmental Month is a regular event at each factory. Activities include educational posters, environmental artworks, and environmental knowledge riddles to raise employee awareness on environmental protection knowledge and laws. For Environmental Protection Day, we also organize charitable environmental activities and the environmental protection ambassador to promote green energy, environmental protection, exercise and a new healthy culture to the general public outside of the factory; the factory serves as the starting point for promoting the philosophy of environmental cooperation and action among surrounding businesses and local residents.



Units used excess inventory to make all kinds of handicrafts for beautifying the workshop environment



Employee handicrafts competitions turn waste into treasure

## 6.0

# Customer Service and Supplier Management



## 6.1 Customer Service

Pou Chen is committed to becoming an industrial leader in the manufacture and retail of sports and recreation gear, the sustained delivery of first-class products, services and solutions, and creating greater 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 service to all brands. The Company can provide customers with customized design, production, and R&D services. Separate production areas and work rules can also be set up to provide a high level of protection for brand customer privacy and trade secrets. These make Pou Chen the best production partner for brand customers with proprietary design technologies. A foundation of solid trust has also been built up between Pou Chen and brand customers.

An growing share of today's global sports, casual and outdoor footwear markets is now occupied by high-mix, low-volume, bespoke designs. As product life-cycles become increasingly shorter, Pou Chen is re-engineering our production processes and setting up an electronic collaborative R&D mechanism to enhance and increase our production management efficiency, strengthen our R&D capability, and build a team for innovative design and logistics management. The ability to join brand customers in front-end design will bring both sides closer together. A footwear material selection mechanism also provides brand customers with innovative materials.

Pou Chen is constantly upgrading our service quality in terms of lead time, quality and price. We also respond swiftly to customer requirements in order to boost the reliance of brand customers on our Company's product development and exceptional services. Our entire production process can be monitored and audited by customers. Customer suggestions for improvement can also be immediately processed and feedback given so that we can effectively satisfy customer requirements.



Factory visit by a brand customer's head of CR

## Product Quality and Safety Management

Pou Chen is committed to providing customers with products of the highest quality and safety. All customer requirement on product quality are taken seriously. From product development and design to manufacturing, the Company adheres strictly to international standards, brand customers' Restricted Substances List (RSL) and Sustainable Chemistry Guidance(SCG) in the selection and use of raw materials. Before a product developed by the Company enters formal production, a standardized production process must be developed and it must also pass rigorous physical and chemical inspections. The entire production process is monitored to ensure that the resultant footwear products are 100% compliant with the principles of "environmental friendliness" and "human health."

When a product does enter mass production, all incoming materials undergo random testing to prevent the accidental use of defective materials on footwear products. All finished footwear must be manually inspected or scanned by metal detectors before packaging to make sure they contain no metal scrap or sharp objects. Footwear that pass inspection are loaded and sealed under the supervision of specially trained personnel. The shipping details are also recorded to prevent the insertion of dangerous objects during transportation.

Pou Chen is a supplier of manufactured products and does not deal directly with consumers so we do not have recovery mechanisms for scrapped products or packaging materials. Nevertheless, Pou Chen maintains a close working relationship with our brand customers. All products must not only pass strict quality inspections by our customers but also provide reasonable packaging and detailed product information such as product dimensions, materials, composition and instructions in accordance with customer requirements and export guidelines. Consumers will not only acquire product information and services through brand customers but also determine the original factory through the factory code in the product markings. They can then use this to contact the factory with product-related problems.

Due to past experience on brand security policy and industrial safety incidents as well as trends in the management of business secrets, compliance principles will be developed to strengthen behavioral awareness and ensure fine process management. This is implemented through the Company's product safety management principles. All employees are expected to adhere to Company guidelines on product safety, information security, and protection of business secrets. Employees undergo regular training on business secrets, product safety, information security, and non-compete clause. Equipping employees with the relevant professional knowledge and ensuring their proper implementation is used to protect the confidential information in the R&D center. Suppliers should sign non-disclosure agreements, non-disclosure clauses and the attached product safety declaration with the corporate entity that the R&D center belongs to. They must adhere strictly to the non-disclosure rules, the terms of the declaration, the R&D center's rules on product and information security, and the relevant laws and regulations. The R&D center provides supplier personnel with training on topics such as product safety, protection of business secrets and information security. The center has the authority to conduct random supplier audits and take the audit results into consideration during internal supplier evaluations.

