



Pou Chen Corporation



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#### Notice to readers

This English version of PCC 2017 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.



## Message from the Chairman

**Consolidating our leading position in the sports industry  
and maximizing company value**

**Staying committed to environmental sustainability and  
fair labor conditions**

Pou Chen Corporation is a multinational company that simultaneously provides independent and high-quality footwear manufacturing services for major brands. As a result, we have to adapt our global capacity allocation to meet customer needs. With that in mind, advancing smart production technology, maintaining good labor relations, complying with local environmental protection standards as well as international sustainability trends are important issues for the sustainable operation development of Pou Chen Corporation. Pou Chen Corporation has engaged in CSR since 1997. The Sustainable Development Department (SD) was created in 2012. It is mainly responsible for integrating and providing all factories with an execution strategy and project management for CSR-related issues in terms of sustainable production. Through various sustainability innovation projects, we engage in social participation and environmental protection in order to realize the long-term vision of corporate sustainability and value creation.

Pou Chen Corporation was selected as a constituent of the FTSE4Good Emerging Index in 2015, and a constituent of the FTSE4Good TIP Taiwan ESG Index by Taiwan Index Plus Corporation and FTSE Russell in December 2017. The Company was again rated as the top 5% in the Taiwan Stock Exchange Corporate Governance Evaluation in 2017. All these are positive affirmations for our long-term effort in sustainability such as environment, society, corporate governance and economy.

As a responsible corporate, improving operational

performance is the first step in fulfilling our corporate social responsibility. We focus on the operation development of the two core businesses: footwear manufacturing and sporting goods retailing as well as brand licensing. The 2017 consolidated revenue reached a record high of NT\$ 278.632 billion, which went up 1.4% over 2016. The compound annual growth rate for consolidated revenue between 2013 and 2017 was 5.3%. In addition to continuously increasing our scale of operation, we are also committed to creating company value. The gross profit margin of Pou Chen Corporation's consolidated business increased from 22.3% in 2013 to 26.2% in 2017. The consolidated operating profit margin was raised from 4.5% in 2013 to 6.1% in 2017. The compound annual growth rate of net income after tax from 2013 to 2017 was 5.0%. Through the simultaneous growth of revenue and profit, we can reach the economic performance targets with the focus on both scale and quality.

In the face of climate change, global companies are actively pursuing the Paris Agreement's temperature control and emission reduction targets, as well as the United Nations' sustainable development indicators. Pou Chen Corporation is no exception. Together with our equipments manufacturers, we actively optimize energy-saving of our manufacturing equipment; in addition, through measures such as improving equipment energy efficiency and replacing fuels with high pollution and carbon emission, we continue to reduce energy consumption and carbon emission during the footwear produc-

tion process. Moreover, we apply the ISO 50001 energy management system to improve energy efficiency and conservation. Environmental sustainability is an increasing trend in the footwear industry. Environmental sustainability is the benchmark for all production stages including design, manufacturing, marketing, procurement and recycling. We also work closely with brand customers to adopt environmentally friendly materials and manage hazardous materials. We select raw materials by strictly complying with the standards of international regulations, Zero discharge of hazardous chemicals (ZDHC), the Manufacturing Restricted Substance List (MRSL) of brand customers, and Sustainable Chemistry Guidance (SCG). In 2017, our RPE chemical plant in Taiwan focused on the research and development of chemical materials and the development and application of shoe materials was once again awarded the Cleaner Production (CP) certification. With our achievement in environmental protection being appreciated and affirmed by our customers, Pou Chen Corporation has become an important business partner for their sustainable growth.

We believe that all workers have the right to work in a safe and fair environment, which is the reason why we joined the Fair Labor Association (FLA). Pou Chen Corporation is committed to and abides by the FLA Workplace Code of Conduct and Principles of Fair Labor and Responsible Production. We also welcome independent third parties to conduct independent evaluations of our operating bases. In November 2017, Pou Chen Corporation’s workplace safety risk monitoring and responsible production were highly recognized by labor human rights experts from FLA’s US headquarters. Pou Chen Corporation is expected to pass the certification of the FLA Board of directors by the end of 2018, which further illustrates Pou Chen Corporation’s effective risk control in daily operations.

With the increasing attention and demand for recreation and sports all over the world, fitness has become a trend. This trend has in turn driven the growth of the sports and recreational industry. In addition to actively creating high-tech and intelligent shoe factories, Pou Chen Corporation will continue to provide customers with high-quality customized products and commercial value through upgrading automation and continuously investing in research and development resources to create additional value, as well as building a sports and recreation service platform. By communicating and interacting with the consumers, we can rapidly respond to consumers’ demand for sports and recreation products as well as promoting development and value creation in the sports and recreation related industry. This is the long-term vision of Pou Chen Corporation’s sustainable operation. In the future, we will continue to advance on the road of sustainable development by implementing the corporate governance system, pursuing economic performance, accelerating the systematic scale change of global operating bases, actively participating in social welfare activities, and promoting environmental protection as well as human rights. Step by step, we will fulfill our commitment to sustainable operations.

Chan, Lu-Min  
Chairman



## About Pou Chen

**360,000 employees worldwide**

**Annual production capacity of  
324.6 million pairs of shoes**

**Constituent of FTSE4Good  
Emerging Index**

**Constituent of FTSE4Good TIP  
Taiwan ESG Index**

Pou Chen Corporation was established in September 1969. The paid-in capital was NT\$29.468 billion at the end of 2017, with a total of 364,988 permanent employees. The operational headquarters is located at No. 600, Section 4, Taiwan Blvd., Xitun District, Taichung City, Taiwan. The global operating bases are located in Taiwan, Hong Kong, Macau, China, Indonesia, Vietnam, the United States, Mexico, Cambodia, Bangladesh and Myanmar. Pou Chen Corporation is a listed company with the stock code of 9904 traded on the Taiwan Stock Exchange.

### Company Profile

Pou Chen Corporation (hereinafter referred to as “Pou Chen”) and its subsidiaries, Yue Yuen Industrial (Holdings) Limited (hereinafter referred to as “Yue Yuen”) and Pou Sheng International (Holdings) Limited (hereinafter referred to as “Pou Sheng”), are committed to the operation of the two core businesses of footwear manufacturing and sporting goods retailing and brand licensing.

The footwear manufacturing (hereinafter referred to as “footwear business”) focuses on the production of athletic and casual shoes. The business model has transformed from the initial OEM to ODM, and the Company works closely with international brand name companies. In response to the development trend of the industry, the Company has gradually expanded its operations from Taiwan to China, Indonesia and Vietnam to diversify the operational risks of a single production base, as well as taking advantage of overseas production. At present, Pou Chen Group has become the world’s largest manufacturer of athletic and casual shoes. In 2017, it produced 324.6 million pairs of shoes, accounting for approximately 20% of the combined wholesale value of the global branded athletic and casual footwear market.

The sporting goods retailing and brand licensing businesses (hereinafter referred to as “retail business”) has been developed from the brand licensee business since 1992. Since then, it has been extended to sporting goods retailing and the distribution of branded products. A sales network of a certain scale has been established in Greater China, where the Company is one of the leading sporting goods retailers and distributors.

### External Organization Participation

In addition, we are also a member of the Taiwan Footwear Manufacturers Association, the Changhua County Industry Association, and the Changhua Importers and Exporters Chamber of Commerce. In 2016, Pou Chen’s subsidiary, Yue Yuen, joined the World Federation of the Sporting Goods Industry (WFSGI) as a manufacturer. Pou Chen has been a member of the Fair Labor Association (FLA) as a

Participating Supplier since 2011. We have advocated the FLA Workplace Code of Conduct in the hopes of creating a fair, appropriate and humane work environment.

### Footwear Business

In the early days, Pou Chen mainly engaged in producing plastic shoes for export. In 1978, it started out as an athletic shoes OEM. Eventually, the Company began to focus on developing and manufacturing athletic, casual and outdoor shoes. At present, Pou Chen's subsidiary, Yue Yuen, is dedicated to footwear business. The main customers include international brands such as Nike, adidas, Asics, Under Armour, Reebok, New Balance, Puma, Converse, Crocs and Timberland. In 2017, a total of 324.6 million pairs of shoes were manufactured mostly in China, Vietnam and Indonesia, accounting for 17%, 45% and 36% of the total footwear production respectively.

For information on the operation of the footwear business as well as environmental, social, and governance report, please refer to the Company's 2017 annual report, Yue Yuen's 2017 annual report, and Yue Yuen's 2017 Environmental, Social and Governance Report, or visit Yue Yuen's official website at [www.yueyuen.com](http://www.yueyuen.com).

### Retail Business

The brand licensee business started in 1992. Later, with the development of retailing, an omni-channel operation mode was established to sell footwear, apparel and accessories of international brands to consumers. Currently, the retail business is operated

by Pou Chen's subsidiary Pou Sheng. As of December 31, 2017, Pou Sheng's sales network in Greater China had covered 5,465 directly operated stores and 3,313 sub-distributors. In addition, Pou Sheng is also a brand licensee for several international brands.

For information regarding the business model of the retail business and the environmental, social and governance report, please refer to the Company's and Pou Sheng's 2017 annual reports, or visit Pou Sheng's official website at [www.pousheng.com](http://www.pousheng.com).



## Pou Chen Group Company Overview



### Scale

Pou Chen Corporation was established in September 1969. Its global operations headquarters is located at No. 600, Section 4, Taiwan Blvd., Xitun District, Taichung City, Taiwan.

# 360,000

employees

Global Operating Bases  
Number of Permanent Employees

## Vertical Integration Footwear Manufacturing Value Chain



Raw  
Materials



Supply  
Chain



Quality  
Control



Manufac-  
turing



Distri-  
bution  
Channels



Sale



Taiwan, Hong Kong, Macau, China, Indonesia, Vietnam, United States, Mexico, Cambodia, Bangladesh and Myanmar



## Important Figures

In the beginning, the Company was simply an OEM. It has since then been transformed into an ODM.

324.6 million pairs

2017 Production

20 %

2017  
Global market share  
(in wholesale value)

278.632

2017  
Consolidated  
Revenue

billion in  
NTD

The world's largest  
footwear manufacturing  
group

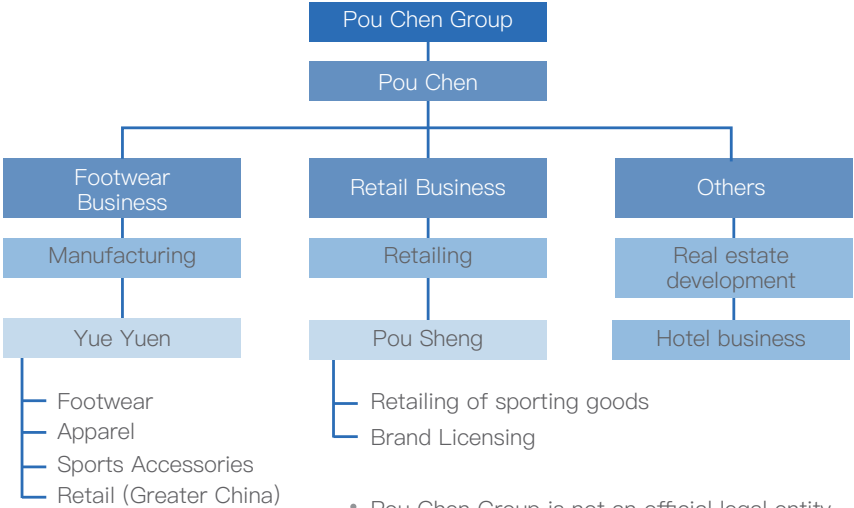
Accounting for 20% of  
the combined wholesale  
value of the global ath-  
letic and casual footwear  
market





Affiliates

Pou Chen’s subsidiary, Yue Yuen, focuses on the footwear business. Another subsidiary, Pou Sheng, focuses on the retail business. It also engages in the manufacturing and sales of footwear materials, sportswear and sports accessories through other affiliates. In addition, the Company is involved in real estate development and hotel business.



- Pou Chen Group is not an official legal entity.
- Pou Chen via Yue Yuen indirectly invests in the retail business operated by Pou Sheng.

# About the Report

This report follows the 4th edition of the Sustainability Reporting Guidelines issued by the Global Reporting Initiative (GRI G4) as a compilation guideline. The process takes all core options into consideration.

## Period, Boundary and Scope of the Report

The content of this report covers the period from January 1st, 2017 to December 31st, 2017. Some of the disclosed data is historical data displayed side by side. Pou Chen Corporation (hereinafter referred to as “Pou Chen” or “the Company”) and its subsidiaries are collectively known as Pou Chen Group. The business operations include footwear manufacturing, sporting goods retailing and brand licensing, property development, and hotel business.

The economic performance mentioned in this report is consistent with Pou Chen’s 2017 consolidated financial report. The boundary covers Pou Chen and its subsidiaries. Depending on the financial significance and industry relevance, the social and environmental aspects mentioned in this report concentrate mainly on the performance of Pou Chen’s footwear manufacturing in 2017. For information on sporting goods retailing and brand licensing business, please refer to the “Environmental, Social and Governance Report” section of 2017 annual report released by Pou Sheng International (Holdings) Limited, a subsidiary of Pou Chen. Unless noted otherwise, indicators cover Pou Chen’s performance of primary operating bases in Taiwan, China, Vietnam and Indonesia.

## Report Data and Verification

The data disclosed in the report comes from the statistics and analysis of the Company’s internal management system. The financial information mentioned in this report is consistent with the content of Pou Chen’s 2017 consolidated financial report. The data is audited by Deloitte & Touche. All inspection data required by law has been measured or confirmed by an impartial body, and presented in the customary numerical description. All data in the report is the actual measured number.

This report is guaranteed by a third-party verification unit of SGS Taiwan Ltd. to confirm that the report complies with the GRI G4 core options and the AA 1000AS (2008)’s Type II High Level.

## Report Management Procedure

The Sustainable Development Department prepares for the annual CSR report in the fourth quarter of each year. The preparation includes hosting of a CSR working group meeting to review any changes that might be necessary based on the previous issues, exchanging information with all factories, aggregating issues the stakeholders have raised as well as the annual performance for further discussion. The content is then compiled into the annual CSR report for internal review and verification before going public on the Company website.

The issues presented in this report are important annual topics based on the daily interaction with the stakeholders. Since the Company is an OEM/ODM, the customers' concerns are the most important for the Company. The CSR Working Group will discuss the issues of concerns by customers' in accordance with the FLA Workplace Code of Conduct. The stakeholders' list of important issues are taken into consideration along with GRI G4. The topics are then ranked with the Company's principle of materiality to decide on the content of the report.

## Publication Cycle

Pou Chen will issue a corporate social responsibility report for the previous year before the end of June each year.

Publication date of the previous report: June 26, 2017.

Publication date of the current report: June 29, 2018.

## Contact Information

This report is available for download on the Taiwan Stock Exchange's Market Observation Post System (<http://mops.twse.com.tw>) or the Corporate Social Responsibility section of the Company's website (<http://www.pouchen.com/index.php/csr>) /csr-reports).

If you have any feedback or suggestions regarding Pou Chen's corporate social responsibility issues, you are welcome to contact us.

## Contact Information: Pou Chen Corporation

Address: No. 600, Section 4, Taiwan Blvd., Xitun District, Taichung City

Tel: (04) 2461-5678 (switchboard)

Email: [ir@pouchen.com](mailto:ir@pouchen.com)

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

# Stakeholder Engagement

Pou Chen adopts the five principles of Stakeholder Engagement Standard, AA1000 SES 2011 to identify the key stakeholders. The five principles are as follows: (1) Dependency, (2) Responsibility, (3) Tension, (4) Influence, and (5) Diverse Perspectives. Department heads use brand customer feedback, communication records between external groups and internal staff, as well as the frequency of interaction to aggregate eight categories of stakeholders for the Company's footwear business. The categories include shareholders/investors, customers, competent authorities, employees, suppliers, the media, local communities and non-governmental organizations (NGOs).

## Stakeholder Interaction

Pou Chen communicates with stakeholders about their issues of interest through both regular and impromptu meetings, as well as transparent and solid interaction between the stakeholders and the relevant staff. The channels of communication include but are not limited to questionnaires, emails, meetings and conference calls for collecting stake-

holder feedback and suggestions.

The feedback will be relayed and discussed during internal meetings to serve as an important reference for the Company's sustainable development strategy. The administrative center of the Company's main operating areas also has a Sustainable Development Department unit (SD). This unit is responsible for coordinating the communication and feedback of stakeholders on environmental protection, human rights and community issues.

Pou Chen also set up a Stakeholder Section as well as an email (ir@pouchen.com) on the company website which are handled by dedicated personnel. Depending on the scope and nature of the issue, all feedback is forwarded to the relevant department to be processed. All communications received through the above-mentioned channels in 2017 included business proposals, shareholder/investor services, media-related matters and requests for research/investigation purposes. No complaints from stakeholders on social impact and other related issues were received.

## ▼ Stakeholder Communication Channels

Stakeholders	Issues of Concern	Communication Channels and Methods	Frequency	2017 annual interaction records
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>Market Observation Post System and the company website</li> <li>Shareholder's meeting</li> <li>Institutional investors' conference</li> <li>Respond via the spokesperson</li> </ul>	<ul style="list-style-type: none"> <li>Irregular intervals</li> <li>At least once a year</li> <li>At least twice a year</li> <li>Irregular intervals</li> </ul>	<ul style="list-style-type: none"> <li>Data declaration and press release</li> <li>Date for the 2017 Annual Shareholder's Meeting: June 15, 2017</li> <li>Participation in two institutional investors' meetings in 2017</li> </ul>



Stakeholders	Issues of Concern	Communication Channels and Methods	Frequency	2017 annual interaction records
Customers	<ul style="list-style-type: none"> <li>Product quality</li> <li>Prohibited materials management</li> <li>Code of conduct implementation</li> <li>Information transparency and reliability</li> </ul>	<ul style="list-style-type: none"> <li>Business visit / Regular meeting</li> <li>Impromptu meeting</li> <li>Audit feedback / Self-management performance feedback</li> <li>Contact via email and phone</li> </ul>	<ul style="list-style-type: none"> <li>Monthly</li> <li>Irregular intervals</li> <li>Monthly</li> <li>Irregular intervals</li> </ul>	<ul style="list-style-type: none"> <li>Impromptu customer resident manager meeting</li> <li>Overseas: customer audit once a year</li> <li>Taiwan: Two customer audits</li> </ul>
Competent authorities	<ul style="list-style-type: none"> <li>Corporate governance</li> <li>Legal compliance</li> </ul>	<ul style="list-style-type: none"> <li>Cooperating with various safety and compliance inspections from the government</li> <li>Regular declaration form (monthly/quarterly)/Official document</li> <li>Participating in conference / Seminar</li> </ul>	<ul style="list-style-type: none"> <li>Irregular intervals</li> <li>Monthly/quarterly</li> <li>Irregular intervals</li> </ul>	<p>Taiwan:</p> <ul style="list-style-type: none"> <li>Outsourced inspections and declarations: Six cases</li> <li>Inspection and awareness-raising campaigns from competent authorities: 26 cases</li> <li>Other feedback: Two cases</li> </ul> <p>Overseas:</p> <ul style="list-style-type: none"> <li>The frequency of interaction is different depending on the local authorities</li> </ul>
Employees	<ul style="list-style-type: none"> <li>Company operational status (work stability)</li> <li>Salary and Benefits</li> <li>Labor relations / Labor rights / Working hours</li> <li>Workplace safety / Regulatory compliance</li> <li>Feedback channel</li> </ul>	<ul style="list-style-type: none"> <li>Company internal website / Email / Employee suggestion box / Questionnaire</li> <li>Employee Welfare Committee / Occupational Safety and Health Committee / Union</li> <li>Complaints and Disciplinary Committee</li> <li>Internal employee publications</li> <li>Employee leadership meeting</li> <li>Consultation service for employees in overseas production sites</li> </ul>	<ul style="list-style-type: none"> <li>Irregular intervals</li> <li>Monthly</li> <li>Irregular intervals</li> <li>Monthly/bi-monthly publications</li> <li>Monthly/quarterly</li> <li>Daily</li> </ul>	<ul style="list-style-type: none"> <li>Each factory's Occupational Safety and Health Committee meets once a month. The Occupational Safety and Health Committees for production bases located in industrial parks meet once every quarter.</li> <li>Please refer to the description of Chapter 5: Friendly Workplace about how employee feedback is handled.</li> </ul>
Suppliers	<ul style="list-style-type: none"> <li>Restricted substances management</li> <li>Fair competition / Quality and price</li> <li>Supplier assessment</li> </ul>	<ul style="list-style-type: none"> <li>Procurement contracts</li> <li>Business communication / Contact via email and phone</li> <li>Supplier evaluation system</li> </ul>	<ul style="list-style-type: none"> <li>Irregular intervals</li> <li>Irregular intervals</li> <li>Irregular intervals</li> </ul>	<ul style="list-style-type: none"> <li>Suppliers are evaluated at least once a year</li> <li>Contact personnel responsible for responding</li> </ul>

Stakeholders	Issues of Concern	Communication Channels and Methods	Frequency	2017 annual interaction records
Media	<ul style="list-style-type: none"> <li>Operational status</li> <li>Labor slowdowns</li> </ul>	<ul style="list-style-type: none"> <li>Press release</li> <li>Documents about their issues of interest</li> </ul>	<ul style="list-style-type: none"> <li>Regular intervals</li> <li>Irregular intervals</li> </ul>	<ul style="list-style-type: none"> <li>Monthly revenue press release and quarterly operating results</li> </ul>
Local communities	<ul style="list-style-type: none"> <li>Environmental issues / Legal compliance</li> <li>Traffic</li> <li>Job opportunities</li> <li>Community charity</li> </ul>	<ul style="list-style-type: none"> <li>Proactive visits</li> <li>Establishing communication channels for external feedback</li> <li>Sponsoring community charity events / Community visits</li> <li>Company website</li> </ul>	<ul style="list-style-type: none"> <li>Irregular intervals</li> <li>Irregular intervals</li> <li>Irregular intervals / quarterly</li> <li>Irregular time</li> </ul>	<ul style="list-style-type: none"> <li>Community interactions are handled and responded to on a case-by-case basis. Please refer to Chapter 6: Social Care and Community Engagement.</li> </ul>
NGOs (FLA)	<ul style="list-style-type: none"> <li>Labor relations / Labor rights</li> <li>Legal compliance</li> <li>Environmental issues</li> </ul>	<ul style="list-style-type: none"> <li>Improvement after the FLA audit / NGO cooperation plan</li> <li>Documents about their issues of interest</li> <li>Meeting / Contact via email and phone</li> </ul>	<ul style="list-style-type: none"> <li>Yearly</li> <li>Irregular intervals</li> <li>Irregular intervals</li> </ul>	<ul style="list-style-type: none"> <li>FLA confirmed the implementation of the “Principles of Fair Labor and Responsible Production” in the Taiwan-based factories in November 2017</li> </ul>

## Major Issues Analysis Procedure and Method

Pou Chen’s core business, namely footwear manufacturing, is a labor-intensive industry that continues to attract the attention of international labor rights groups. The brands that the company works with also regard labor rights and occupational safety and health management standards as important evaluation criteria for the partnership. Therefore, the concerns raised by the stakeholders are largely consistent with the requirements of the FLA Workplace Code of Conduct and the management standards demanded by brand customers. In terms of standardized product requirements, raw material selection, MRSL management and product safety control are the main requirements. In terms of workplace management, emphasis is laid on the compliance of labor rights and employment relations, effective grievance mechanism, as well as a safe and healthy work environment. Regulatory compliance, pollutant treatment, energy conservation and carbon reduction are the key focus areas in environmental sustainability management. Legal compliance is the primary goal in corporate governance.