### Summary of Pou Chen product labeling and service information

	Yes	No
Source of the product components/ingredients, or service provider		<b>All product components are from suppliers that conform to the customer's product requirements; shall not be separately listed in the product labeling.</b>
Product composition	<b>Labeling of main ingredients.</b>	
Usage safety of product or service	<b>Labeling of user instructions.</b>	
Product disposal and its environmental/social impact		<b>Pou Chen's OEM products are not for direct sale so no product waste impact assessment and disposal mechanisms are implemented.</b>

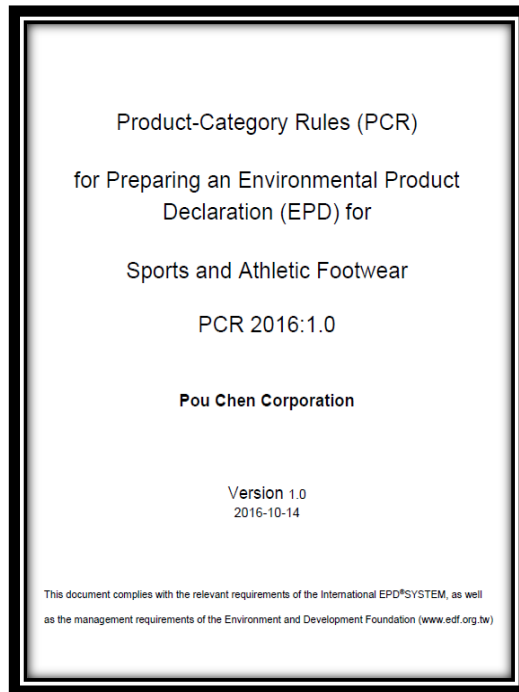


Metal detection equipment

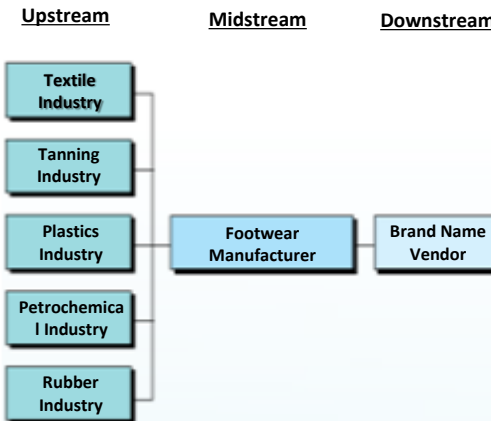


## First Product Category Rules for Sport Footwear

To build a complete green supply chain by connecting with upstream and downstream suppliers, Pou Chen encourages suppliers to embrace the philosophy of energy conservation and carbon reduction. The first set of Product Category Rules (PCR) for sports footwear in Taiwan was completed in October, 2016 to serve as the basis for determining the product carbon and environmental footprints of sports footwear. Link to document: Industrial Development Bureau of the Ministry of Economic Affairs - Environmental Footprint and Resource Sustainability Website for Manufactured Products: [www.idbcfp.org.tw](http://www.idbcfp.org.tw).



### Footwear manufacture industry



## 6.2 Supplier Management

### Vertical Industry Integration

Pou Chen suppliers can be divided into four major categories: material suppliers, machinery and equipment suppliers, engineering contractors, and service contractors. The Company connects the upstream, midstream and downstream industries of the footwear industry through a strategy of vertical integration and horizontal division of labor. The consolidation of industry knowledge and skills encompassing the fields of machinery, chemical engineering and materials form a complete supply chain.

The Company strives to provide customers with swift service. By continuing to improve manufacturing processes, enhancing production flexibility, and building a responsive material supply system that is sensitive to market developments, Pou Chen can increase our long-term value.



## Supplier Management

To help customers develop unique and innovative quality products as well as fulfill the Company's responsibility as a global citizen, quality and green raw materials are the top priority in our supplier management. Quality and green indicators along with industry-specific risk assessment mechanisms are used to classify the level of industry risk and the corresponding criteria. Except for materials specified or ordered by the customer, all new suppliers must go through the supplier selection process. A factory audit is conducted by a professional team to ensure that the material supplier is capable of systematic quality management and building a green supply chain. In addition, Pou Chen suppliers undergo annual or quarterly assessments based on the nature of their materials to ensure that the production and supply of routine materials are up to quality standards and satisfy environmental requirements. This serves as quality assurance for the customer and ensures a timely response to green development trends.

For suppliers with more deficiencies in green management, they may be providing with counseling on improvements, or reported to the customer for joint follow-up on improvement outcomes depending on the degree of severity. This is to push for continued improvements in the green product cycle of the supplier, fulfill our corporate social responsibility and enforce the ideals of sustainable development.

## Quality and Green Management Focus

The supplier audit system of Pou Chen's supply chain management headquarters encompasses 11 quality management items and 3 green management items.

### 2016 Quality Management Priorities

1. Establish a set of criteria for the selection and evaluation of suppliers based on the ISO 9001:2015 quality management system. Use the check list to determine their business situation, quality management system, supply capacity, support and delivery capability.
2. To ensure effective supplier management and that procurement quality conforms to Company and brand requirements, audited suppliers are required to respond with corrective measures for deficiencies based on the PDCA (Plan, Do, Check, Action) principle. This is used to strengthen quality management by suppliers, reduce the cost of quality failures to the supplier, and ensure that IQC at each factory is up to brand requirements.



## 2016 Green Management Priorities

1. Increasing interest in green products among international society, environmental agencies and brand customers has led to Pou Chen implementing a progressive green supply chain management policy. The roll-out of green supply chain management in 2016 introduced the concepts, requirements and management indicators of green management to all supplier partners. Environmental protection and banned/restricted substance management were defined as basic control items.
2. A stable supply chain is the lifeline that keeps Pou Chen's production lines running. Pou Chen's supply chain management headquarters uses evaluations and an improvement follow-up mechanism to continuously improve the self-management capability of suppliers.
3. We are continuing to enforce green supply chain management and providing incentives to suppliers with outstanding green performance (e.g. green design, green manufacturing, green innovation, green marketing, green procurement, green recovery and 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 given a deadline for improvement. If recommended improvements still fail to satisfy the Company's requirements, the supplier is replaced to reduce supply chain risk. Every effort is made to ensure that the Company's supply chain management can meet the basic requirements of the ISO 9001 quality management and international sustainability trends.

## Supplier Audit Outcome and Improvement Follow-Up

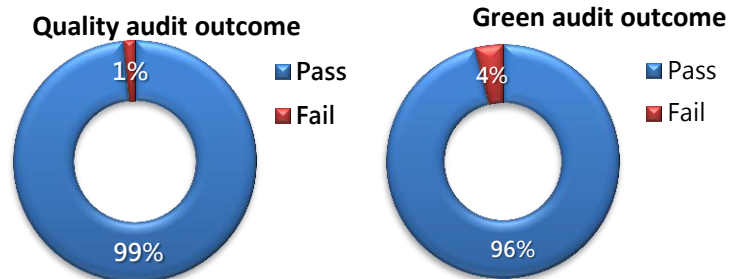
### Follow-Up Guidelines for Key Improvements

1. Quality management at Pou Chen is based on the management of problems through corrective and preventive measures. Green management uses environmental protection and Restricted Substances List (RSL) management as the basic controls. Supplier audits are conducted by professional teams with non-conforming items reported as audit deficiencies and suggestions for improvement provided. Suppliers are asked to carry out improvements or propose concrete improvement plans by a given deadline. Deficiencies are followed up on within 14 days of the audit report being delivered to the supplier.
2. Possible supplier audit outcomes include qualified vendor, deadline for improvement, and fail. Suppliers that are unable to satisfy Pou Chen's quality requirements and green management indicators are given a deadline for improvement.