We evaluate major issues based on four principles: (1) the need for regulations/policies, (2) significant financial impact/risk, (3) stakeholder's concerns/social trends, and (4) competitive advantage in the same industry. Pou Chen voluntarily inspects daily operations for issues that have potential impact while following up on specific issues of concern for other stakeholders. Stakeholders' issues of concern are recorded by internal competent units before being summarized and analyzed.

This report contains stakeholders' issues of interest regarding Pou Chen's footwear manufacturing factories. The issues were evaluated by the CSR Working Group according to the GRI G4 principles as well as the four principles about important issues. 25 major issues were ultimately selected.

▼ Stakeholders's issues of interest and GRI G4 correspondence

Management aspect	Issues of concern	GRI G4 correspondence	Degree of importance
Corporate governance	Legal compliance	Regulatory compliance (environmental protection), regulatory compliance (society), regulatory compliance (product), economic performance	★★★★
	Selection of raw materials	Raw materials, procurement practices, supplier environmental assessment	★★★
Product standards	MRS� management	Regulatory compliance (product), customer health and safety	★★★★
	Product safety control	Product and services, customer privacy	★★★★★
Workplace	Labor rights	Free from discrimination, child labor, forced and compulsory labor. Freedom of association and collective bargaining are permitted.	★★★★★
	Employment relations	Market presence, employment relations, labor relations, training and education	★★★★
	Effective grievance mechanism	Labor grievance mechanism, human rights complaint mechanism	★★★
	Safe and healthy working environment	Occupational health and safety	★★★★
	Legal compliance	Regulatory compliance (environmental protection), environmental complaints mechanism	★★★★★
Environmental sustainability	Pollutant discharge and treatment	Emissions, wastewater, and waste	★★★★
	Energy conservation and carbon reduction project	Energy, emissions, water	★★★

## ▼ Major Issues and Boundaries

Major Issues	Reason for materiality	Impact boundary			Major issues corresponding to International Sustainable Development Goals (SDGs)	Relevant chapters and pages of this report
		Within the organization	Outside the organization			
		Pou Chen	Supplier	Local communities		
Economic Performance	The foundation for the Company's sustainable operation is also one of the investors' main issues of interest.	V				Economic Performance, page 21
Market Presence	Employee salaries significantly affect the recruitment of local employees as well as their actual income.	V		⊙		Friendly Workplace, page 85
Procurement Practices	The choice of procurement practices has a significant impact on the supply of raw materials, cost control and carbon footprint reduction.	V		⊙		Environmental Protection and Energy Conservation, page 50
Raw Materials	Significant impact on product manufacturing, product quality and cost control.	V		⊙		Environmental Protection and Energy Conservation, page 47
Energy	In response to climate change, effective energy use and clean energy use are essential environmental sustainability management issues.	V		⊙		Environmental Protection and Energy Conservation, page 51
Water	Water resources are an important issue for international sustainable development. Providing safe and clean water is the necessary management requirement of the plant, and access to water resources will also affect the local communities' water supply.	V		⊙		Environmental Protection and Energy Conservation, page 56
Emissions (GHG)	In response to climate change, carbon emissions inventory and reduction are important management issues for sustainable operations.	V				Environmental Protection and Energy Conservation, page 54
Wastewater and waste	The monitoring and reduction of pollutant emissions is an important aspect of legal compliance and environmental sustainability management.	V		⊙	 	Environmental Protection and Energy Conservation, page 58
Products and Services	Reducing the risk of product and services on environmental sustainability management measures.	V				Environmental Protection and Energy Conservation, page 51



Major Issues	Reason for materiality	Impact boundary			Major issues correspond- ing to International Sustainable Development Goals (SDGs)	Relevant chapters and pages of this report
		Within the organi- zation	Outside the organization			
		Pou Chen	Sup- plier	Local com- muni- ties		
Legal Compli- ance (envi- ronmental protection)	Legal compliance is a requirement for sustainable operations management.	V	⊙	⊙		Environmental Protec- tion and Energy Con- servation, page 62
Supplier Environmental assessment	Suppliers are important business partners in manufacturing and pro- duction. Screening suppliers who can provide environmentally sustainable materials to produce quality products is an important management issue for sustainable operation.	V	⊙			Customer Service and Supplier Management, page 68
Non-discrimi- nation	Workplace Code of Conduct promot- ed by FLA.	V				Friendly workplace, page 79
Freedom of association and collective bargaining	Workplace Code of Conduct promot- ed by FLA.	V				Friendly Workplace, page 80
Child labor	Workplace Code of Conduct promot- ed by FLA.	V	⊙	⊙		Friendly Workplace, page 80
Forced or com- pulsory labor	Workplace Code of Conduct promot- ed by FLA.	V	⊙			Friendly Workplace, page 80
Environmen- tal grievance mechanism	Channels for stakeholder engagement	V		⊙		Environmental Protec- tion and Energy Saving, page 62
Employment relations	Maintaining good employment relations and a competitive welfare system have a significant positive effect on the the factories' produc- tion operations and also enhance the employees' and the local communi- ties' sense of belonging towards the Company.	V				Friendly Workplace, page 77

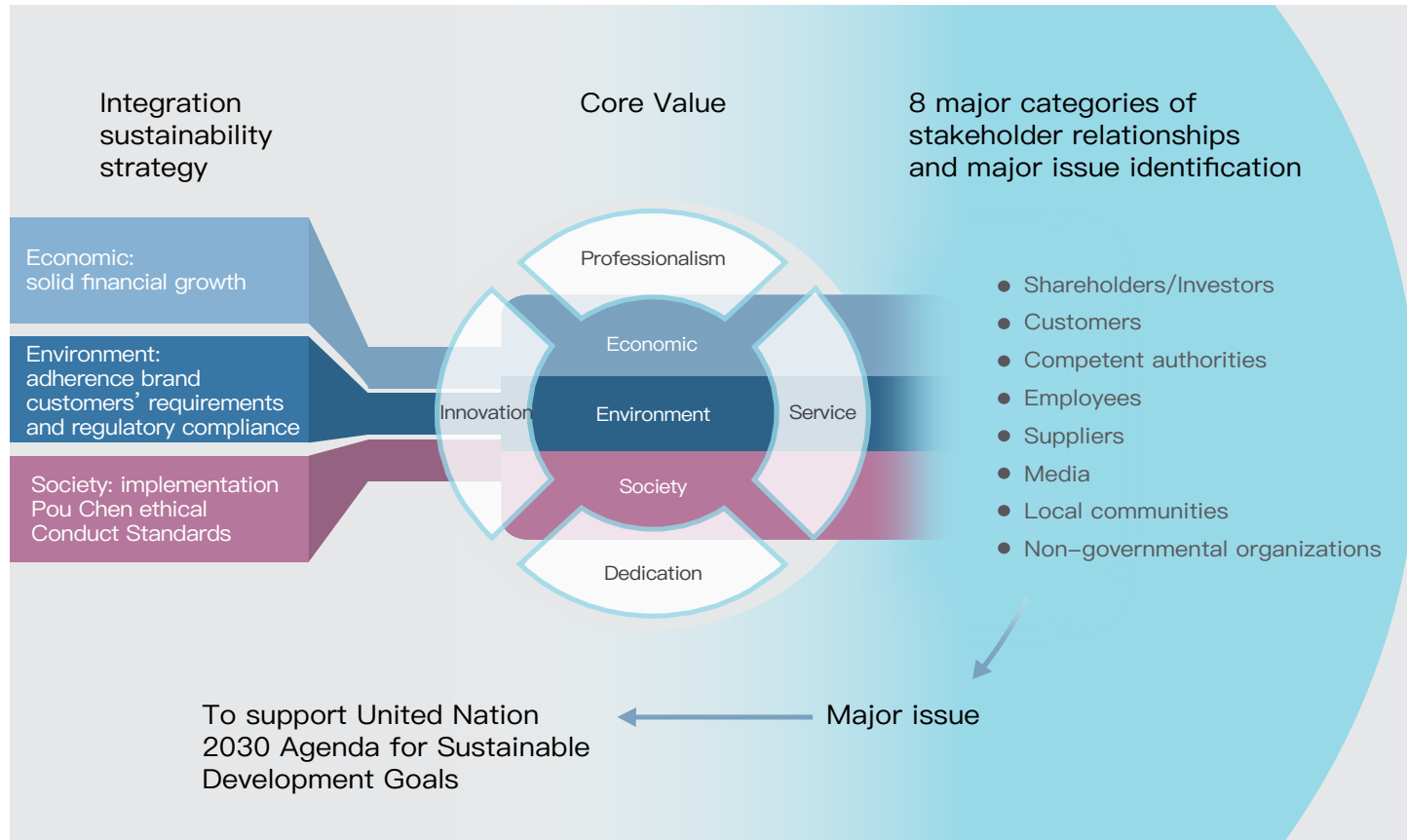
Major Issues	Reason for materiality	Impact boundary			Major issues correspond- ing to International Sustainable Development Goals (SDGs)	Relevant chapters and pages of this report
		Within the organi- zation	Outside the organization			
		Pou Chen	Sup- plier	Local com- muni- ties		
Labor/employer relations	Maintaining good labor relations and communication based on mutual trust has a significant positive impact on the factories' operations.	V				Friendly Workplace, page 77
Labor practic- es grievance mechanism	Channels for stakeholder interaction and engagement.Communication channels for good labor relations based on mutual trust.	V				Friendly Workplace, page 96
Occupation- al health and safety	Providing a safe and healthy work environment to protect the safety and health of employees at work is necessary for sustainable operations management, as well as a niche for employee productivity.	V				Friendly Workplace, page 102
Training and education	Providing the necessary training and education for employees can enhance their technical knowledge as well as creating operational efficiency and value.	V				Friendly Workplace, page 112
Legal Compli- ance (society)	Legal compliance is a requirement for sustainable operations management.	V				Corporate Governance, page 35
Customer privacy	Maintaining customers' trade secrets and business secrets is an important management issue for the Company's operations.	V		⊙		Customer Service and Supplier Management, page 65
Legal Compli- ance (product)	Providing products that meet the cus- tomer's safety and health standards is a basic management requirement sustainable operations.	V				Customer Service and Supplier Management, page 66
Customer health and safety	Providing products that meet the cus- tomer's safety and health standards is a basic management requirement sustainable operations.	V		⊙		Customer Service and Supplier Management, page 66

Note 1: The information disclosed on the major issues in this report mainly adopts Pou Chen as boundary.

Note 2: Due to the fact that some data was not yet available, the environmental indicators do not cover the data of the factories located in the US and Mexico.

Note 3: "V" means disclosed in this report, "⊙" means impact, but is not included in the disclosure boundary.

▼ Collecting and responding to stakeholders' issues concerns, combining sustainability strategies and corresponding to SDGS





# 1 / Economic Performance



# Chapter

# 1



# Economic Performance

The continued operational performance growth is the foundation for the Company's sustainable operation. Pou Chen focuses on developing the operation of two core businesses, namely footwear manufacturing and sporting goods retailing and brand licensing. Through the vertical integration of the industry chain and innovative diversified operational strategy, we strengthen business partnerships and enhance the value of product development services. Our goal is providing the most valuable solutions in the footwear industry supply chain in order to become the best business partner in the sports and recreation industry.

## 2017 Consolidated Revenue Hit New Heights

Pou Chen's 2017 consolidated revenue reached NT\$278.632 billion (same currency is used throughout the report), of which footwear business accounted for 66.6%, namely the main source of the consolidated revenue. Retail business accounted for 33.1%, and other business only accounted for 0.3%.



## ▼ Statistics by Segment

(unit: NT\$ 1 million)

Segment	2017		2016		2015	
	Amount	%	Amount	%	Amount	%
Footwear business	185,597	66.6%	194,830	70.9%	195,313	72.6%
Retail business	92,102	33.1%	78,880	28.7%	72,927	27.1%
Other business	933	0.3%	1,185	0.4%	841	0.3%
Total	278,632	100.0%	274,895	100.0%	269,081	100.0%

Pou Chen Corporation's 2017 consolidated revenue reached a record high of NT\$278.632 billion, a 1.4% increase over 2016. Moreover, the consolidated revenue from 2013 to 2017 also showed a steady growth with a compound annual growth rate of 5.3%. The growth mainly benefited from the steady development of footwear business and the continued expansion of retail business. As the consolidated revenue continued to grow and the internal operating efficiency continued to be strengthened, the consolidated gross profit margin of Pou Chen increased from 22.3% in 2013 to 26.2% in 2017. The consolidated operating profit margin grew from 4.5% in 2013 to 6.1% in 2017. In addition, Pou Chen's consolidated gross profit and consolidated income from operations for 2017 were respectively NT\$73.068 billion and NT\$17.068 billion. The net income after tax attributable to the

owners of the Company was NT\$12.922 billion, and the earnings per share was NT\$4.38.

The steady operational performance of 2017 once again demonstrates that Pou Chen continues to focus on the two core businesses of footwear business and retail business, attach importance to the cultivation of diverse talents, strengthen its competitive strength, and enhance overall management efficiency to achieve high-quality growth.

Pou Chen's 2016 earnings distribution was approved by the shareholders' meeting in 2017. The cash dividend per share was NT\$1.50, which was paid on August 9, 2017. The Board of directors meeting held on April 30, 2018 proposed 2017 earnings distribution with NT\$2.0 cash dividend per share, which was approved at the shareholders' meeting on June 15, 2018.

#### ▼ Consolidated financial statements

(Unit: NT\$ 1 million, NT dollars for earnings per share)

Consolidated financial statement	2017		2016		2015	
	Amount	%	Amount	%	Amount	%
Operating revenue	278,632	100.0%	274,895	100.0 %	269,081	100.0%
Gross profit	73,068	26.2%	70,383	25.6 %	64,505	24.0%
Income from operations	17,068	6.1%	17,785	6.4 %	12,353	4.6%
Income before income tax	24,818	8.9%	26,280	9.6 %	20,240	7.5%
Income tax expense	3,087	1.1%	3,278	1.2 %	3,639	1.4%
Net income	21,731	7.8%	23,002	8.4 %	16,601	6.1%
Attributable to owners of the Company	12,922	4.6%	13,057	4.8 %	9,531	3.5%
Earnings per share (EPS)	4.38		4.43		3.24	
Employee Salaries and Benefits	68,558		71,111		70,009	
Footwear Production (million pairs)	324.6		322.0		317.5	





Pou Chen focuses on the operation of two core businesses, namely footwear manufacturing and sporting goods retailing and brand licensing. The company continues to provide the most valuable solutions in the footwear industry supply chain in order to become the best business partner in the sports and recreation industry.

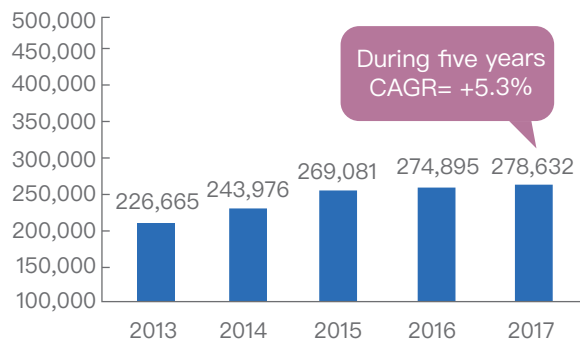
## ▼ Main Regions for Product (Service) Sales

(Unit: NT\$ 1 million)

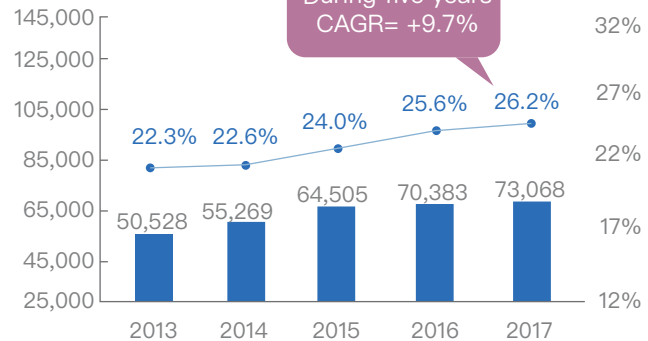
Area	2017		2016		2015	
	Amount	%	Amount	%	Amount	%
Asia	141,139	50.6%	134,418	48.9%	129,988	48.3%
Americas	78,436	28.2%	79,484	28.9%	80,752	30.0%
Europe	53,276	19.1%	54,210	19.7%	52,111	19.4%
Others	5,781	2.1%	6,783	2.5%	6,230	2.3%
Total	278,632	100.0%	274,895	100.0%	269,081	100.0%

## Positive performance growth for five consecutive years

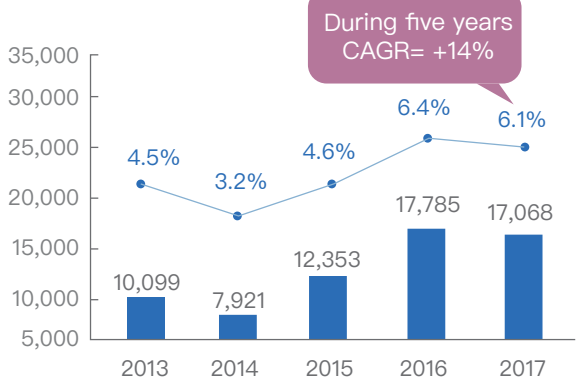
## Operating revenue



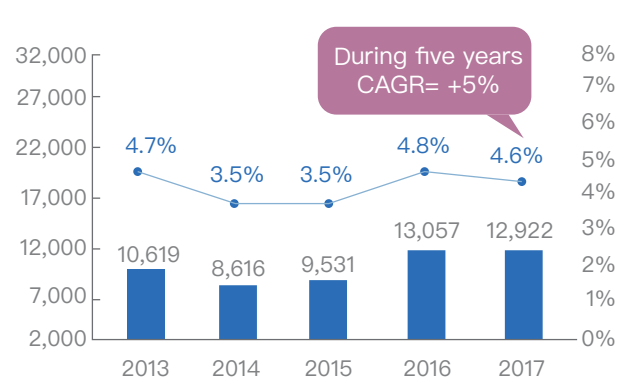
## Gross profit



## Income from operations



## Net income



Note: The compound annual growth rate (CAGR) refers to the annual growth rate of an investment over a specific period of time.



## 2 / Corporate Governance



## Chapter

# 2



## Core Values and Vision

Pou Chen expects to become the world's leading footwear manufacturing enterprise. Since its establishment, it has been actively facing and overcoming all difficulties and challenges with the core values of “professionalism, dedication, innovation, and service”. The Company continues to advance with the spirit of innovation and grow.

Through various internal communication channels, the employees can identify with and abide by our core values. Not only are employees proud of being a part of the Company, but they also contribute more dedication and accountability to the sustainable operation, implementing the sustainable development.

### ▼ Core Values

Professionalism	Dedication
Work Smart Teamwork	Be Ethical Be Accountable
Innovation	Service
Be Creative Be Proactive	Elevate Customer's Competitiveness Be Socially Responsible

### Three-time awardee as a first-tier listed company in the Taiwan Stock Exchange (TWSE) Corporate Governance Evaluation

To accelerate the promotion of corporate governance in listed companies in Taiwan and help businesses achieve healthy development and enhance market confidence, the TWSE and Taipei Exchange (TPEX) have collectively commissioned the Securities & Futures Institute (SFI) to hold an annual “Evaluation of Corporate Governance of Listed Companies” and announce well-performing enterprises each year. With long-term dedication, Pou Chen has achieved excellent results for four consecutive years. It has also been awarded the top 5% of the first-tier ranking of the TWSE's corporate governance evaluation of listed companies. This shows the competent authorities' recognition in Pou Chen's corporate governance.

Following the core values of “professionalism, dedication, innovation, and service”, the main principles

for corporate governance are protecting shareholders' rights, strengthening Board functions, improving risk management, strengthening the control over financial operations, respecting stakeholders' rights and enhancing information transparency. Pou Chen continues to protect shareholders' rights and pursue sustainable development. We believe that building an effective structure is the foundation of good corporate governance.

In recent years, Pou Chen has continued to strengthen information disclosure through the revision of the Company's Articles of Association and the establishment of a candidate nomination system for election of directors, so that shareholders can obtain sufficient information to exercise their rights. We also disclosed information on corporate governance, corporate social responsibility and risk

control to the company website. The following are the key actions of our corporate governance:

- Amending the Company's Articles of Association to stipulate that the candidate nomination shall be adopted in election of directors. As a result, shareholders can obtain sufficient information to exercise their rights.
- Adding the English version of the annual report and shareholders' meeting records to serve foreign institutions and ensure that all shareholders are treated equally.
- Selecting three independent directors and setting up an Audit Committee to strengthen the Board structure and functions.
- Setting specific dividend policy to improve information transparency.
- Disclosing annual greenhouse gas emissions of the production plants as well as preparing a corporate social responsibility report certified by the third party to incorporate corporate social responsibility into the core business.