Pou Chen practices targeted management based on the importance and relative proportion of raw materials. Quality management audits were conducted at 138 suppliers during the year and 2 failed the audit. Green management audits were conducted at 132 suppliers and 5 failed the audit.

Suppliers who failed their audit had their purchasing quota adjusted through the supplier management mechanism in order to establish a high-quality supply chain management system.

## Focus of Supplier Green Management Audit



## Supplier Development

Pou Chen considers suppliers to be our partners. Supplier expos were held in China and Vietnam during 2016 to provide a platform where customers, suppliers and Pou Chen's R&D personnel can network with each other, share their product and material requirements, and talk about development trends. Topical seminars and symposiums were also organized for discussing new technologies and future prospects.

Pou Chen considers customer requirements, supplier development and social responsibility to be our mission. Based on the vision of "resource integration and value increase", the Company hopes to satisfy customer requirements and ensure the fulfillment of corporate social responsibility through engaging in joint innovation with suppliers and building a sustainable green supply chain.



Hosted at Gaobu in China between March 23 ~ 24, 2016.  
A total of 42 suppliers took part.



Hosted at Bình Chánh in Vietnam  
between October 4 ~ 5, 2016.  
A total of 66 suppliers took part.

## Promotion of Supplier Carbon Management

Growing global climate awareness led to Pou Chen taking the initiative in 2016 on telling suppliers about the 2015 United Nations Climate Change Conference (COP21), supporting customers' low-carbon vision, and enhancing supplier knowledge on carbon management. The "2015 Organizational GHG Inventory" was also conducted at 392 supplier factories. GHG trend seminars and inventory training sessions were held a total of 8 times in Taiwan, China, Vietnam and Indonesia. A total of 260 supplier factories took part and 336 responded with quantifiable data.



## Zero Discharge of Hazardous Chemicals

To enhance our environmental protection efforts, Pou Chen subsidiary PrimeAsia became a member of the "Zero Discharge of Hazardous Chemical" (ZDHC) alliance in October 2016. PrimeAsia will demonstrate its concrete commitment to green action by working to realize the vision of eliminating the discharge of all hazardous substances during production and avoiding the use of raw materials that have an impact on the environment. PrimeAsia's factory in China's Dongguan and factory in Vietnam are equipped with high-grade wastewater treatment plants, recycling facilities, water quality monitoring equipment and laboratories. Effluent treatment is monitored with third-party laboratories commissioned to monitor factory discharge for 11 high-priority chemical substances designated by ZDHC. PrimeAsia was not only named the best tannery in the world but also became an approved partner of NIKE's Materials Sustainability Index (MSI) quality supplier program. For more information on sustainability developments at PrimeAsia please visit [www.primeasialeather.com](http://www.primeasialeather.com).

For more information about the ZDHC's roadmap for strategic action please visit [www.roadmaptozero.com](http://www.roadmaptozero.com).



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G4-12 (Describe the organization's supply chain)	6.2 Supplier Management	83
G4-13 (Significant changes to the organization's size, structure, ownership or supply chain during the reporting period)	There were no significant changes to the structure and ownership of the Company during the reporting period. Adjustments were however made to the scale of production and some of the production factories in China due to changes in the allocation of production capacity by brand customers. China's share of overall production therefore decreased from 25% (2015) to 20% (2016). 6.2 Supplier Management	85
G4-14 (Organization's precautionary approach or principle)	1.4 Operational Risk Identification and Response	20
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G4-21 (The external boundary of each material aspects within the organization)	2.2 Material Aspects Identification and Boundaries	29
G4-22 (The effect of any restatements of information provided in previous reports, and the reasons for such restatements)	There were no restatements of information for the reporting period.	
G4-23 (Significant changes from previous reporting periods in the Scope and Aspect Boundaries)	There were no significant changes from previous reporting periods in the Scope and Aspect Boundaries.	