Pou Chen strives to fulfill its social responsibilities and pursue sustainable management.

## Board Responsibilities

The Board of directors is Pou Chen's highest governance unit and decision-making center. Its main responsibilities include setting up independent directors, functional committees and internal audit mechanism to supervise the Company's compliance and operational transparency. Management meetings are regularly held to understand the Company's operational risks and challenges, identify business strategies and operational guidelines, assessing the performance of the management team, and appointing/dismissing managers. The performance of the Board and individual Board member is evaluated at least once a year to strengthen the Board's operational governance system.

## Board Composition

The members of the Board of directors of Pou Chen were selected according to the needs of company operations, operational style and development. The diversification includes but not limited to the aspects of gender, age and education back-

ground. Pou Chen's 22nd Board of directors was elected with nine directors for a term of three years (from June 15, 2016 to June 14, 2019). The Board members comprise two female directors and three independent directors. The directors' expertise and skills cover the fields of industry, finance, technology, management and law. They are also equipped with the knowledge and skills for executing their duties.

## Election of Directors

Under the Company's "Rules for Election of Directors", the election of directors shall be based on the candidate nomination system in accordance with Article 192-1 of the Company Act. Any shareholders holding 1% or more of the total issued shares may nominate a candidate for election, which enables shareholder to participate in the nomination process for director candidates. Please refer to Pou Chen's 2017 Annual Report for information on the Board of directors.

### ▼ Board members

Position	Nationality or place of registration	Name	Gender	Date elected	Date of initial appointment	Education and work experience
Chairman	Panama	PC Brothers Corporation	–	June 15, 2016	August 8, 1992	None
	R.O.C.	Representative: Chan, Lu-Min	Male	June 15, 2016	August 8, 1992	Statistics Department, National Chung Hsing University Executive Director of Yue Yuen Industrial (Holdings) Ltd.
Director	R.O.C.	Tsai, Pei-Chun	Female	June 15, 2016	June 15, 2016	Economics 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.	–	June 15, 2016	June 14, 2013	None
	R.O.C.	Representative: Tsai, Min-Chieh	Female	June 15, 2016	June 14, 2013	Economics and Finance Department, Wharton School of the University of Pennsylvania, USA Financial Analytics, Finance department at Bloomberg News

## ▼ Board members

Position	Nationality or place of registration	Name	Gender	Date elected	Date of initial appointment	Education and work experience
Director	R.O.C.	Ever Green Investments Corporation	–	June 15, 2016	April 24, 2007	None
	R.O.C.	Representative: Lu, Chin-Chu	Male	June 15, 2016	March 7, 2011	Master Degree of Business Administration, National Chung Hsing University. Chairman of the Board and Executive Director of Yue Yuen Industrial (Holdings) Ltd.
Director	R.O.C.	Sheachang Enterprise Corporation	–	June 15, 2016	October 3, 2003	None
	R.O.C.	Representative: Tsai, Ming-Lun	Male	June 15, 2016	June 12, 2015	Master Degree of Design, Harvard University, USA. Executive Director of Yue Yuen Industrial (Holdings) Ltd.
Director	R.O.C.	Lai Chia Investments Co., Ltd.	–	June 15, 2016	April 24, 2007	None
	R.O.C.	Representative: Ho, Yue-Ming	Male	June 15, 2016	June 15, 2016	Master Degree of Laws Department, National Taiwan University Vice President of HTC Corporation
Independent Director	R.O.C.	Chen, Bor-Liang	Male	June 15, 2016	June 14, 2013	PhD 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 Mathematics, Tunghai University
Independent Director	R.O.C.	Chiu, Tien-I	Male	June 15, 2016	June 14, 2013	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 (Note)	Male	June 15, 2016	June 15, 2016	Master Degree of Economic and Taxation Department, Jinan University, Guangzhou, China Chairman of Tung-Jung Accounting Firm

Note: Independent director Chen, Jung-Tung passed away in January 2018. Pou Chen elected an independent director at its 2018 shareholders' meeting.



## Mechanisms for Avoiding Conflicts of Interests

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

All Board operations in 2017 complied with the procedure for preventing conflicts of interest. There

was no violation.

## Remuneration Committee

The Remuneration Committee is made up of independent directors whose term is consistent with the 22nd Board. The purpose of the Remuneration Committee is to evaluate the remuneration policies and system for Pou Chen's directors and managers in a professional and objective manner. Recommendations are then provided to the Board for reference. The Remuneration Committee convened three times in 2017. The attendance rate is as follows:

### ▼ Operations of the Remuneration Committee

Title	Name	Actual attendance	Proxy attendance	Actual attendance rate (%)
Convener	Chen, Bor-Liang	3	0	100
Member	Chiu, Tien-I	3	0	100
Member	Chen, Jung-Tung (Note)	3	0	100

Note: Mr. Chen, Jung-Tung passed away in January 2018. Pou Chen appointed Mr. Shen, Wan-Fa as a member of the Remuneration Committee in March 2018.

## Audit Committee

Pou Chen appointed three 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 financial reports, the appointment/dismissal, independence and performance of the certified public accountants, the effective implementation

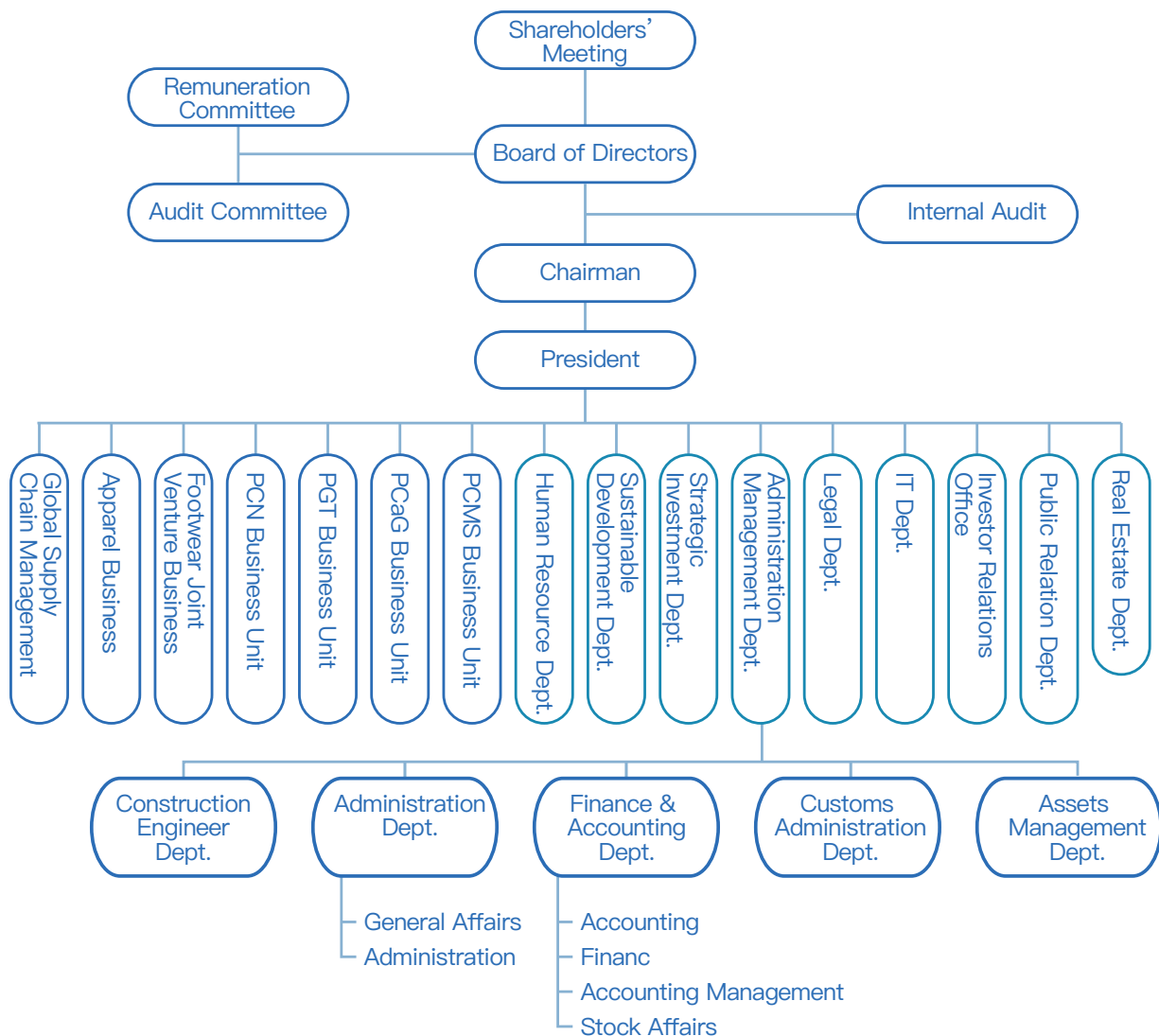
of internal controls, compliance with the relevant laws and regulations, management of existing or potential risks, due diligence, and the faithful execution of responsibilities defined in the Audit Committee's organizational charter. The Audit Committee reports to the Board of directors, and its proposals are submitted to the Board for resolution. A total of five Audit Committee meetings were held in 2017. The attendance rate is as follows:

## ▼ Operations of the Audit Committee

Title	Name	Actual attendance	Proxy attendance	Actual attendance rate (%)
Convener	Chen, Jung-Tung (Note)	4	1	80
Member	Chen, Bor-Liang	5	0	100
Member	Chiu, Tien-I	5	0	100

Note: Independent director Chen, Jung-Tung passed away in January 2018. Pou Chen elected an independent director at its 2018 shareholders' meeting.

## Organizational Chart



## 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 2017 risk assessment were used to draw up an annual audit plan with 42 audit items, which included the mandatory monthly, quarterly and annual audit items defined in Regulations Governing Establishment of Internal Control Systems by Public Companies as well as other operations. The audit plan was implemented with the approval of the Board. Aspects including compliance, operating procedure, process control, expense review and financial records were audited according to internal procedures. From issuing audit notices, reviewing the result of 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. All major issues were to be immediately reported to independent directors. Random inspections and verifications of each unit's self-assessment procedure of the internal control system and audit results for 2017 found no serious anomalies.

## Moral Integrity and Anti-Corruption

An internal control system has been established by the Board of directors and managers. Operational effectiveness and efficiency, including profit, performance and asset protection 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 "Codes of Ethical Conduct", "Ethical Corporate Management Best Practice Principles", "Procedures for Ethical Management and Guidelines for Conduct", "Regulations Governing the Reporting of Unethical Conduct" as well as other measures are to be followed. These are available on both public and internal websites to provide the units and stakeholders with means of communication and grievance procedure.

Pou Chen has taken a range of actions toward achieving integrity and anti-corruption. Employees are asked to abide by the code of conduct and sign the "Code of Ethics and Integrity Pledge" as well as "Non-disclosure agreement" (NDA). Key suppliers are required to comply with our integrity transaction 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 "Codes of Ethical Conduct" and Article 23 of the "Ethical Corporate Management Best Practice Principles", we encourage whistle-blowers to report all illegal behavior, as well as behavior that does not comply with the Codes of Ethical Conduct or Ethical Corporate Management Best Practice Principles. We improve our supervisory and management mechanisms

through the strengthening of our internal/external whistle-blower channels, reporting procedures, and whistle-blower protection. All parties that could have a conflict of interest should be excluded from the investigation.

### Compliance Program Implementation

As a responsible enterprise, compliance with local laws and regulations is a basic management requirement. The administrative center of the Company's main operating areas engages legal and business authority units to conduct an annual review of the new regulations and regulations that have to be followed. Awareness-raising meetings are held as needed to remind each management unit of the relevant compliance tasks. In 2017, the Company did not receive any large fines for major violations. The occasional environmental violations during daily operations will be explained separately in the section on "Environmental Protection and Energy Conservation".

### Behavior to be Prevented

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

- Offering and accepting bribes.
- Making illegal political contributions.
- Making inappropriate charitable donations or sponsorship.
- Giving or accepting unreasonable gifts, hospitality or other inappropriate benefits.
- Infringing on trade secrets, trademarks, patents, copyrights and other intellectual property rights.
- Engaging in acts of unfair competition.

- 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:
- The donation shall comply with the local laws of the operating site.
- A written record of the decision is made.
- Charitable donations must be made for charity organizations instead of as a disguised bribe.
- Considering what can be gained 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.
- After the donation or sponsorship has been granted, it must be confirmed that the funds are used in accordance with the intended purpose.

### Anti-corruption Training

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

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 refuse 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 means.

Education and training on ethical behavior was given by the Company's Legal Department. All employees in the group as well as new employees (including Taiwanese personnel at domestic and overseas sites) must now undertake the online course on "Ethical Trading and Protection of Group Interests" 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 its "Work Rules." If any employee is suspected of engaging in illegal or unethical behavior, it can be reported through any of the following channels: If the Company discovers any corruption, necessary legal actions will be taken to protect the Company's rights and interests depending on the circumstances and on a case-by-case basis.

- The employee's direct superior
- HR department of each factory
- The complaints mailbox managed directly by the HR Department
- Headquarters e-mail: HQ@pouchen.com
- Internal website: <http://website.pouchen.com/integrityadmin/tw/>

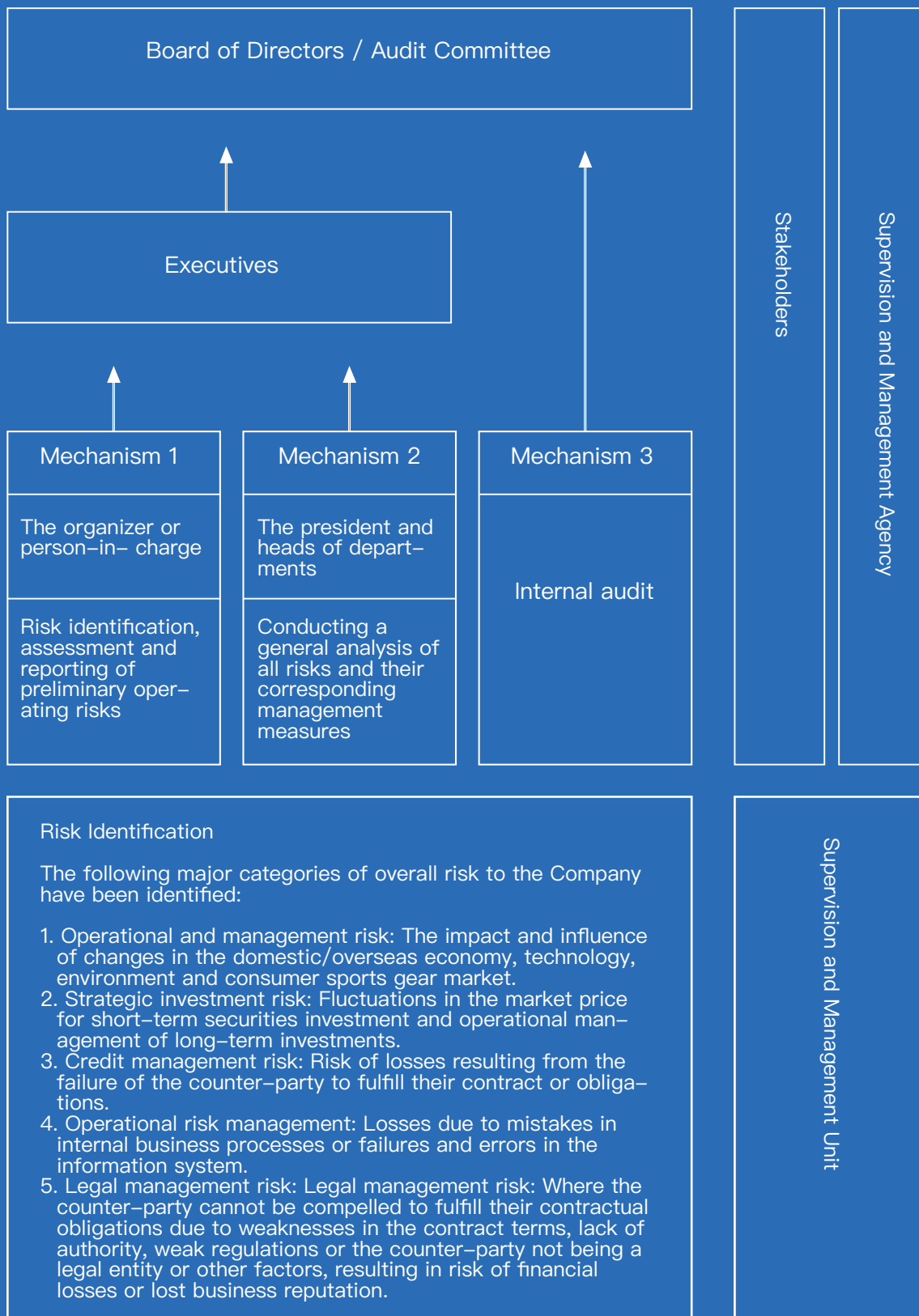
Stakeholders can make inquiries or reports through the Investor Relations section on the Pou Chen website or contact e-mail (ir@pouchen.com). These will be processed by dedicated personnel at Pou Chen then forwarded to the relevant units based on the issue of concern's scope and nature for action and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

#### **Operational Risk Identification and Response**

The internationalization of operations means the impact and challenges from the changing 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 that might interrupt the operations.

#### **Risk Process Management Mechanism**

Risk management at Pou Chen is divided into three levels (mechanisms). "Mechanism 1" is the organizer or person in charge who is responsible for identifying, evaluating, and reporting the initial operational risks. "Mechanism 2" consists of the president and heads of departments who are responsible for conducting a general risk analysis and the corresponding management measures. "Mechanism 3" is the audit unit's auditing and the Board of directors' control and supervision.





## ▼ Risk Identification and Management Measures in 2017

Aspect	Risk Identification	Risk management measures
Economic	Change in Corporate Image	Continue to implement sustainable management, uphold the operational principles of professionalism and integrity, attach importance to corporate social responsibility, corporate governance and environmental protection as well as risks management.
	Moral Integrity and Anti-Corruption	Internal rules such as the “Corporate Code of Conduct”, “Codes of Ethical Conduct”, “Ethical Corporate Management Best Practice Principle”, “Procedures for Ethical Management and Guidelines for Conduct”, and “Regulations Governing the Reporting of Unethical Conduct” have now been drawn up by the Company to implement comprehensive 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 optimization so that the level of automation can be gradually increased.
	Financial Risk	Continue to observe market changes and general economic indicators, select appropriate interest rates and currency hedges, actively manage customer risks, and carefully evaluate and manage investment.
	Information Risks	Establish a comprehensive information management system with multiple controls and network data security measures to strengthen our active protection and warning capability of cyber security.
	Legal Risk	Continue to review and collate the latest regulatory changes, promote awareness and hold training to ensure compliance, provides legal advice and contractual reviews to reduce disputes.
Environmental	Climate Change Risks	Review energy use and implement source management, gradually adopt clean low-carbon emission fuels as well as looking for opportunities to save energy and reduce carbon emission. Review and analyze energy consumption and carbon emission of the factories each month to develop energy-saving and carbon reduction plans.
	Increasingly Rigorous Environmental Regulations Production Interruption Risk	Strengthen legal compliance inspections, review the compliance of factory environmental evaluation documents as well as the improvement plans for any anomalies. Actively engage in pollution prevention facilities and monitoring, enhance compliance management for the discharge of polluting substances, and continue to push for clean production and waste reduction. Strengthen the environmental safety and health index data management system and anomaly notification system to effectively monitor and manage risks associated with daily operations.

## ▼ Risk Identification and Management Measures in 2017

Aspect	Risk Identification	Risk management measures
Social	Infectious Disease Control Risk	Strengthen infectious disease prevention measures, including access control at factories, incident response measures, factory disinfection, employee self-health management and health checks, epidemic reporting mechanism and hospitalization mechanism, inspection and storage of quarantine supplies.
	Fire Safety Management	Continue 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	Conduct occupational safety and health training for employees; strengthen protective measures and operational controls for potential hazards to ensure the safety and order of production sites, establish Workplace Safety and Health Committee to conduct regular inspections of potential workplace hazards and make improvement.
	Human Resources Risk Management	Continue to optimize the recruiting channels and processes, improve performance evaluation skills, synchronize remuneration with market standards, engage in management and specialist courses, strengthen regulatory compliance in each country and employee care, continue to manage risks on recruiting operations, performance management, remuneration management, training development, manage risks related to changes of labor laws and employee management.
	Product Quality Management	Launch a comprehensive product quality control policies, strictly adhere to international regulations and brand customers' MRSL raw material requirements from product development and prototyping to manufacturing and production; implemented "broken needle" protection and "metal detecting measure" during the production process to ensure consumer safety.
	Product Safety Management	<p>Product safety management rules were defined and employee training was 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 security management, transportation safety management, trade secret safety management, IP protection, and crisis management.</p> <p>Production safety audits are held at our design center and overseas factories so that problems can be identified and resolved as part of our continued effort to realize the goals of "zero leaks", "zero accidents" and "zero loss."</p>

# CSR Operational Structure

“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 of the Company and the overall impact of Pou Chen operations on stakeholders. The bi-annual performance meeting is used to examine and review the effectiveness of related CSR measures. Goals and methods are adjusted as needed to conform to the CSR requirements for sustainable development.

## CSR Policy

As the leading enterprise in footwear manufacturing, Pou Chen is committed to setting an example on CSR policies. While pursuing sustainable development and profits, we take an interest in protecting stakeholder rights, the environment and social welfare. To fulfil corporate social responsibility, we implement the principles of corporate governance, sustainable environment, information disclosure, and social welfare.

## Four Major CSR Policies





## CSR Structure

The Company has established a Sustainable Development Department (SD) responsible for integrating and proving execution strategies and project management for CSR polices at all regional factories in terms of sustainable production. 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 management with regular reports on CSR performance and recommendations.

- Headquarter Sustainable Development Department (HQSD).
  - Define sustainable development polices and system in accordance with the Company's operation strategies and needs.
  - Integrate and optimize the allocation of human resources for the Company's sustainable development
  - Review and make continuous improvements to the sustainable development guidelines and processes.
- Administrative Center SD (ACSD)
  - Effectively integrate resources to manage routine SD operations in each country.
  - Regional integration based on Company policies.
  - Assist Business Unit SD to meet 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 value-adding services.
  - Assist with the communication and implementation of company polices and guidelines; integrate SD action plans/performance targets at the corresponding BUs.





## 3 / Environmental Protection and Energy



# Chapter

# 3

y Conservation





Regular checks and progressive replacement of energy consumption-intensive equipment to enhance energy efficiency.

## Energy Saving

The ISO 14001 Environmental Management System was used in conjunction with local environmental regulations as the guide in establishing a self-management system. The medium and long-term management goals are cleaner production and reduction in pollutant emission. The ISO 14001 management system was implemented at 75% at our factories in 2017. 63% of factories continued to receive external certification as well. We are committed to the following environmental protection measures:

- Introducing an effective Environmental Management System, implementing pollution control and environmental impact management, as well as continuing to improve and promote the sustainability of environmental resources.
- Complying with environmental laws, regulations and other requirements. Formulating and implementing standard operating procedures accordingly.
- Optimizing production processes, promoting cleaner production, reducing pollutant emissions, implementing pollution control and management, and conducting regular testing and inspection.
- Reducing the use of hazardous substances, promoting industrial waste reduction, recycling and reusing resources, conserving energy and reducing carbon to improve corporate environmental protection performance.
- Strengthening education and training, and enhancing employee environmental protection awareness to ensure thorough implementation of environmental responsibility.



## Environmental Assessment for Plant Construction

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

## Twice Cleaner Production Certificates Awarded

According to the United Nations's 1997 Environment Programme (UNEP), Cleaner Production (CP) refers to "continuous application of an integrated preventive environmental strategy to processes, products and services to increase overall efficiency, and reduce risks to humans and the environment." Promoting cleaner production can help companies (1) effectively improve the efficiency of energy use (2) reduce environmental impact (3) save raw materials, (4) avoid toxic materials and (5) reduce waste while complying with environmental regulations and international standards.

Taiwan's RPE chemical plant under the Pou Chen Group focuses on the development and application of chemical materials and shoe materials. It also produces masterbatch that is used at the group's

overseas plants. In 2014, the Industrial Bureau of the Ministry of Economic Affairs issued a certificate of conformity for the Cleaner Production Assessment. In 2017, an extension for the certificate was obtained. We have achieved the following results:

- Dust collection equipment: upgraded to a bag dust collector to effectively collect and remove dust as well as purifying the air.
- Energy-saving equipment: switched to energy-saving lamps, installed power-saving inverter on motors, installed high and low-voltage capacitor cabinets to save electricity.
- Water conservation and recycling: process cooling water recycling, groundwater ban, full use of tap water, and the wastewater treatment plant was established.
- Process waste: complete sorting, recycling and reusing.



▼ The RPE chemical plant under the Pou Chen Group was awarded the certificate for Cleaner Production Assessment by the Industrial Bureau of the Ministry of Economic Affairs for the second time.



## Following Brand Customer's Green Material Specifications

The selection of raw materials is an important factor in the consideration of manufacturing high-quality and affordable products. The Company provides product manufacturing services for quality international brands. Therefore, the selection of raw materials must comply with the relevant international product specifications and customer requirements in terms of restricted substances standards. We also actively adopt materials that meet the customer's requirements for environmentally sustainable materials. In the procurement management of raw materials, in addition to requiring the material suppliers to provide relevant inspection reports and commitment documents for not using restricted substances, sampling tests are also conducted for specific materials to ensure that the quality meets the requirements.

### Following Brand Customer's Green Material Specifications

The Company is committed to providing customers with high quality and safe products. We abide by all customer requirements for product quality, from product development and design to manufacturing and production. The raw materials used are strictly in accordance with the requirements of international regulations, Zero Discharge of Hazardous Chemicals (ZDHC), and brand customer's Manufacturing restricted substance list (MRSL). Standardized production processes have been set up, and strict physical and chemical testing standards must be passed prior to production. The whole process is under supervision to ensure that the shoes fully comply with environmental friendliness and respect human health.

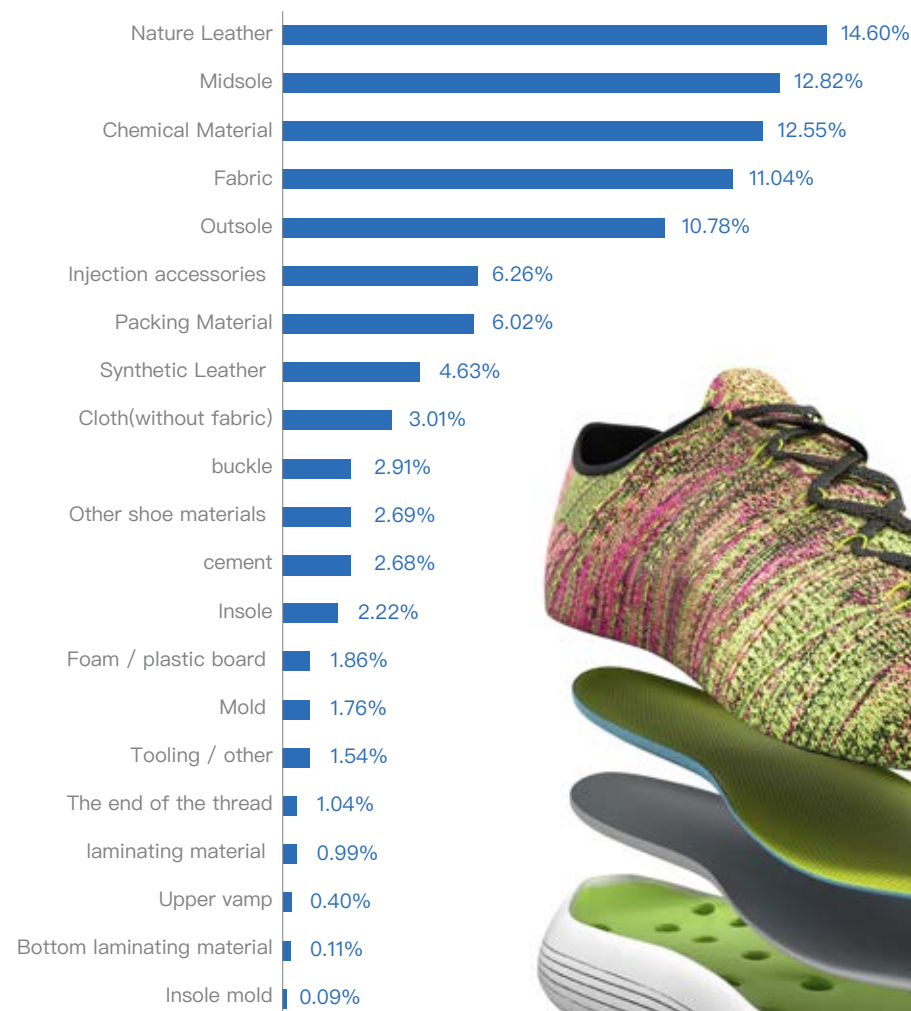


# Raw Materials for Footwear Manufacturing

Raw materials used in footwear manufacturing can be broadly divided into upper materials and sole materials. Upper materials are mainly textile (woven/knitting/non-woven), synthetic leather, genuine leather, foam and accessories. Sole materials are mainly made from EVA resins (Eth-

ylene/Vinyl Acetate copolymer), PU resins (Polyurethane) and rubber. Thermoplastic polyurethane (TPU resin), an environmental-friendly material, has been adopted as both upper and sole materials in recent years.

## Percentage of Total Procurement Amount of Footwear Manufacturing



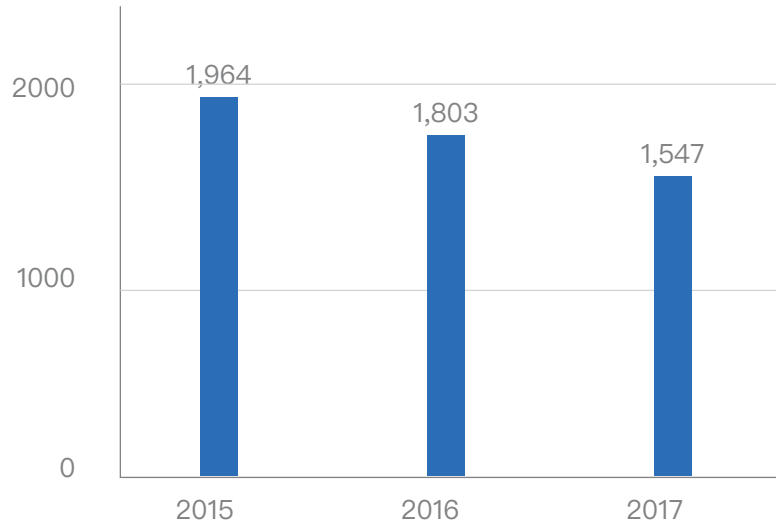
## Supplier Selection

The group continues to evaluate and select suppliers through supply chain integration and optimized supplier management, in hopes of realizing the vision of sustainable development with the suppliers. During the past 3 years, the Company has traded with fewer frequent raw material suppliers.

In 2017, the Company had business dealings with 1,547 raw material suppliers for 3 consecutive years (2015–2017).

Due to the fact that it is difficult to obtain information on machinery and equipment suppliers, construction contractors, and service contractors, the number of these suppliers is not disclosed.

Number of Raw Material Suppliers (for 3 Consecutive Years)



Note: The number of suppliers in 2017 and the purchase amount data in the chart are estimated.



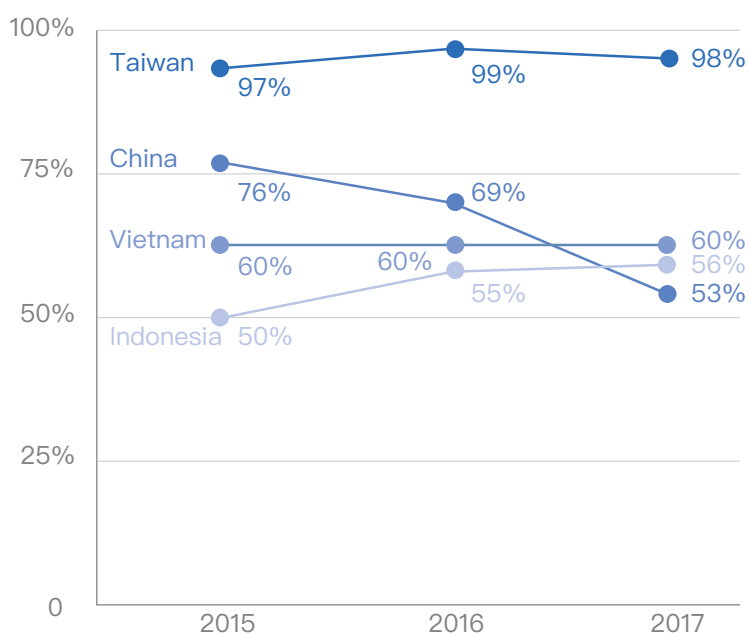




### Localized Procurement

In response to the cross-border layout of customers and market needs, short delivery period, big variety and small quantity, rapid replenishment, and local manufacturing service trends, the procurement policy focuses on the local supply of materials to reduce the risk of supply interruption and reduce carbon emissions from transportation. In the past three years, the local procurement from the group's major operating bases has been the major source of supplies, and the number continued to grow. China is the only exception, as the production capacity adjustment slightly reduced local procurement.

Proportion of Local Material Purchases of Major Operating Bases



# Energy Management

The supply and consumption of energy is an important management issue for the manufacturing industry. As the international community actively advocates the adaptation of climate change risks, improving the efficiency of energy use and reducing greenhouse gas emissions are now issues that cannot be avoided in the pursuit of corporate sustainable operations. Pou Chen actively cooperates with customers' energy-saving targets and local competent authorities' energy consumption requirements, in order to formulate the energy inventory system and energy conservation measures. The results of energy consumption and the performance of energy conservation are presented and reviewed at the management meeting every year.

## Policy and Commitment

- Progressive replacement of pollution/emission-intensive petroleum fuels with electricity or clean fuel.

- Conducting energy use inventory and monitoring and focusing on the implementation of improvement in energy efficiency of equipment to reduce energy consumption.
- Introducing 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 use efficiency. Implementation standards have been issued.

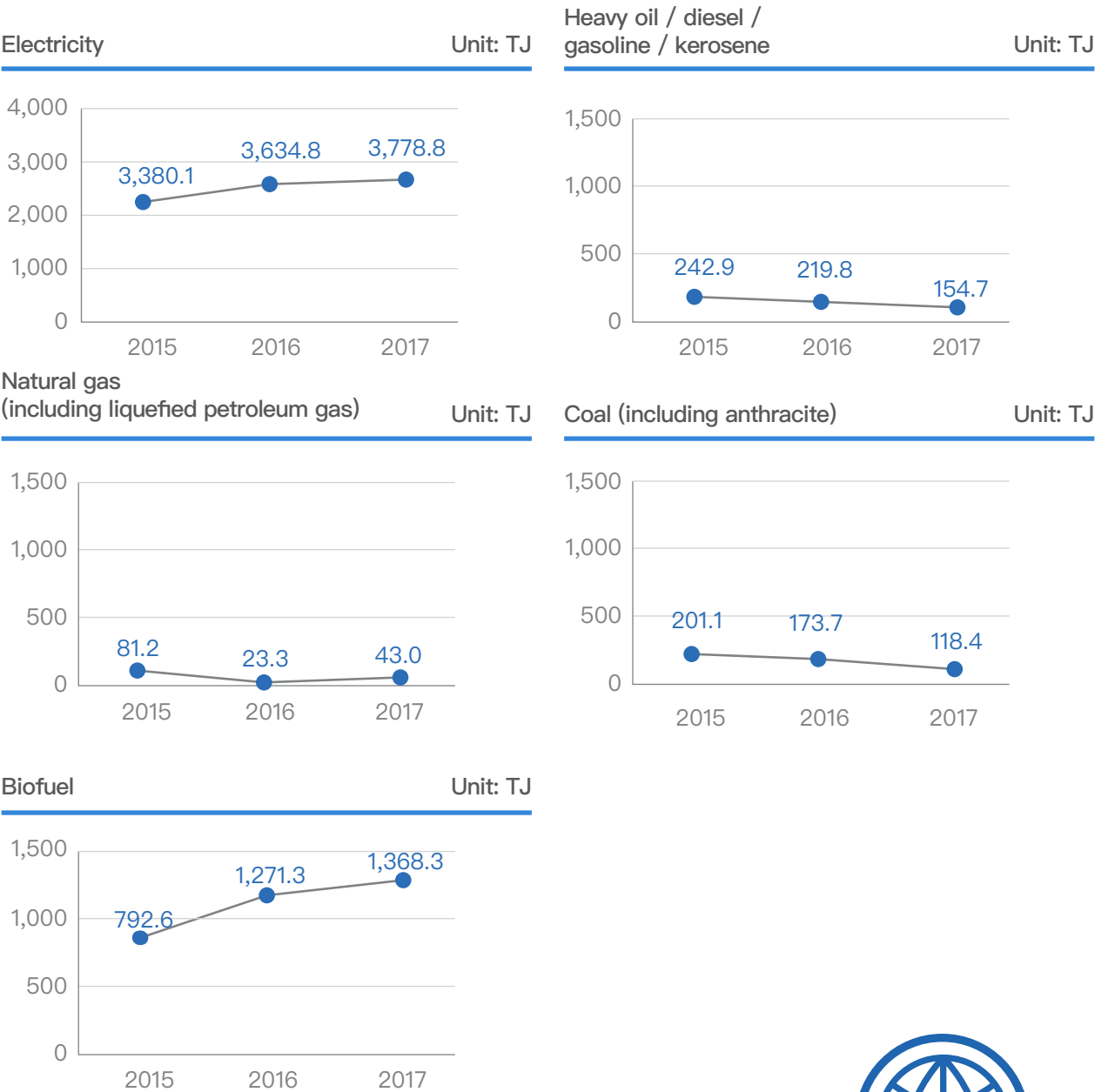
In 2017, our footwear business (including Headquarters) used the following types of energy: electricity, petroleum fuel, coal (including anthracite), biofuel, natural gas and liquefied petroleum gas (LPG). Bio-fuel comes from the fuel used by external contractors for the supply of steam heat. Pou Chen's total energy consumption in 2017 was 5,811.14 trillion joules (TJ).

## ▼ Energy Use Statistics

Year	Electricity	Petroleum Fuel			Biofuel	Average electricity consumption per pair
		(heavy oil / diesel / kerosene)	Natural Gas (including liquefied petroleum gas)	Coal (including anthracite)		
2017 Year	1,049,472.3 ( MWH )	5,667.9 ( K L )	90.0 (10,000 M3)	3.6 (10,000 metric tons)	9.1 (10,000 metric tons)	10.9~30.3 (MJ/pair)
	3,778.8 ( TJ )	154.7 ( TJ )	43.0 ( TJ )	118.4 ( TJ )	1,368.3 ( TJ )	
2016 Year	1,009,488.6 ( MWH )	6,357.3 ( K L )	83.5 (10,000M <sup>3</sup> )	0.7 (10,000 metric tons)	8.4 (10,000 metric tons)	8.6 ~ 23.3 ( MJ/pair )
	3,634.8 ( TJ )	219.8 ( TJ )	23.3 ( TJ )	173.7 ( TJ )	1,271.3 ( TJ )	
2015 Year	938,739.1 ( MWH )	6,894.8 ( K L )	276.7 (10,000M <sup>3</sup> )	0.8 (10,000 metric tons)	5.3 (10,000 metric tons)	7.3 ~ 14.6 (MJ/pair)
	3,380.1 ( TJ )	242.9 ( TJ )	81.2 ( TJ )	201.1 ( TJ )	792.6 ( TJ )	

Note (Grid power) (Non-renewable) (Grid supply) (Non-renewable) (Use of boiler) (Non-renewable) (Rice husk/palm husk) (Renewable) (The average figure is estimated from the top 3 production bases, namely China, Indonesia and Vietnam)

Note: The calorific value of each petrochemical fuel is based on the figures listed in the "Greenhouse Gas Emission Factor Management Table Version 6.0.1" of Taiwan's Environmental Protection Agency"



## Reduction of Energy Consumption

In terms of energy management implementation, priority is given to the comprehensive introduction of energy monitoring system. In 2017, the system was installed in (1)Shanggao and (2)Anfu Plant in East China. The online energy system was also installed in some factories located in (3)South China. In the future, we will continue to bring the system online for more factories to help them detect energy consumption anomalies and find opportunities for energy conservation.

The Company actively promotes energy-saving and carbon-reduction projects. In 2017, the energy-saving project was implemented for one plant in Indonesia. The main energy-saving measures include: establishing an energy-saving management organization and implementing the management system, transforming injection machines, detecting air pressure system leakage and optimizing operation, installing frequency converter for motor and water pump, rerouting the cooling water pipelines and so on. It was expected to save 6% of energy, and the actual number is 2.9%. The reasons for the reduction in energy-saving performance were product type adjustment and capacity transfer. As a result, some energy-saving projects were canceled, and

others were postponed to 2018. The energy-saving project postponed to 2018 will save an estimated 1.0% of energy. The actual performance will be explained in the 2018 CSR report. At the same time, energy-saving procurement specifications have been set for high-energy-consuming machines. Ventilation and cooling design and energy-saving design specifications have been set for new plants. From plant construction to the machine purchase, everything has to meet the energy-saving requirements.

In 2017, energy conservation measures were extended to all major production bases of the Company. The technology and experience of implementing energy-saving projects in the past are shared with the factory's energy-saving team. At the same time, factories are coached to achieve the goal of continuous improvement in energy-saving by means of self-management. In terms of source management, the equipment energy-saving procurement control, ventilation/thermal insulation and energy-saving plant design specifications have been set. Through continuous efforts, it is expected to achieve the goal of 8% energy saving by 2020.



Use thermal insulation coatings or insulation cloth to reduce heat loss.



Check the steam trap to prevent steam leakage.

# GHG Management

## Management Policy and Commitment

To support the call for action on global climate change and its impact mentioned by the United Nations through the “2030 Agenda for Sustainable Development – Sustainable Development Goals (SDGs)” as well as the international push for green production, GHG inventory and carbon reduction management have become an essential part of Pou Chen’s manufacturing and production management operations.

In 2017, we continued to strengthen the credibility and completeness of the inventory data of all the factories of the Company. In addition to the on-site inspections of the inventory data for the existing plant sites, we conducted inventory training and promotion for the new plants in Indonesia, Myanmar and Cambodia. The statistical scope of greenhouse gas inventory has officially been adopted in 2017.

## Inventory Results

The footwear business mainly produces three types of GHG emissions, namely Carbon Dioxide, Methane, and Nitrous Oxide. These come mainly from the consumption of electricity and combustion of petroleum fuels. A small amount of the Methane is also produced by septic tank emissions. As for Hydrofluorocarbons (HFC), Perfluorocarbons (PFC), and Sulfur hexafluoride (SF<sub>6</sub>), only a small amount of SF<sub>6</sub> is currently used as gas insulation for high-voltage equipment. Vendor data shows that there is very little chance of leakage. Therefore,

carbon emissions from these leaks are only counted when the equipment is refilled, and treated as 0 until then.

According to internal inventory results, Pou Chen’s footwear factories produced a total of carbon emissions equivalent to 861,000 tonnes of CO<sub>2</sub><sup>e</sup> in 2017. Scope 1 carbon emissions amounted to 64,000 tonnes CO<sub>2</sub><sup>e</sup> while Scope 2 emissions amounted to 797,000 tonnes CO<sub>2</sub><sup>e</sup>. In the main sources of carbon emissions in Scope 2, purchased electricity accounted for 74.0% and purchased steam made up for 17.6%.