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## ASSURANCE STATEMENT

### SGS TAIWAN LTD.'S REPORT ON SUSTAINABILITY ACTIVITIES IN THE POU CHEN CORPORATION'S CORPORATE SOCIAL RESPONSIBILITY REPORT FOR 2016

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

SGS Taiwan Ltd. (hereinafter referred to as SGS) was commissioned by Pou Chen Corporation. (hereinafter referred to as PCC) to conduct an independent assurance of the Corporate Social Responsibility Report for 2016 (hereinafter referred to as CSR Report). 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 2016 and its presentation are the responsibility of the management of PCC. SGS has not been involved in the preparation of any of the material included in PCC's CSR Report of 2016.

Our responsibility is to express an opinion on the text, data, graphs and statements within the scope of verification with the intention to inform all PCC's stakeholders.

The SGS protocols are based upon internationally recognized guidance, including the Principles contained within the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines (G4 2013) for accuracy and reliability and the guidance on levels of assurance contained within the AA1000 series of standards and guidance for Assurance Providers.

This report has been assured using our protocols for:

- evaluation of content veracity at a moderate level of scrutiny for PCC and moderate level of scrutiny for applicable aspect boundaries outside of the organization covered by this report;
- AA1000 Assurance Standard (2008) Type 1 evaluation of the report content and supporting management systems against the AA1000 Accountability Principles (2008); and
- evaluation of the report against the Global Reporting Initiative Sustainability Reporting Guidelines (G4 2013).

The assurance comprised a combination of pre-assurance research, interviews with relevant employees, superintendents, Sustainable Development Department (SD) members and the senior management in Taiwan; 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 affirm our independence from PCC, being free from bias and conflicts of interest with the organisation, 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 2016 verified is accurate, reliable and provides a fair and balanced representation of PCC sustainability activities in 01/01/2016 to 12/31/2016.

The assurance team is of the opinion that the Report can be used by the Reporting Organisation's Stakeholders. We believe that the organisation has chosen an appropriate level of assurance for this stage in their reporting. 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 (2008) CONCLUSIONS, FINDINGS AND RECOMMENDATIONS

##### Inclusivity

PCC has demonstrated a good commitment to stakeholder inclusivity and stakeholder engagement. A variety of engagement efforts such as survey and communication to employees, customers, investors, suppliers, communities, and other stakeholders are implemented to underpin the organization's understanding of stakeholder concerns. For future reporting, PCC may proactively consider having more direct multi-ways 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 approach of material aspects identifications may be aligned with organization's strategy and further enhanced involvements of the governing body.

##### Responsiveness

The report includes coverage given to stakeholder engagement and channels for stakeholder feedback.

#### GLOBAL REPORTING INITIATIVE REPORTING GUIDELINES (G4 2013) CONCLUSIONS, FINDINGS AND RECOMMENDATIONS

The report, PCC's CSR Report of 2016, 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. Disclosures of identified material aspects and boundaries, and stakeholder engagement, G4-17 to G4-27, are correctly located in content index and report. More governance related GSDs may be further enhanced in future reports. More disclosures on the specific actions taken to achieve CSR goals and targets are recommended. Detailed disclosures on EN1, and EN22 are encouraged; moreover, in terms of annual basis data, the disclosures of nearest 3 years performances are recommended to track performances in the next report.

Signed:

For and on behalf of SGS Taiwan Ltd.

David Huang, Director  
Taipei, Taiwan  
18 June, 2017  
WWW.SGS.COM



**AA1000**  
Licensed Assurance Provider  
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**Pou Chen Corporation**  
**No. 600 Sec. 4 Taiwan Blvd.**  
**Xitun District, Taichung City 40764**  
**Telephone : (04) 24615678**  
**Website: [www.pouchen.com](http://www.pouchen.com)**