Due to the differences in production procedures and regional energy carbon emission coefficients, the average carbon emissions per pair of shoes produced by Pou Chen’s factories in China, Indonesia and Vietnam ranged between 2.1–5.0 kg CO<sub>2</sub><sup>e</sup>/pr in 2017.

## The Inventory Based on ISO 14064–1

Pou Chen’s GHG inventory looks at each production site and is based on the international standard of ISO 14064–1. 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><sup>e</sup>. The unit of measurement is tonnes/year.

The activity data for different GHG emission sources are converted into mass or volume mea-



surement units such as kilogram, kilo-liter or liter based on the source then recorded. The differences in emission coefficients are due to the coefficients published for different fuel types in the Intergovernmental Panel on Climate Change's (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 announcement (2013) of International Energy Agency (IEA). The global warming potential (GWP) for all GHGs are based on the 4th IPCC announcement (2007).





## Water Use

### Water Supply Treatment and Management

Footwear manufacturing is not a water-intensive process. Therefore, most water consumption in the factories is for the employees. Only a minor part is 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 tap water. Reverse osmosis (RO) water purification system is installed 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 are 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.

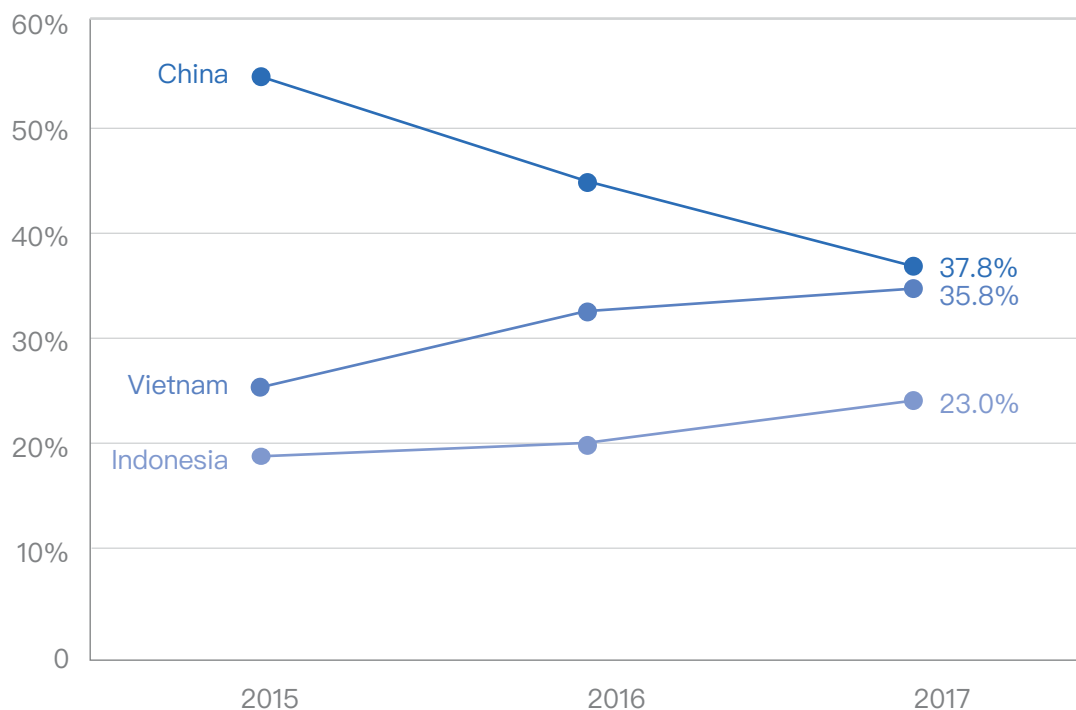
The main sources of water in Pou Chen's key operating regions are local tap water, river water and lake water. In 2017, the total water consumption of our footwear production sites was measured to be approximately 16,850,000 M3. The water source and water intake both fell within the range approved by the local government and did not have a significant impact on the water source.

## ▼ 2017 Total Water Use of Footwear Production Sites

Unit: 10,000 cubic meters (M<sup>3</sup>)

Location	Main Source of Water supply	2015		2016		2017	
		Usage (quantity)	Percentage	Usage (quantity)	Percentage	Usage (quantity)	Percentage
China	Tap water	1,312.8	54.4%	833.6	44.3 %	636.4	37.8%
Indonesia	River / lake / tap water	463.2	19.1 %	382.7	20.4 %	387.3	23.0%
Vietnam	River / tap water	609.7	25.3 %	615.0	32.7 %	603.9	35.8 %
Bangladesh	Tap water	6.5	0.3 %	7.2	0.4 %		
US / Mexico	Tap water	1.2	0.0 %	0.7	0.0 %		
Taiwan	Tap water	14.3	0.6%	17.9	1.0%	57.4`	3.4 %
Other regions: Cambodia and Myanmar	Tap water / Well Water (Myanmar)	6.9	0.3 %	23.2	1.2 %		
Total	Water supply from legal sources	2,414.6	100.0%	1,880.2	100.0%	1,685	100.0%

## Percentage of water consumption of footwear manufacturing bases



Note: The chart does not display water consumption lower than 10%, including Bangladesh, the US, Mexico, Taiwan and other regions (Cambodia and Myanmar).



# 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 end goal is proper treatment. In addition to complying with local emission regulations, the medium- and long-term management objectives are aimed at improving water resource reuse and gradually reducing discharge.

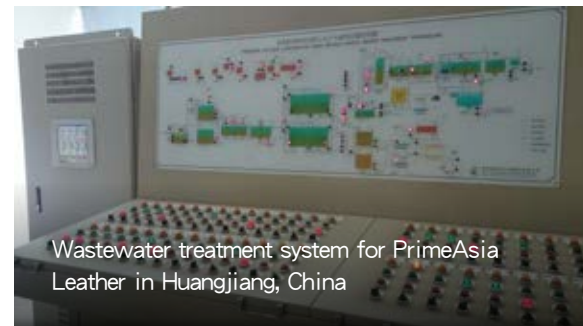
Most of the sewage in the footwear factory comes from employee's domestic water use, while a small part is industrial wastewater from the cleaning, printing and spraying operations during sole production. All factories have installed chemical coagulation pre-treatment equipment for industrial wastewater 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-degradation treatment.

All sewage treatment plants are equipped with dedicated water quality laboratories for water quality testing and monitoring. Approved inspection organizations by local competent authorities are also regularly contracted to sample and test the wastewater discharge. Wastewater that meets water quality standards is ultimately discharged through legal outlets. Wastewater from stand-alone factories is all discharged into receiving water bodies (specified in environmental assessment documentation) designated 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 wastewater 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 2017, we continued to inventory water use at each production site. Data on water resource use and ultimate discharge volume will be disclosed in the CSR Report for the next 3 years.



Wastewater treatment system for PrimeAsia Leather in Huangjiang, China

▼ Wastewater treatment monitoring and control system for PrimeAsia Leather in Huangjiang, China



# Waste Management

## Management Policy and Commitment

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

## Waste Sorting and Treatment

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 approved in accordance with local laws.

A Recycle Material Control Center (RMCC) within each factory is used as the holding area for statutory hazardous waste and recyclable waste defined by laws. These wastes 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 to be tracked 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 production site. 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 merged 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.



Dedicated Waste Holding Area in the Factory



Reusable packaging material for the sole has been adopted.



## Waste Reduction and Reuse

The “Zero Landfill” program has been introduced at selected factories in support of brand customers’ sustainable development policy. Waste such as genuine and synthetic leather that can’t be reused are used for fuel during cement production. The conversion to energy reduces the environmental impact.

Examples of waste reduction and recycling at footwear factories are as follows:

- A factory in Indonesia cleaned and recycled discarded chemical barrels and painted them into a bucket for mops brooms.
- A factory in Indonesia used waste fabrics to make curtains.
- A factory in Indonesia made

1,914 work aprons from synthetic or textile waste, as well as 7,056 synthetic aprons and 1,061 protection sleeves.

- A factory in Indonesia has made 9,300 bags out of textile waste to replace plastic bags.
- A shoe factory in Vietnam recycled and reused old plastic bags (4,052 kg/month) delivered from external factories and chemical plants to reduce waste in the workplace and avoid environmental pollution. This also helps the company cut costs.
- The cutting tool process of a factory in China was automated to replace manual labor. The amount of scrap iron generated was reduced by about 46 tons per year.



▲ A factory in Indonesia made 1,914 work aprons from synthetic or textile waste and 7,056 synthetic aprons as a successful example of recycling and reuse.



Waste was recycled and made into a bucket for brooms

## Environmental Grievance Mechanisms

Pou Chen values the rights of surrounding communities and the environmental concerns of stakeholders. The SD units in the administrative centers of each production region are responsible for receiving, processing and responding to the social and environmental grievance or feedback from the community. In 2017, the Company's key operating regions received no environmental complaints from community residents.

## Environmental Compliance

Compliance with local discharge regulations and environmental protection regulations is the top priority in management in terms of production. In 2017, Pou Chen's production sites saw no inci-

dents of serious environmental pollution caused by accidents such as oil and fuel leakage. The disposal of waste was also in full compliance with relevant storage and transportation regulations. No leakage or pollution occurred. There were four environmental penalties in 2017 for air pollutant discharge and environmental protection permits. Three cases were the incomplete treatment of organic solvent fugitive gas in the factory process. There was a slight difference in the local government-approved Environmental Impact Assessment (EIA) documents. One case was the abnormal discharge of organic solvent treatment equipment. The total amount of the penalties was about US\$43,260.

## ▼ Environmental Happening

Area	Violation	Penalties	Improvement Measures	Preventive Measures
Huangjiang, China	The environmental monitoring team of the competent authority conducted an order monitoring of atmospheric emissions, and found that the total volatile organic compounds (VOCs) exceeded the limit.	RMB 100,000 (about US\$15,880)	<p>The monitoring report and the statement of the organic waste gas inspection compliance report for each quarter of the year were sent to the monitoring team for appeal, but the appeal was not accepted by the Municipal Environmental Protection Bureau.</p> <p>Spray additional water on washing tower facilities to improve the efficiency of VOCs treatment.</p>	Conduct an assessment of the cleaner production process and seek to reduce VOCs volatilization. Strengthen self-monitoring measures, pollution prevention and treatment measures.
Dongguan, China	The environmental inspection of the competent authority found that for the activated carbon filter device for VOCs produced by glue and chemical product used in the factory, some did not have activated carbon. This led to the collected VOCs being directly discharged.	RMB 100,000 (about US\$15,880)	The activated carbon was being replaced in the factory, but the process had not been completed. Immediately place activated carbon into the devices and inform the competent authority.	The record of activated carbon replacement is included in the internal self-inspection for the prevention facilities to operate effectively.
Dong Nai, Vietnam	Environmental audit found that the environmental treatment equipment had not been set up according to the EIA report (no VOCs processing system, and the EIA sewage treatment system was misplaced on the plan)	VND 160 million (about US\$8,000)	The rectification record and plan were sent to the local environmental protection authority in a formal document. The local administrative management center will review the EIA documents about all plants and apply for the assessment to be modified.	Environmental compliance inspection is conducted each year for all group factories. The difference between the EIA and the current situation is listed as a key item.
Tien Giang, Vietnam	The Company's EIA report describes that each plant has a solvent vapor treatment absorption tower, which does not match the current situation.	VND 70 million (about US\$3,500)	When the third-party inspection company conducted environmental audits every quarter, all statistics were compliant. Therefore, the absorption tower was not installed, and only the exhaust system was used to collect steam. Therefore, we started the application and modification of the EIA content along with the industrial bureau.	Environmental compliance inspection is conducted each year for all group factories. The difference between the EIA and the current situation is listed as a key item.

Note 1: 1 USD is VND 20,000

Note 2: 1 USD is RMB 6.29716



## 4 / Customer Service and Supplier Mana



# 4

## Chapter

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## Customer Service

Pou Chen is committed to becoming a leading manufacturer and retailer of sports and recreation products, providing first-class products, services, and solutions, and creating higher value for customers, employees, investors, suppliers, and communities. The Company has established long-term cooperative relationships with many international famous brands, and has been committed to providing the best service for brand customers. It can provide customized design and production based on individual customers' needs, set up a development center exclusive for each customer, strictly separate its production sites and work practices based on different customers, and protect the brands' privacy and business secrets to become the best production partner and establish a solid trust foundation between the Company and its brand customers.

Pou Chen's factories demonstrate outstanding manufacturing and management strengths, and have been recognized by its brand customers. In 2017, it has passed the brand customers' inspection of the factory; the Merrell production plant also obtained the FDRA excellent factory certification in 2017.

Nowadays, the global market for sports shoes, casual shoes, and outdoor shoes have gradually switched to the model that is characterized by low volume and high product diversity as well as customization. As the product life cycle is shortened, the Company reinvents the production process and establishes a collaborative R&D electronic system to enhance and improve production and management efficiency, strengthen R&D capabilities, proactively innovate design, and run the management team, to participate in front-end development and design, serve its brand customers, and align itself with the customers regarding mutually beneficial relationships. Additionally, through the mechanism of shoe material selection, it provides its brand customers with innovative materials.

In terms of delivery, quality and price, Pou Chen has constantly improved the service quality and responded to customers' needs in a real-time manner, in order to strengthen brand customers' dependence on the Company's product development and quality services, and deepen the mutual relationships accordingly. The overall production operation process is supervised and audited by customers, and customers' improvement requests are responded to in a timely manner to effectively meet the customers' needs.

# Product Quality and Safety Management

The Company provides high-quality product manufacturing services for internationally renowned brands. All the footwear products on the production lines in the design development stage, including material selection, process execution, and use of adhesive and packaging materials, will only be scheduled for formal production on the production lines after health and safety hazard assessment and confirmation by the brands' R&D centers.

During the mass production process, all materials need to go through sampling before being placed in the storage to prevent problematic materials from being misused in the production of finished shoes; all finished shoes must be scanned by special personnel or metal detection equipment to make sure that no metal or sharp objects remain in footwear products. The loading of all qualified finished shoe products needs to be conducted under the supervision of specific trained staff, and seals are employed to record shipments to prevent dangerous items from being put in them during transportation.

In response to the brand safety policy and the management trends of business secrets, the Company has strictly separated and controlled the production sites for various brand customers, and strengthened the behavioral awareness by establishing compliance standards to ensure detailed management of

the process, as well as promulgated and implemented company product safe management guidelines. All personnel shall abide by the Company's relevant regulations on product safety, information security, and business secret protection. Regularly education and training are provided to the personnel on issues, such as business secrets, product safety, information security, or non-competition, and the personnel are trained for relevant professional knowledge to make sure that they really implement the principles, so as to protect the R&D center's confidential information.

Suppliers shall sign a confidentiality contract or a confidentiality clause and the letter of commitment regarding product safety in the appendix with the legal person to which the R&D center belongs, and strictly abide by the provisions of the confidentiality regulations, letter of commitment, the R&D center's rules and statutory regulations on product safety and information security. The R&D center provides education and training to suppliers' personnel on issues, such as product safety, business secret protection, and information security. It has the right to audit suppliers from time to time, and may include the audit results as the basis for the R&D center's internal evaluation of suppliers.

In 2017, the Company did not receive any complaints regarding infringement of customer privacy or technological leakage.

The products manufactured and supplied by the Company are not directly sold to consumers, so the mechanism for products scrapping, recycling, or packaging material recycling has not been implemented. However, since the Company maintains a close business relationship with brand customers, all products apart from passing customers' high standards of quality inspection, based on customers' needs and exporting countries regulations, are provided with reasonable packaging and detailed product information labels, such as product dimensions, materials, ingredients, and instructions for

use. In addition to knowing relevant product information and services through the brand customers, consumers can also gain the information regarding manufacturing factories from a factory code on the product label, and then further contact the manufacturing factory to inquire about relevant questions about products.

In 2017, there had been no fines imposed or violations of product standards, nor complaints from consumers due to safety and hazard concerns in terms of the Company's manufactured shoes.

#### ▼ Product Labeling and Service Information

Labeled items	Instructions for labeled information
Source of product components/ingredients or service providers	Product components are supplied by suppliers that meet customer product requirements and standards, which is not otherwise indicated in product labels.
Product content	Labeling of main materials.
Safe use of products or services	Instructions for use.
Subsequent disposal of products and their environmental/social impact	The Company's contract manufactured products are not directly sold by the Company; thus, the product waste impact assessment and subsequent disposal measures have not been implemented.

# Supplier Management

## Vision and Goals: Resource Integration and Value Increase

The selection and management of materials is not only the focus for the brand customers, but also an important cost control factor for the Company's manufacturing and production. The selection and management of suppliers who meet the quality standards and supply requirements is an important management issue.

Based on the vision of "resource integration and value increase", Pou Chen has set short-, mid-, and long-term goals and expects to realize its corporate social responsibility and the sustainable development goal by developing more new materials, new processes, new technologies, and new applications, as well as developing product creativity and its added value.

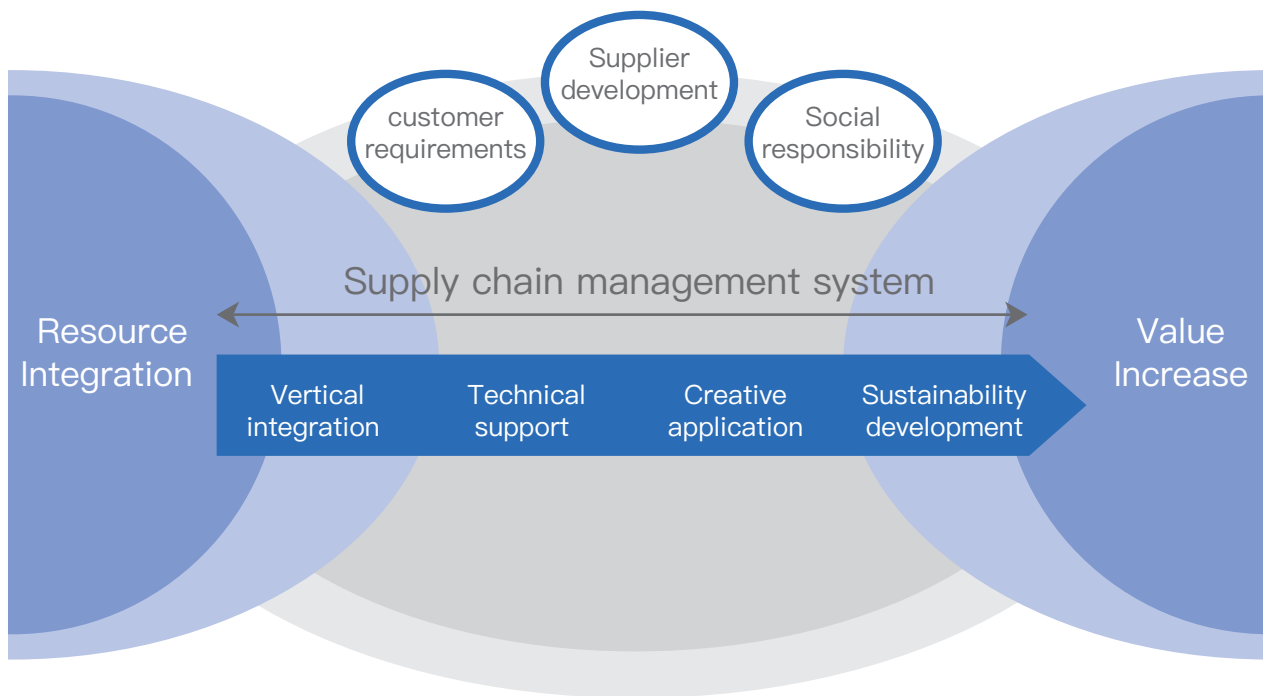
In addition to the materials appointed by customers or specific materials, all new suppliers need to receive factory audits performed by a professional team through a supplier selection process to ensure that raw material suppliers have systematic quality control capabilities, and that a supplier sustainable

development management system will be established. Based on the characteristics of each material, annual or quarterly assessments of suppliers are conducted to ensure that the daily production and supply of raw materials to meet the quality standards and comply with laws and regulations, so as to strictly implement quality control.

The Company provides counseling to the suppliers with more deficiencies in sustainable development management for improvements depending on the degree of severity, or reports to customers for joint follow-up on the effectiveness of the improvements, prompting the suppliers to continue optimizing the cycle for improvements.

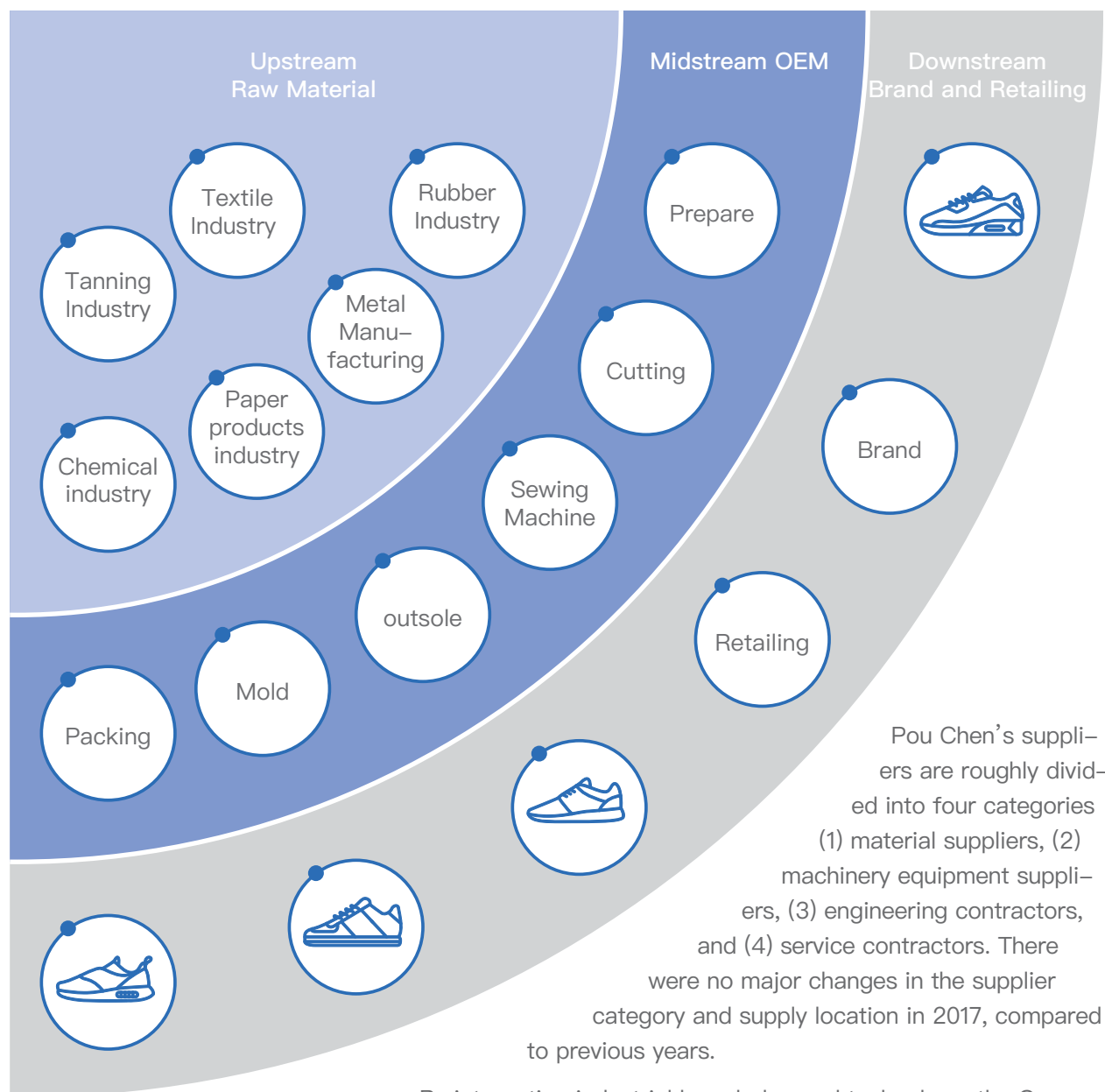
The short-term goal is to continue optimizing the vertically integrated supply chain management system by integrating the Group's resources and to provide comprehensive solutions to meet customers' needs. The mid- and long-term goal, apart from enhancing the quality and the competitiveness of cost, is to expand suppliers' R&D and sustainable development capabilities to innovate applications, upgrade manufacturing processes, and refine materials with suppliers.







# Footwear Industry Supply Chain



By integrating industrial knowledge and technology, the Company has linked the upstream, midstream and downstream businesses in the footwear industry and formed a complete supply chain. With the goal of providing customers with rapid responsive services, we continue improving manufacturing processes, enhancing production flexibility, and building a responsive material supply system that is sensitive to the market, so as to develop our long-term value.

## New Suppliers

In addition to the materials appointed by customers or suppliers of specific materials, Pou Chen screens 100% of new suppliers based on environmental standards. New suppliers are required to complete a self-assessment form including items, such as occupational safety, the Group's code of conduct, and fire safety. In

addition, new suppliers are sampled for factory inspection visits on a regular basis every year. After the completion of the self-assessment form and factory inspection visits, a decision will be made if applicants can be included as Pou Chen's suppliers.

## Supplier Quality Management Approach

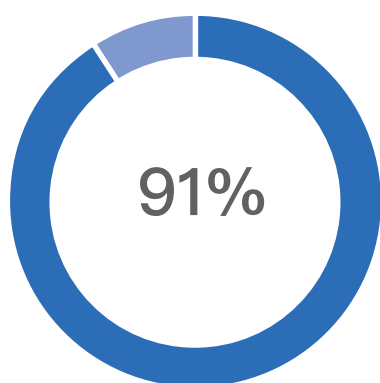
- The supplier quality audit system at the supply chain management headquarters includes 11 quality management components to grade.
- In accordance with the ISO 9001:2015 quality management system, the selection and evaluation criteria are established for suppliers, and their business status, quality management system, supply capacity, service and delivery capabilities are further understood with a check list.
- To effectively manage suppliers and ensure that the quality of procurement can meet the Company's and brands' requirements, the audited suppliers are required to respond to the deficiency improvement measures in accordance with the PDCA (Plan, Do, Check, Action) principle, so as to strengthen suppliers' quality management, reduce the cost of suppliers' quality

failures, and ensure that incoming quality control (IQC) at each factory meets brands' standards and requirements.

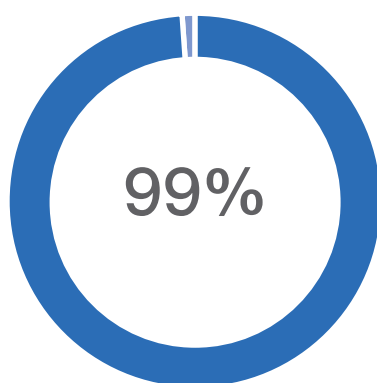
### ▼ Supplier Quality Management 11 Audit Components

1. IQC Supplier Management
2. Manufacturing Process control
3. Quality system
4. Finished product and shipment inspection
5. Instrument calibration
6. Non-conformity product control
7. Education and training
8. Storage and delivery
9. Customer service
10. Document and record control
11. Environment and labeling

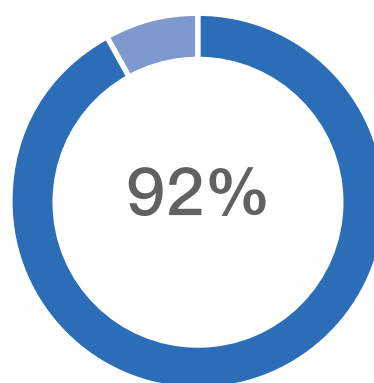
### Supplier Quality Audit Pass Rate



2015  
Audit 271 suppliers



2016  
Audit 138 suppliers



2017  
Audit 61 suppliers

# Supplier Sustainability Management

In 2017, we implemented supplier sustainable development management and formulated 12 categories of auditing components based on the ISO14001 environmental management system, including environmental management, fire safety, and occupational safety and health. Meanwhile, we reward suppliers with outstanding performance, including green design, green manufacturing, green innovation, green marketing, green procurement, green recycling, and green product.

Because of the different scales of suppliers, management capabilities and levels of cooperation vary accordingly, the suppliers who cannot meet the Company's quality requirements and sustainable development management indicators will be first required to improve by a deadline; we guide suppliers to implement environmental projects, among other improvement activities, to ensure that the suppliers have effective measures to prevent and control environmental pollution.

With suggestions, if the suppliers are still unable to meet the Company's requirements after improvements, they will be replaced to reduce the supply risks to enable the Company's supply chain management to be able to meet the basic environmental protection requirements of ISO 14001:2015 and international sustainable development trends.

The Company conducts targeted management based on the importance and traded proportion of raw materials. For suppliers who fail their audits, the procurement quota will be adjusted through the supplier management system, so as to establish a high-quality supply chain management system.

## ▼ Suppliers Sustainable Development Management 12 Auditing Components

### Environmental Management

1. Environmental Management System
2. Industrial exhaust document for environmental discharge permit
3. Wastewater discharge permit
4. Hazardous waste disposal and treatment

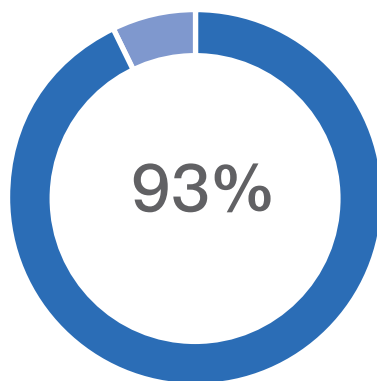
### Fire Safety

1. Fire safety inspection
2. Fire-fighting facility maintenance
3. Fire-fighting facility inspection
4. Fire evacuation drill

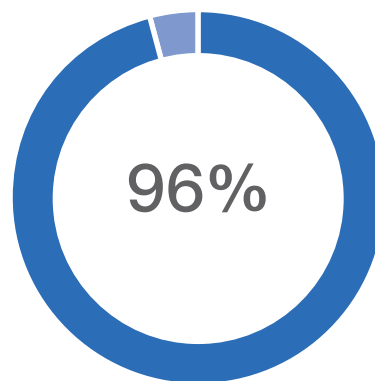
### Safety and Health

1. Occupational Safety and Health Management System
2. Operating environment monitoring
3. Safety and health, first-aid personnel, dangerous machinery operators
4. Dangerous machinery and equipment management

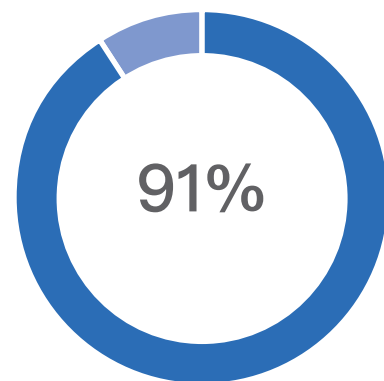
## Supplier Environmental Audit Pass Rate



2015  
Audit 334 suppliers



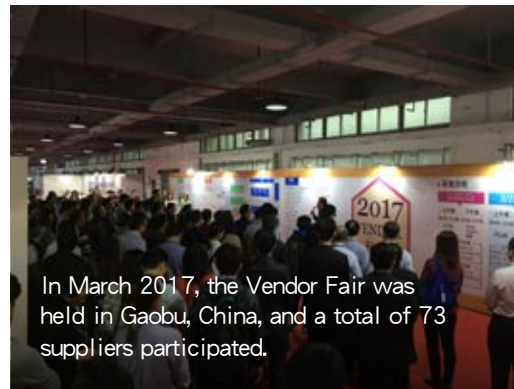
2016  
Audit 134 suppliers



2017  
Audit 104 suppliers



In September 2017, a supplier material exhibition was held in Binh Chánh, Vietnam, and a total of 71 suppliers participated.



In March 2017, the Vendor Fair was held in Gaobu, China, and a total of 73 suppliers participated.

## Supplier Development

Pou Chen regards suppliers as partners and held Vendor Fairs in China and Vietnam, respectively, in 2017, providing a platform for suppliers and Pou Chen's R&D personnel to interact face-to-face and share product and material needs, as well as development trends. Additionally, topical seminars/symposiums were organized for exchanges of new technologies and future prospects. Meanwhile, suppliers took the initiative to introduce their newly developed eco-friendly materials and newly designed safety devices for mechanical equipment at Vendor Fairs. With collaborative innovation with our suppliers and attention to environmental protection and health and safety issues, we would build a sustainable development supply chain system to realize the vision of "resource integration and value increase" and ensure the implementation of corporate social responsibility..

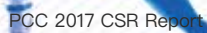






## 5 / Friendly Workplace

# 5





## Friendly Workplace in Compliance with FLA Principles

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We believe that workers everywhere have the right to work in a safe and fair environment, which is the primary reason for us to join the Fair Labor Association (FLA). We actively invited fair third-party to undertake independent assessment of Pou Chen's global operations.

We have joined the FLA and promise to abide by the FLA Workplace Code of Conduct and Principles of Fair Labor & Responsible Production and relevant key performance indicators (KPI).

1. Workplace Standards: Company Affiliate is committed to establish clear standards.
2. Responsibility and Head Office Training: Company Affiliate identifies and trains specific staff responsible for implementing workplace standards, and provides training to all head office staff.
3. Production Staff Training: Company Affiliate trains all management staff and employees at its production sites on workplace standards and tracks effectiveness of training.
4. Functioning Grievance Mechanisms: Company Affiliate ensures workers have access to func-

tioning grievance mechanisms, which include multiple reporting channels of which at least one is confidential.

5. Monitoring: Company Affiliate conducts workplace standards compliance monitoring.
6. Collection and Management of Compliance Information: Company Affiliate collects, manages, and analyzes workplace standards compliance information.
7. Timely and Preventative Remediation: Company Affiliate remediates in a timely and preventative manner.
8. Responsible Production Practices: Company Affiliate aligns sales and planning practices with the commitment to workplace standards.
9. Consultation with Civil Society: Company Affiliate identifies, researches, and engages with relevant labor non-governmental organizations, trade unions, and other civil society institutions.
10. Verification Requirements: Company Affiliate meets FLA verification and program requirements.



### Our Taiwan production site has passed the assessment of Sustainable Compliance Initiative (SCI)

To increase the transparency in Pou Chen’s pro-duction conditions, we have joined the FLA in 2011 and undergo FLA’s Sustainable Compliance Initia-tives (SCI) assessment for designated regions and factories each year. We submit an annual report on compliance status review to FLA and disclose a causal analysis report that is simultaneously uploaded to FLA’s website after the assessment. Production facilities will adopt corrective measures according to the suggestions on the report and regularly provide feedback on the action plan. This is part of our efforts to systematically and regularly receive human rights evaluation and assessment/ monitoring from NGO groups.

While undertaking the independent assessment, FLA will interview a fixed ratio of employees on questions pertaining to working or living conditions, including health, safety, compensations, working hours, and communications with the management. Furthermore, the FLA team will also visit production facilities, employee dormitories or other facilities, and undertake comprehensive review on each stage of the recruitment procedures and all relevant doc-uments.

In November 2017, labor rights professionals from the US Headquarters of FLA verified Pou Chen’s industrial and labor–environmental and safety risk monitoring mechanism and status of implementa-tion of responsible production, and submitted find-ings to “Strengths and Risk Analysis Report.” Pou Chen’s advantages in the following aspects were highly approved, and we estimate that the Company can successfully receive FLA Board of Directors’ accreditation before the end of 2018.

FLA’s scope of assessment encompasses Pou Chen’s major production facilities throughout the

world, and past annual assessment reports can be found on FLA’s website at [www.fairlabor.org/trans-](http://www.fairlabor.org/trans-)parency/assessments. In the future, Pou Chen will continue our efforts in striving to realize the stan-dards and philosophies of the International Labour Organization (ILO) and FLA, and to provide posi-tive labor relations and working conditions for our employees.

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*Our senior management has demonstrated high levels of the commitment to the society and our workers.*

*Pou Chen Group achieves compliance standards more rigorous than the local laws and regulations. For instance, we implement lively and creative training programs and own a mature internal audit platform; we actively take part in community participation and employee caring, and we realize these philosophies in our production and operation. Pou Chen's effective management and audit mechanism for suppliers can serve as a benchmark for the industry.*

*FLA Strengths and Risk Analysis Report, February 2018*

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## Compliance to FLA Workplace Code of Conduct

Workplace Standards

Responsibility and Head Office  
Training

Production Staff Training

Functioning Grievance  
Mechanisms

Monitoring

Collection and Management of  
Compliance InformationTimely and Preventative  
Remediation

Responsible Production Practices

Consultation with Civil Society

Verification Requirements

## Respect Labor and Human Rights

Pou Chen is committed to the implementation of the principles of fairness and equality and human rights policy in accordance with local laws, the International Bill of Human Rights, and Pou Chen Group Code of Conduct.

Pou Chen is instrumental in the principle of equal opportunities and is focused on contributions and development of diversified talent. We provide fair recruitment and employment opportunities to job-seekers and employees, and do not discriminate on the basis of gender, race, religion, age, disability, sexual orientation, nationality, political viewpoint, social status, or minority. Relevant management principles are also realized in our employment, compensations, benefits, promotions, discipline, termination, or retirement regulations.

Every new employee is required to sign a labor contract that clearly defines the rights, responsibilities, and obligations of the employee and employer upon employment. All employees have the right to terminate their employment status with the production facility. Establishment, amendment, dismissal or termination of labor contract strictly adhere to relevant laws and policies.

### No Incidents of Discrimination Occurred

Two suspected incidents of discrimination had occurred in 2017. After internal investigations, the incidents were found to be a misunderstanding of internal communication and have been clarified to the employees who reported the incidents. Internal advocacy has also been reinforced.



## Freedom of Association and Collective Bargaining

Pou Chen upholds employees' right to freedom of association and collective bargaining. We recognize the organization of legal unions initiated by employees, and proactively communicate and interact with such unions.

Pou Chen has established employee unions voluntarily joined by employees at major operational sites including Taiwan, China, Indonesia, and Vietnam. The unions assist employees to communicate employment issues with the Company, including signing collective bargaining contracts (or "group contracts"), and reviewing employer and employees' rights on the Employee Handbook to confirm the basic labor standards, and represent employees in employment relations negotiations or activities.

Unions in each area also join the Company in organizing employee welfare and service activities to enhance communications and cohesion between the Company and its employees.

## Ban on Child Labor

Child labor is prohibited in accordance with the Pou Chen Group Code of Conduct and government laws. Minor workers are recorded and reviewed according to legal regulations, and relevant protective policies are stipulated to ensure their working hours and positions are in compliance with local legal regulations.

HR Department will require job applicants to provide effective personal identification document to confirm their actual age during interview. Once

misuse of child labor is found, the child's work will be immediately suspended, and the child will be returned to his/her residence to either his/her parents or guardian. Transportation and food/accommodations expense will be paid for by the Company, and the child's wages for actual work undertaken will also be paid. No child labor incident occurred at PCG operations in 2017.

## No Forced or Compulsory Labor

Pou Chen does not employ any labor that is forced, imprisoned, or bound by illegal contracts. All work is voluntary and employees have the right to work overtime and to leave their employment with Pou Chen under reasonable notice. No incidents of forced or compulsory labor occurred in 2017.

Pou Chen production sites adopt diversified recruitment channels, and the HR Department will verify that job applicants' documents are accurate, age has reached the legal requirement, and if the applicant is willing to work during the interview. Only those who comply with regulations will be hired. Employees will not be required to use their personal identity or working permit as collateral.

Employees' hours of work are in strict adherence to national laws, Company standards, and negotiations with brands. If overtime arrangement is needed, employees' personal consent must be obtained. Overtime and overtime pay are both in line with local regulations.

# All of Our 360 Thousand Employees throughout the World are Formal Employees.

The Company's global operations span across Taiwan, China, Vietnam, Indonesia, Hong Kong, Macau, USA, Mexico, Bangladesh, Cambodia, and Myanmar among other locations. As of December 31, 2017, we have 364,988 formal employees excepting except for a small portion of labor contract workers who mostly undertake cleaning and housekeeping (approximately 73 persons) in China.

"Footwear" business and "Retail" and "Other" business account for 332,239 and 32,749 employees respectively, including 19 male and 21 female interns in Taiwan.

The ratio of our employee distribution in Taiwan, China, Vietnam, Indonesia, Cambodia, Bangladesh, Myanmar, and other locations including USA and Mexico are 1.2%, 21.3%, 43.9%, 30.2%, 0.7%, 1.0%, 1.2%, and 0.5% respectively.

In terms of gender distribution, male formal employees account for 21%, while female formal employees make up for 79%. In addition, the ratio of hiring local workers as management personnel in major operations is more than 77%, and the ratio of female management personnel is more than 50%.

Our most important asset is professional talent in diverse fields. By the nature of employee's work, production accounts for 75.4%; whereas administration, engineering technology, retail, and others account for 8.2%, 7.0%, 8.4%, and 1.0% respectively.

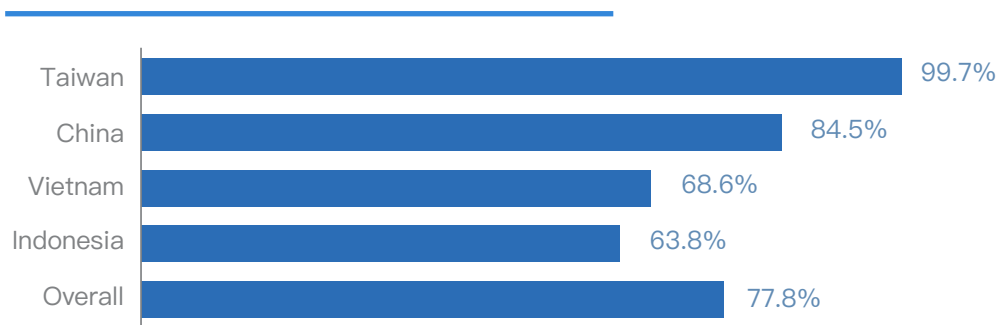
In addition, by the nature of the business, "Footwear" employees account for 91%, while "Retail" and "Other" account for 9% of total employees.

## ▼ Ratio of Employee Distribution by Type

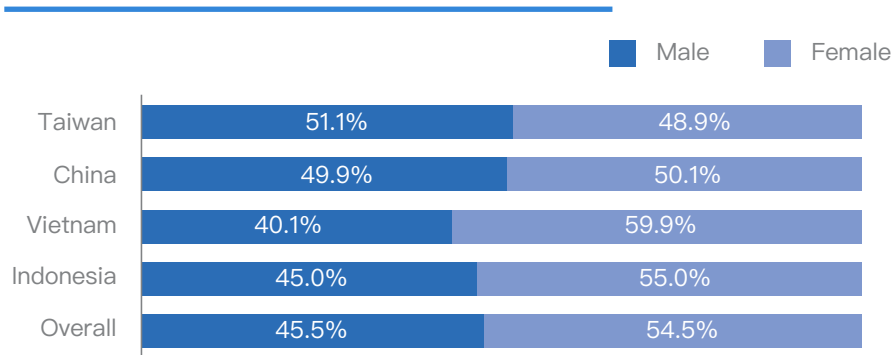
Region	Gender	Age		
		Under 29	30-49	Over 50
Overall	Male	45.00%	51.90%	3.10%
	Female	42.70%	56.00%	1.30%
Taiwan	Male	18.00%	68.30%	13.70%
	Female	21.60%	67.10%	11.30%
China	Male	34.10%	60.20%	5.70%
	Female	26.90%	71.70%	1.40%
Vietnam	Male	48.20%	49.80%	2.00%
	Female	39.20%	59.00%	1.80%
Indonesia	Male	46.50%	51.90%	1.60%
	Female	57.40%	42.40%	0.20%

Region	Gender	Age		
		Under 29	30-49	Over 50
Cambodia	Male	71.4%	27.7%	0.9%
	Female	66.6%	32.8%	0.6%
Bangladesh	Male	81.6%	18.2%	0.2%
	Female	78.0%	21.8%	0.2%
Myanmar	Male	76.2%	22.7%	1.1%
	Female	68.9%	30.7%	0.4%
USA and Mexico	Male	48.6%	37.5%	13.9%
	Female	32.9%	44.2%	22.9%
Others	Male	36.8%	47.4%	15.8%
	Female	37.5%	37.5%	25.0%

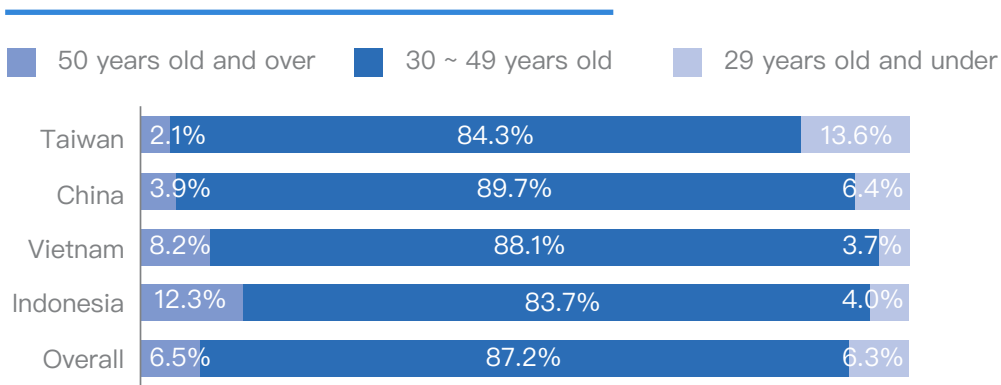
#### Distribution of management personnel – ratio of local workers



#### Distribution of management personnel – by gender



#### Distribution of management personnel – by age



Note 1: Information above includes data from Pou Chen's main production bases only: Taiwan, China, Vietnam, and Indonesia.

Note 2: Management personnel refers to the ranks of section chief (inclusive) and above.



## Placing the Right People in the Right Positions

The Company proactively invites talent to join, and the recruitment process is impartial across all nationalities, genders, age groups, and religions. In addition to recruit via job banks, professional training institutions, social media websites, group visits, and consulting firms, we also encourage internal employees to make referrals. We encourage employees to joining our campaign to find decent talent by conveying our concept of “finding your best partner”. The company also attends campus recruitment activities every year in order to recruit outstanding talent from various fields through diversified channels. We help students to familiarize themselves with the industry through campus exhibition, seminars, internship, and management trainee programs.

In addition, the Company also continues managing our recruitment channels, and provides the latest information of our job vacancies and footwear training message via social platform. We also organize activities to increase interactions with external job-seekers. The social platform is used to



share footwear production processes. We hope to attract more talent who are interested in footwear production to join Pou Chen Group.

The Company welcomes talent from different fields and continuously builds our professional capability. Our talent recruitment procedures are in line with local laws and regulations. We select appropriate talent, and innovates our thinking and creativity together.



▼ The percentage of employee turnover: by age, gender, and location

Region	Gender		Age		
	Female	Male	under 29	Under 30–49	Over 50
Total	14.5%	4.7%	11.7%	6.8%	0.7%
Taiwan	7.0%	6.3%	6.3%	6.6%	0.4%
China	32.2%	13.3%	26.3%	16.6%	2.6%
Vietnam	10.8%	3.1%	8.2%	5.5%	0.3%
Indonesia	5.1%	0.4%	4.0%	1.5%	0.0%
Others	36.7%	9.0%	34.2%	10.7%	0.8%

Note 1: Turnover rate = number of turnovers/current number of employees at the end of the year.

Note 2: Others include: production sites in Cambodia, Bangladesh, Myanmar, USA, and Mexico.

Note 3: Voluntary turnover excludes dismissal, retirement, and death.

▼ The percentage of new employees: by age, gender, and location

Region	Gender		Age		
	Female	Male	under 29	Under 30–49	Over 50
Total	16.3%	5.6%	14.2%	7.2%	0.5%
Taiwan	10.7%	7.9%	10.8%	7.5%	0.3%
China	42.9%	14.7%	31.2%	24.4%	2.0%
Vietnam	7.8%	2.7%	7.8%	2.7%	0.0%
Indonesia	7.2%	2.1%	8.3%	1.0%	0.0%
Others	41.3%	17.3%	43.6%	14.3%	0.7%

Note 1: New employee refers to employees who have not been in the company for more than one year as of December 31, 2017..

Note 2: New employment rate = number of new employees of each type of gender and age in each area/current number of employees at the end of the year.

Note 3: Others include: production sites in Cambodia, Bangladesh, Myanmar, USA, and Mexico.



# Competitive and Fair Compensations System

The Company sees employees as our greatest asset. To attract, inspire, and retain quality personnel, the Company provides attractive and competitive compensation conditions, and treats all employees fairly. No unfair treatment in terms of compensation is made based on gender, ethnicity, religion, political viewpoint, sexual preference, or marital status. In terms of salary, based on the principle of equal pay for equal work across all genders, our salary standard is based on an employee's academic background and experiences, position, professional, technical competencies. We also use an employee's attitude, demonstration of professional competency, and overall performance as the basis to incentivize an employee. The Company also regularly reviews the remuneration policy to ensure a competitive advantage in our compensation standards. We also tie performance management with

differences in rewards and bonuses to recruit and to retain high-performing talent.

As a multinational enterprise, the Company designs compensation systems that meet local requirements in terms of legal regulations, industry standards, and job market conditions for its overseas operations. This is to encourage overseas employees to achieve long-term commitment to their work and to mutually grow with the Company. Besides performance bonuses given according to work performance in each month, to reward employee contributions and to inspire their motivation for work, we also allocate a certain ratio of earnings as year-end bonus and employee incentives based on the year's profitability, so that employees can also share the Company's management results.

## ▼ Ratios of Standard Entry-level Wage Compared to Local Minimum Wage at Major Operational Location

Region	Taiwan	China	Vietnam	Indonesia	Cambodia	Bangladesh	Myanmar	USA and Mexico
Ratio	1.0	1.0	1.2	1.0	1.0	1.0	1.0	1.0

Note 1: The information above includes data from each major production site.

Note 2: Entry-level personnel refers to direct personnel at each location.

Note 3: Wage ratio = (minimum starting wage for entry-level personnel/local minimum wage)

## Lawful Pension Appropriations

The Company's retirement system is processed in accordance with local laws of the country of operation. To protect the retirement life of our employees, we provide stable pension allocation and payout for each employee. In the case of Taiwan, 65 employ-

ees filed for retirement in 2017. Pension allocation according to the previous retirement plan was NT\$190 million, while pension allocation according to the new system was NT\$210 million, ensuring employee's pension payment.

### ▼ Benefits and Retirement System in Taiwan, China, Vietnam and Indonesia

Region		Taiwan		China	Vietnam	Indonesia		Bangladesh	USA	Mexico
Retired system	Proportion of allocation	Pension under the old system	Pension under the new system	Retirement insurance from social insurance	Retirement fund from social insurance	Senior insurance	Retirement insurance	Retired System	Retirement insurance from social insurance	Retirement insurance from social insurance
		2.74%	6.00%	13.0%~19.0%	17.50%	3.70%	2.00%	Full amount	6.20%	5.20%
	Em- ployer	2.74%	6.00%	13.0%~19.0%	17.50%	3.70%	2.00%	Full amount	6.20%	5.20%
	Em- ployees	Allocation not required	Allocation 0.0~6.0%	8.00%	8.00%	2.00%	1.00%	Allocation not required	6.20%	Allocation not required

Note: Information above includes data from each major production site (Cambodia and Myanmar have yet to establish a retirement system).

# Diverse Employee Welfare Benefits

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The Company provides diverse and flexible welfare and benefits according to current conditions in each region. For instance, we provide wedding bonus, birthday bonus, childbirth bonus, funeral aid, as well as condolences for hospitalization to care for our employees. Moreover, material emergency relief measures have also been set up to assist employees suffering from major disasters to help them overcome their problems. Furthermore, we also offer bonuses for the three major traditional holidays, Labor day gift, travel allowance, and discount from partner stores, employee dormitories, employee cafeteria, shuttle bus, and nursing rooms and more. We wish for employees to enjoy a comprehensive benefits system and to be worry-free so that they can fully realize their competencies at work.

Employee Welfare System and Measures at Overseas Major Operation sites

- Employee dormitories, employee cafeteria, shuttle bus
- Established employee library, offering free books and magazines for loan
- Set up basketball court, football court, fitness gym, tennis court, and recreation center
- Nursery has been set up in production site, and clinics have also been established at individual sites to provide adequate medical services
- Organize a variety of events (singing, sports, movie day, and club activities)
- Employee travels at each site

Taiwan headquarter has recruited a five-star chef from our affiliate Windsor Hotel to carefully prepare meals for our employees.



On average, the Company spends approximately US\$719,921 each month on local unions and employee activities for production sites in China, Indonesia, and Vietnam. At the same time, we invite unions to participate in various activities hosted by the Company. The Company and our employee unions and groups often work hand-in-hand to offer support for communities and fellow employees whether in community visits or assistance for disadvantaged employees.

### Employee Welfare System and Activities in Taiwan

▼ Employee Welfare and Aid Expense in 2017 Amounted to over NT\$23 Million.

Item	Number of beneficiaries	Benefit or aid (in NTD)
Weddings, funerals and celebrations/ childbirth/hospitalization	606	915,700
Birthday gift or gift certificate	5,228	5,115,500
Labor Day bonus	5,332	1,597,602
Dragon Boat Festival bonus	5,174	2,549,200
Mid-Autumn Festival bonus	5,190	2,545,400
Travel allowance	5,181	12,682,500

▼ Employee Welfare Activities Organized in 2017

Name of activity	Session held	Number of participants
Pou Chen Family Day Five sessions of Family Day activities were held in Green-World in the north, Lih Pao Land in central Taiwan, and Tsou Ma Lai Farm in the south. The activities promoted interactions and to create a positive atmosphere between employees and their families.	5	5,660
Singing Contest 2nd Pou Chen Employee Singing Contest – giving employees who loved to sing a chance to compete against one another.	1	30
Sporting Events Organized club activities (Hiking Club and Badminton Club), bowling contest, and participated in external badminton and basketball tournament. Providing employees with diverse choices of sports activities to increase their interactions.	24	812
Health Pro-motion Activities Regularly organized seminars related to physical and mental well-being and blood drive. Emphasis on the concept of prevention over treatment, and increasing mental and physical balance for employees.	40	1,344



Happy School Day' event at Little Sun Kindergarten at Binh Chanh Factory in Vietnam



Employee blood donation event at Indonesia factory



Employee sports competition at China factory



Employee dance competition at Pouli Factory in Vietnam

## ▼ Employee Welfare Activities in 2017

	Name of activity	Num- ber of partic- ipants
Guest Seminars/ Perfor- mances	Artistic Cell Phone Photography	519 per- sons
	Portrait Photography Seminar	
	Wu, Chuan-Yu : Rewriting Your Memory to Become A Better Person	
	Performance from Little Frog Theatre	
Movie Day	Cars 3: Driven to Win	791 per- sons
	Kingsman: The Golden Circle	
Courses	Mother's Day Cake DIY, Moon Cake DIY, Basic Photography	132 per- sons
Facebook Event	Valentine's Day: Show Your Love	4 ses- sions
	Mother's Day: Show Your Appreciation	
	Father's Day: A Fun Side of Dad	
	Mid-Autumn Festival: Barbecue event	







A young woman with long brown hair, wearing a blue cardigan over a white shirt, is smiling and looking down at a laptop. A young man with glasses, wearing a dark blue polo shirt, is leaning over her shoulder, also smiling and looking at the laptop. They are outdoors, with a blurred background of green trees and a wooden bench.

### Fostering Employee's Language Skills and Competencies in Vietnam

We have started providing high school classes in Chinese, English, and Vietnamese in as early as 2000 to increase the employees' language communications skills. At the same time, we also offer skills courses including manicure, makeup, or hairdressing. These courses are also extended to children of employees in Dong Nai area. Currently, 100 children of employees are enrolled in our English course at Dong Nai.

### “The Voice of Pou Chen” in Huanan, China

2017 was our 7th year in organizing “The Voice of Pou Chen” singing contest at Huanan area in China. The contest is a longer cultural activity with many contestants and spans many regions. It is also a comprehensive contest that combines competition, training, interactions, and performance tour. A total of 300 employees participated in the 2017 contest, and the top 13 contestants had held tours at Production Site 3 in Huanan Plant to as many as 3,000 members of the audience.



Many local employees  
have been recruited  
at Vietnam, one of our  
major production sites.  
We organized a variety  
of courses  
to train their language  
skills and competencies.



## Parental Leave

The Company protects employment right when employees take parental leave. In the case of Taiwan, female employees at Pou Chen can take menstrual leave, maternity leave, and pre-maternity leave, while male workers have the right to take paternity leave. When an employee needs to take maternity leave, she can apply for unpaid parental leave or parental leave according to legal regulations. Upon expiration of the leave, the employee can either apply for reinstatement, or extend his/her application based on actual circumstances to care for both his/her personal and family needs.

In 2017, 55 employees have applied for unpaid parental leave in Taiwan. Most of whom were females, account for 47 applicants. There are 14 employees who have worked for a full year upon applying for reinstatement in 2016, achieving a retention rate of 66.67%. Moreover, a total of 25,580 female employees have applied for maternity leave at the Company's other overseas production sites in 2017. A total of 19,570 employees have returned to their positions after the leave, achieving a retention rate of 76.51%.

### ▼ Unpaid childcare leave applications and reinstatement statistics from 2016 to 2017 in Taiwan

Item	Male	Female	Total
Estimated number of employees qualified for unpaid parental leave in 2017	319	220	539
Expected number of reinstated employees from unpaid parental leave in 2017	8	45	53
Number of employees that actually applied for unpaid parental leave in 2017 (A)	8	47	55
Number of employees that actually reinstated from unpaid parental leave in 2017 (B)	8	43	51
Reinstatement rate from unpaid parental leave in 2017 (C=B/A)	100.0%	91.5%	92.7%
Number of employees that actually applied for unpaid parental leave in 2016 (D)	4	39	43
Number of employees that actually reinstated from unpaid parental leave in 2016 (E)	1	20	21
Number of employees that worked for one year after reinstatement in 2016 (F)	0	14	14
Reinstatement rate from unpaid parental leave in 2016 (G=E/D)	25.0%	51.3%	48.8%
Retention rate of employees returning from unpaid parental leave in 2016 (H=F/E)	0.0%	70.0%	66.7%

## Building A Harmonious Employment Relationship

### Acceptable Minimum Notice Period of Material Changes in Operations

The Company strives to build a harmonious employment relationships, and the minimum notice period of material changes in operations is given according to local labor laws. No collective bargaining documents have been signed with labor unions in Taiwan, and all employment contracts are signed by individual employees with the Company and processed according to Article 11 or Article 13 of the Labor Standards Act, the local labor law. Provisional clauses stipulate that those who wish to terminate employment contracts need to comply by the following notice period:

- Those who have worked continuously for three months but not over 1 year need to give a notice 10 days before termination.
- Those who have worked continuously for 1 year but not over 3 years need to give a notice 20 days before termination.
- Those who have worked continuously for over 3 years need to give a notice 30 days before termination.

For major operations and production sites outside of Taiwan, employee unions have signed collective bargaining agreements (or 'group contracts') with the Company under approval from local competent authorities. The agreements clearly state relevant employment conditions, benefits, and the minimum notice period of material changes in operations. All documentation of collective bargaining agreements has been submitted for local competent authorities for the record.

For operating sites in Taiwan, China, Vietnam, and Indonesia, employees can voluntarily join labor unions (or 'labor groups'), and as many as 300,911 employees are protected by the collective bargaining agreements signed, accounting for 90.57% of the footwear business. In addition, since Myanmar facility does not have a union, an "Employee Mediation Committee" comprised of six employee representatives has been formed according to local legal regulations. Labor unions have not yet been established at Cambodia facility and Myanmar facility.

#### ▼ Ratio of Average Number of Employees Protected by Collective Bargaining Agreements at Major Operating Sites

Location	Taiwan	Vietnam	Indonesia	China
Number of employees protected by collective bargaining agreements (Unit: persons)	No collective bargaining agreements have been signed with labor unions	158,664	109,573	46,793
Ratio of employees protected by collective bargaining agreements	No collective bargaining agreements have been signed with labor unions	100% (Note 2)	100% (Note 2)	69% (Note 3)
Acceptable minimum notice period of material changes in operations	According to Provisions of Article 11 or Article 13 in the Labor Standards Act	30 days before	No remarks, proceeded according to Labor Standards Act	30 days before

Note 1: only "Footwear" business employees have participated in labor union.

Note 2: The scope of rights and obligations of the collective bargaining agreements signed by employees from Vietnam and Indonesia facilities encompasses all employers and employees under the legal entity.

Note 3: Ratio of China facility is calculated by number of employees in union/number of all employees.



# Employee Welfare

## Major Employee Welfare Plan 1: Fluent Employee Communication Channelse



Employee seminars



Employee Family Day



children's summer camp



Employee home visits  
and donation of goods



Employee reciprocity

We have initiated the Management and Worker Conversation throughout our global operations since 2015. A total of 636 rounds of conferences were held in 2017, participated by 29,592 persons. We received 1,390 incidents through face-to-face interviews and consulting, in which 99.1% of the incidents have been resolved.

Factory operation managers were required to attend all Management and Worker Conversation. Besides expressing their appreciation for employees' hard work, they also promoted or disseminated important information at the conversation. The listening and participation from factory managers also helped to show our focus on employees to the other managerial staff, while also helping to bridge the gap between the management and employees.

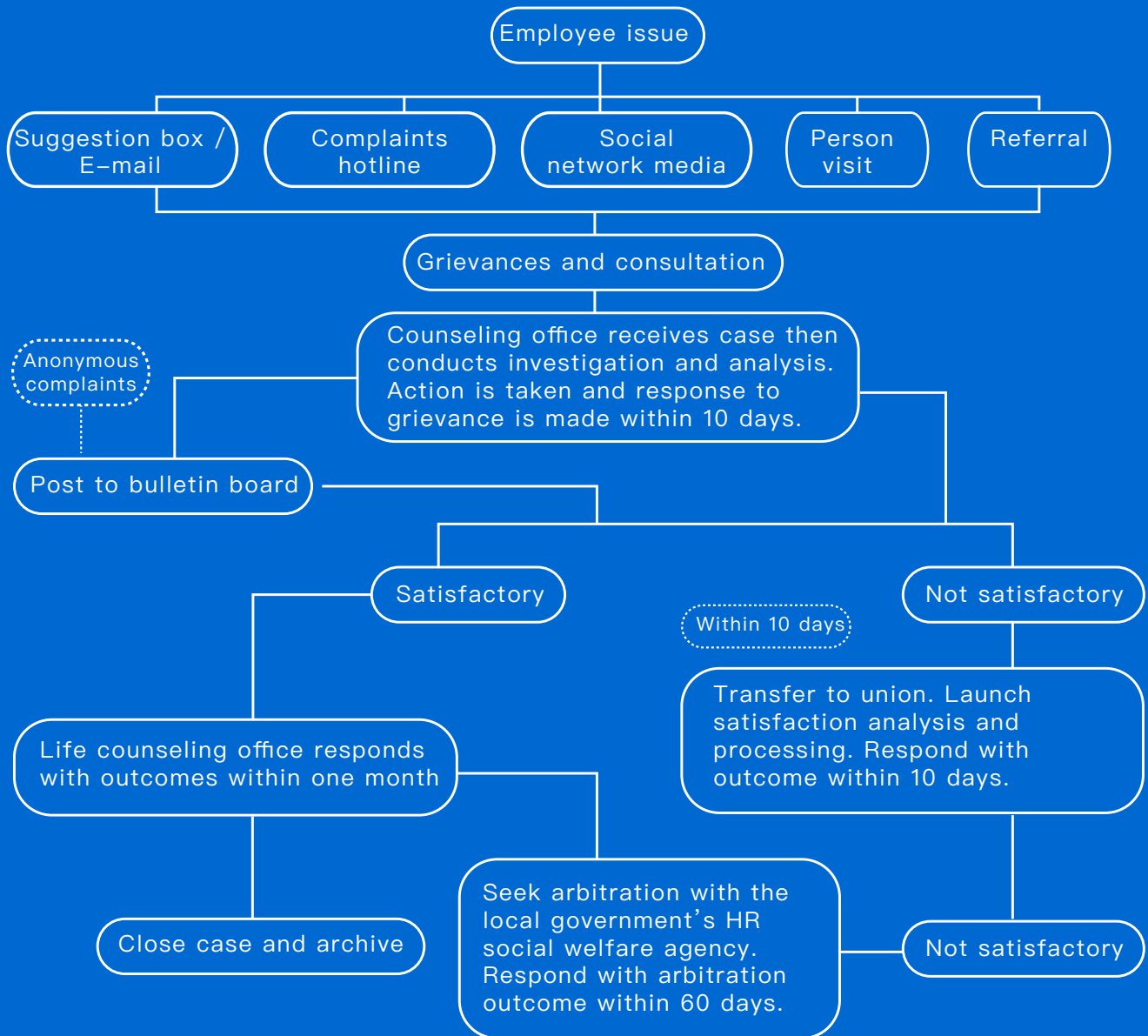
Besides the Management and Worker Conversation, we also encourage the management to com-

municate with employees. In addition to collecting various opinions from employees through diverse paths, we have also established grievance channels for employees from different areas to analyze, understand, and solve employee-related issues. The employee grievance and consulting management procedures were again amended in 2017 to systematically record and analyze consultation issues from employees. In addition, we also continue to gradually enhance internal cohesion and organizational identity to achieve a harmonious employment relationship through annual internal and external employee relations activities. As of the end of 2017, we have cumulatively received 7,151 consulting/grievance incidents, in which grievances accounted for approximately 13.3% and complaints made up for 28.7%. Most of the incidents were suggestions at 58%, and the incident resolution rate has been 98.9%.

In addition to the conferences, we have also established Pou Chen Wechat account in China and Pou Chen Indonesia/Vietnam Facebook account in Indonesia and Vietnam. The social media accounts provide the latest information on local activities, and users can receive firsthand information on Pou Chen's latest news, recent employee events, cultural messages, and daily knowledge.

- Pou Chen Group  
Facebook <https://www.facebook.com/pouchen-group/>  
LinkedIn <https://tw.linkedin.com/company/pou-chen-group>
- Pou Chen Vietnam Facebook <https://www.facebook.com/PouChenVN/?ref=bookmarks>
- Pou Chen Indonesia Facebook <https://www.facebook.com/PTNikomaspouchen/>
- Pou Chen China Wechat ID: POUCHENHOME

## Factory Employee Grievance Procedure



## Major Employee Welfare Plan 2: Children's Summer Camp

“My child has attended summer camp for two consecutive years. Besides learning new knowledge, he also learned to be more understanding of his parents. For example, now he actively does laundry, and voluntarily mops the floor and does other chores on Sunday. I’m so touched.” Feedback from a couple who both at Pou Chen regarding their child attending Pou Chen summer camp.

### More Than 40 Million Children Are Left-Behind in China

Why do we take all that trouble to organize the summer camp for children of our employees? This begins with the story of “left-behind children.” Starting from the 1980s, workers from rural farms have migrated to the cities. Nevertheless, workers who work away from home are forced to leave their children behind in their hometowns due to house registration constraints and economic factors. Hence, the phenomenon of “left-behind children” is formed. These children generally reside with their grandparents or relatives, or are left alone by themselves. Left-behind children face all sorts of challenges, including malnutrition, dilapidated housing, and inconvenient transportation. In recent years, many schools in rural regions have been shut down, forcing children to take long commutes to school. These challenges have forced rural children to have a higher drop-out rate, crime rate, and experience more physical danger, causing difficulties in public order and management.

Statistics from the United Nations have indicated that there are over 40 million left-behind children in rural regions of China. The report indicated that left-behind children who reside alone or with other minors face dire conditions in terms of security, health, living, and learning.

The term “left-behind children” refers to children who are unable to reside with their parents in their hometown as either one or both parents have migrated to another area. As it is getting increasingly common for individuals from rural regions of China to migrate to the cities for work, the problem of left-behind children in rural areas has also been exacerbated. It is difficult to imagine the hardships these children go through without their parents.

### Initiating the Children’s Summer Camp

“True employee welfare requires us to observe and to find employee’s actual needs.” Those who work away from home are inevitably concerned about their families and children. Therefore, Pou Chen China facility often faces situations where employees are forced to quit since their children went back home but did not have anywhere to go during the summer break. Hence, the “Pou Chen Children’s Summer Camp” was formed by integrating our resources and competencies.

Left-behind children are often in a critical developmental period. They cannot receive guidance and help from their parents in mental awareness and

values, and lack emotional caring from their parents as they grow. This makes them more prone to develop deviant values and may lack comprehensive mental development, causing their personalities to be either extremely optimistic or indifferent. Since left-behind children are often cared for by their grandparents, the problems of “grandparenting” are often the most apparent. Parents are unable to see their children for prolonged periods and lack communications, yet functions of family education are often more challenging in grandparenting households. Consequently, children’s mental issues cause them to be more secluded, aloof, have low-self esteem, and are more introverted. They are often less caring and less willing to actively communicate with others, while some may have anger management issues.

Therefore, upon seeing that employees are unable to reside with their children, relevant departments at Pou Chen have begun considering that perhaps certain events and activities could be integrated and combined. Deriving from an employee’s viewpoint, the “Pou Chen Children’s Summer Camp” was formed for children of employees, changing the lives of many. During summer break, the summer camp allows children to learn about love, service, and moral education during a variety of courses and activities during the day. At night, the children can enjoy family time with their parents.

#### Abstract on Pou Chen China Children’s Summer Camp

- Established in 2010
- Venue: Huanan facility, China
- Time: approximately 30 days from July to August in every year
- Activities: Daytime courses include “Global Perspective,” “Moral Education” and exploration games. Children can enjoy family time with their parents at night.
- Beneficiaries: It has cumulatively benefited 3,081 households since commencement in 2020

#### Enjoying Family Time at Pou Chen

From an employee’s perspective, their children were originally arrogant and aloof as grandparents could not bear to discipline them as they were away from their parents. The children wouldn’t even admit their wrongdoing even when punished, and some even ran away from home. The group life at the summer camp each year helped the children to learn to actively help with house chores and to be caring for their families. Though the summer camp that only lasts two months, employees have felt enormously satisfied at seeing their children’s growth. The children learn to respect others, are more polite, and more optimistic, showing satisfying changes and progress.

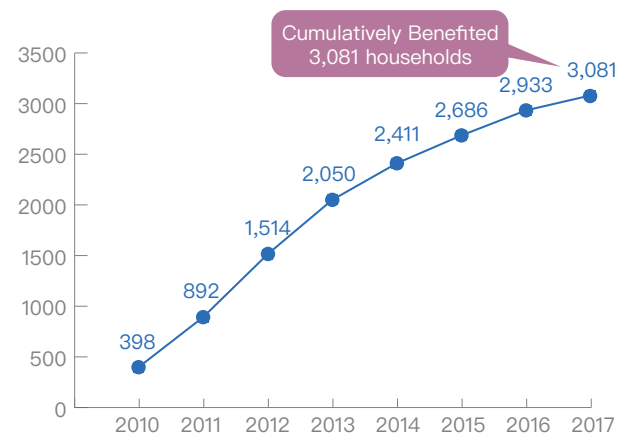


Moreover, the truly heartwarming thing is that the volunteers are staff from Pou Chen's employees and from Wave 5 Foundation. Their feedback had shown that daily interactions with the children had truly touched their hearts. Though it may seem like an ordinary scene of parents accompanying their children to school, for families that haven't seen each other for so long, the satisfied expression on their faces was extraordinarily moving. Moreover, the children had made such an effort to express their love and appreciation for the volunteers in their own ways. And the selfless dedication from the volunteers had also influenced their colleagues to pay more attention and to the summer camp and their workplace.

Starting from 2013, the summer camp has also been joined by little volunteers, most of whom were past summer camp participants. They voluntarily gave back to children in need of assistance since they had also received much help and caring before. The Company and the parents of the little volunteers are both thrilled to see their children's effort. We believe that children who are both givers and receivers can achieve greater benefits, and going from being grateful for learning to contribute is a precious journey for the children.

Besides understanding employee's concerns for their children at Huanan facility, we have also begun caring for the 76 left-behind children at Cheng Bo Elementary School in east China. During a welfare birthday party in 2017, an elementary school student said to a Pou Chen staff that it was the first cake he had. By providing a happy childhood for future generation, the Company is indeed making an investment in social capital.

Data on Beneficiaries of Children's Summer Camp



### Major Employee Welfare Plan 3: Employee Home Visit

A total of 462 Home visits were organized throughout Pou Chen's global operations, in which we visited 1,213 households.

Home visit is a long-term project that the Company is dedicated to. Through visiting homes of our employees, direct supervisors and factory management can acquire a deeper understanding of the employees' living conditions, while building relationships with employees' families and understanding their actual needs. In the case of our Vietnam facility, during a particular home visit, factory personnel witnessed leaks in the roof and shabby walls, and promptly responded to the factory supervisors and asked for internal resources and assistance to help with the home fixture. When the factory revisited that particular household, the employee sentimentally expressed his thoughts, "My family was terrified of the rain before the home fixture. We couldn't sleep well every time a typhoon hit or during the rainy season. I am so grateful for being able to live in a house like this now!"

Supervisors and managers from each function will pay actual visits to employees to care about their living conditions and to offer timely assistance with fixture and maintenance. This helps to enhance employees' living standards and happiness.

Since starting to provide "friendship house" at Pou Chen's Vietnam facility in 2009, cumulatively 164 houses have been donated as of December 31, 2017, spending approximately US\$323,937.





## Major Employee Welfare Plan 4: Employee Mutual Assistance Platform

### East China

Launched in east China since 2015, the employee mutual assistance platform vegetables in season from the employees. Since establishing the Shang-gao and Anfu factories, employees could transform vegetation grown from their hometowns to income while working at Pou Chen. This helps to enhance employee's sense of accomplishment and satisfaction, prompting them to voluntarily spread the word about Pou Chen's positive reputation. The Company took a step further to organize diverse sales at local

stores in 2017. Three rounds of internal sales for furniture, home appliances, and New Year's goods were hosted. In addition, we continue to strengthen our ties with the local community by creating an innovative, mutually-beneficial model with nursing homes, winning praises from the community and the government. Employee mutual assistance platform benefited 800 employees (headcount).

## Major Employee Welfare Plan 5: Family Day and Family Camp

We organized Family Day in Indonesia, Family Sports Day, Carnival and Lovely Baby Contest in China in 2017.



Shanggao platform purchased winter melons from employees



Innovative mutually-beneficial model with senior homes, strengthening our ties with the local community.



Binh Chanh Union activities and contests



Binh Chanh Union activities and contests



# Occupational Safety

## Policy and Commitment

The Company's Occupational Safety and Health Management Policy is established to "provide a safe and healthy workplace to prevent employees from sustaining health incidents and injuries while undertaking work-related procedures or using tools provided by employers" in accordance with our Code of Conduct. The Company is committed to providing employees with a safe and healthy workplace throughout all operations, from organizational structure, inter-departmental collaborations, to the top-down approach. Standardized management procedures have been gradually installed under this philosophy. In case of major employee illness or incident, we will initiate the facility medical rescue mechanism and emergency relief procedures.

## Management System

In terms of occupational safety and health management, besides complying to local legal regulations of the factory's location and client requirements, we have also established a series of management procedures in line with the international standard, OHSAS 18001, and FLA Workplace Code of Conduct. All departments are required to

abide by the procedures. To implement management and prevent harm, the Company has gradually promoted occupational safety and health management system in line with legal regulations and internal standards and principles. "Environmental, Energy, and Safety and Health Committee" has also been established at each facility and administration center of Pou Chen. The committee convenes regularly, and adopts a fixed-organizational method in which each responsible department will review management tasks regarding safety and health. By implementing various principles and undertaking safety and health management at the facilities, and through establishing a safety and health



Advanced Training for Occupational Safety and Health Management Personnel (Knowledge of safety and health, fire prevention, environmental protection, and energy management)



management performance system to execute and follow-up and an online-based abnormal incident management system, the Company is able to adopt data analytics to facilitate and focus on prevention of material risks.

Pou Chen's Environmental, Energy, and Safety and Health Committee Management Procedure stipulates that each committee needs to comprise of at least seven members, including a chair, a head secretary, and a secretary, as well as at least four members. The chair has to be the highest-ranking manager or a deputy assigned by the highest-ranking manager in each facility. This is a regular position that cannot be alternated other than during extenuating circumstances.

The head secretary shall be served by SD Manager, while the secretary position shall be assumed by the head of the Environmental, Safety, and Health management (ESH). If no fixed ESH role has been assigned in a facility, the secretary position shall be assumed by a personnel who executes ESH-related tasks. Head secretary and secretary positions are regular positions that cannot be alternated other than during extenuating circumstances.

Factory ESH committee members will be appointed or elected by managers and employees from each facility. At least 50% of the four members need to be local employees, and members shall be re-appointed or re-elected at least every two years. If vacancies arise from resignation or reallocation of committee members, the vacant seats need to be filled within one month.

## Management

Besides having designated full-time environmental, safety and health personnel (also known as "SD personnel") and department, the Company's autonomous facility management system has also adopted tiered supervision over executions in different areas. We implement management procedures by regularly and periodically patrolling the fire prevention and safety and health protection gear in production sites, and immediately inform responsible personnel to handle any abnormalities. Each SD personnel from each business and each SD department from every administrative center will also supervise compliance with client requirements or local laws as well as internal management through projects. In addition, the Company will also arrange for audit projects as needed, and systematically monitor the progress of revisions to effectively implement and to improve safety and health management in practice.

## Standardized Management Measures

The Company reinforces each item in the safety and health management procedure step-by-step, after fire prevention, chemical substance safety, special hazardous operations management, occupational disease investigation and management, machinery safety management, contractor engineering management, and abnormal incident management, special focus was paid to the following items in 2017:

- Advanced training for occupational safety and health management personnel: established internal training program and arranged for professional lecturers to strengthen the professional and hands-on knowledge and experience of safety and health management personnel. Consistent advocacy and education on management standards were launched across the Group in 2017.
- Improvement of proposal system: to encourage all employees to participate in the management of occupational safety and health and to propose suggestions for creative and feasible improvements, rewards and recognition will be given to outstanding proposals through a selection system. This helps to promote employee participation and enhance the awareness of safety in all. The number of proposals have increased by 56% in 2017 compared to 2016, indicating the proposal activity has received widespread support and participation from our employees.
- Abnormal incident management: created online management of occupational injuries to ensure effective implementation of incident reporting and monitoring. Subsequently, we will continue to strengthen our facilities' ability on incident investigation and improvement confirmation to prevent risks of reoccurrence and to implement rectification measures. Hardware improvement and software management measures will also be implemented gradually through the disaster indicator analysis at each site.

#### ▼ Factory Improvement Proposals



**Before**

The previous nozzle led to spraying of chemical substances before improvement.



**After**

Improvement measure: replaced with the new nozzle and flow control valve.

1. Improved work environment and COD density of wastewater.
2. Reduced use of the chemical by 11.2%.

## Safety and Health Indicators

The Company has established an internal data-based occupational injury management system to track and monitor safety and health management performance indicators. This includes performance indicators such as the number of occupational injuries, lost days, disabling frequency rate (FR) and disabling severity rate (SR). Statistics from occupational injury management in 2017 indicated that there were a total of 619 occupational injury incidents and cumulatively 17,113 disabling days. The days were calculated based on disabling due to occupational injuries, and does not include transportation injuries.

China: 144 occupational injuries, accounting for 43.15% of all total Company-wide lost days. Indonesia: 107 occupational injuries, accounting for 4.2% of all total Company-wide lost days. Vietnam: 324 occupational injuries, accounting for 48.55% of all total Company-wide lost days. Cambodia: 10

occupational injuries, accounting for 1.95% of all total Company-wide lost days. Bangladesh: 14 occupational injuries, accounting for 0.93% of all total Company-wide lost days. Myanmar: 8 occupational injuries, accounting for 0.78% of all total Company-wide lost days. Taiwan: 12 occupational injuries, accounting for 0.43% of all total Company-wide lost days.

Statistically speaking, more occupational injuries had occurred in Vietnam; however, Vietnam's FR and SR figures were not significantly higher than other countries'. This is because each country's basis of calculation is different, and the number and severity of occupational injuries were also different. Nevertheless, the Company will continue to strengthen the investigation of causal analysis for occupational injuries, and to rectify the fundamental causes to lower the risk of recurrences. The Company will also continue to implement safety and health policies to employee's day-to-day activities.

### ▼ Safety and Health Indicators for Footwear Business in 2017

Item  Category Area	Number of occupational injuries			Ratio of lost days (%)		FR			SR			AR(%)	
	Total	Male	Female	Male	Female	Total	Male	Female	Total	Male	Female	Male	Female
Overall	619	211	408	45.57	54.43	0.86	1.45	0.72	24	53	17	2.66	2.17
China	144	71	73	55.96	44.04	1.16	2.29	0.78	59	133	35	2.47	1.94
Indonesia	107	33	74	20.17	79.83	0.54	0.88	0.49	4	4	4	4.14	3.46
Vietnam	324	91	233	40.38	59.62	0.9	1.37	0.79	23	50	17	1.96	1.47
Cambodia	10	0	10	0	100	1.12	0.0	1.28	38	0	43	1	0.41
Bangladesh	14	12	2	91.25	8.75	1.56	2.04	0.65	18	25	5	0.93	0.66
Myanmar	8	0	8	0	100	0.76	0.0	0.81	13	0	14	4.94	4.7
Taiwan	12	4	8	27.4	72.6	1.69	1.25	2.05	10	6	14	0.79	1.14

#### Remark

1. Source of statistical data on occupational injuries comes from Pou Chen's internal data-based occupational injury management system.
2. Disabling Frequency Rate (FR) = number of disabling injuries \*1,000,000/total hours of work. Disabling Frequency Rate (Male) = number of disabling injuries (male) \*1,000,000/total hours of work (males). Disabling Frequency Rate (Female) = number of disabling injuries (female) \*1,000,000/total hours of work (females).
3. Disabling Severity Rate (SR) = total number of lost days \*1,000,000/total hours of work. Disabling Severity Rate (Male) = total number of lost days (male) \*1,000,000/total hours of work (males). Disabling Severity Rate (Female) = total number of lost days (female) \*1,000,000/total hours of work (females).
4. Absentee Rate (AR) = total hours of employee absentee throughout the year/total hours of work of all employees.

# Loss Prevention Management

To ensure workplace safety and the protection of Company assets, the Company actively reinforces the promotion and management of the awareness of loss prevention. Based on past fire incident in the factory, we are particularly focused on the completeness of fire safety management and the fireproof safety construction of buildings while advocating for loss prevention management measures.

## Fire Safety Management



The Company adopts multiple ways to actively promote fire safety. We are committed to preventing fire at the source, preventing disaster from spreading, and emergency rescue, and have invested resources toward improvement and implemented relevant management mechanism to lower the risk of fire.

## Comprehensive Fire Protection System

The Company has clearly stated the fire protection equipment and plant-wide safety design required for a facility. Each new factory building, addition to a building, or change in purpose needs to meet

Company-specified designs such as fire compartment, safe passages, fire extinguishers, automatic sprinkler system, chemical automatic foam fire extinguishing system, fire alarm equipment, exit sign indicator and emergency lighting and more. A unified management mechanism has also been adopted for the design, construction, inspection, and maintenance of fire protection system.

## Improve fire brigade ability

The Company has established 13 firefighting squads in major operation and production sites including Vietnam, Indonesia, and China. Headquarters has established unified standards and day-to-day tasks and training for firefighters, and the headquarters will inspect their capability, as we hope that standardized regulations will help the firefighters to realize their best potentials.

## Fire Safety Patrol

All production sites need to undertake self-initiated fire safety patrol on a monthly basis. Administrative centers in each area will also undertake fire prevention inspection and evaluation on equipment including power supply management, power outlet/plugs, motor, high-temperature machines, fire-using procedures, fire compartment, firefighting equipment, and dust collectors. Special attention will be paid to daytime and nighttime power supply management and inspection to prevent fire hazards.

## Reinforcing Emergency Response Capability

To help employees establish immediate emergency response and rescue capability, the Company has



implemented unified standards to enhance employees' response capability to prevent disasters from spreading and ensuring personnel safety. The emergency response team has been set up at each facility, and the team is subjected to regular training and practice. At the same time, we also co-organize joint fire prevention drill with the external governmental fire department to cultivate joint emergency rescue competencies.

### Organized Electric Engineering Academy

In coordination with the philosophy of becoming a "learning organization," the Company has organized step-by-step electrician academy in each area. All facility electricians will be required to participate in training, interactions, and take the certification test to strengthen their respective skills and professional competencies. We wish for electricians to apply their learning to practice and increase each facility's autonomous management skills to lower operating risks.

### Management over Maintenance Providers

Unified fire safety equipment maintenance contract and checklist have been established to verify the skills of the maintenance providers and increase the quality of maintenance works. This will ensure normal operations of the onsite fire safety equipment, while providers with inferior quality will be ruled out through performing audit from time to time.

## Implementation of Infrared Scan Inspection

Electricity safety is an important part of fire prevention. The Company has established a periodic infrared scanning system over the electrical equipment in the facilities. Infrared scanning systems have been set up at most production sites, and suitable personnel has been chosen among professional electricians to receive professional training from the headquarters. These chosen engineers will regularly undertake infrared scan inspection over electrical equipment according to regulations.

The Company undertakes infrared imaging scan over all electrical appliances. Operation of the machine will be halted and revisions from the responsible department will be required if equipment overload, abnormal electrical components, elevated temperature, short circuit, or three phase unbalance have been detected.

## Standards for Loss Prevention

To reduce various operational risks in production sites in practice, the Company will undertake comprehensive risk surveillance for loss-related risks other than fires, for instance, earthquake, typhoon/hurricane, and floods. For material potential risks, appropriate revisions will be made, and factory-building loss prevention standards have also been established to ensure that newly constructed site can effectively evaluate and prevent various risks of business interruptions.



**A-Long, Chief of Factory Affairs, Vietnam  
Raise Awareness for Fire Safety**

Huang, De-Long, or "A-Long" as everyone calls him, is the Chief of Factory Affairs in our Vietnam facility. He is responsible for machinery fixture and maintenance, so that the staff can operate the machinery and produce products successfully under the safest condition.

As the Chief of Factory Affairs, A-Long is familiar with various fire preventative works in addition to his machinery work. His fluent Chinese has also made him an interpreter of our auditors. He knows everything about fire safety system when prompted by his manager.

Subsequently, his manager had learned from others that A-Long had proactively learned the relevant knowledge from the head of the fire safety system. To this point, A-Long believes that fire safety is related to so many internal and external issues, and he sees fire safety as his personal mission. During his day-to-day operation, he also actively teaches the other employees how to use elevated safety protection equipment. "I want to protect everyone in this factory, and raise their awareness for fire safety." When A-Long's colleagues at the Vietnam facility are asked about him, everyone mentions how his active attitude and rich experiences have taught everyone much knowledge.

# Safeguarding Employee Health

## Occupational Disease Risk Prevention

The Company adopts a management principle of prioritizing work with elevated risk during preventative management of occupational diseases. Evaluation of positions with elevated risk is undertaken through two means, including the legal definition of the type of work from the country of operation, and hazard assessment of exposure factors (physical and chemical) in the operating process. For instance, loud noise processing – buffing section, and organic solvent processing – screen-printing section among others.

In terms of internal management, we are most focused on advocacy for hazardous elements before employment, workplace environmental management, and employee health checkup. To provide employees with a safe and healthy workplace, the Company undergoes environmental inspection according to legal regulations, including chemical exposure, hearing, and lighting. Engineering revision will be

made for abnormalities found on the inspection results, and appropriate personal protective gear will also be provided. At the same time, the internal measurement program and standardized measurement items and frequency have been undertaken since 2017. The Company also provides internal measurement training course to enhance the professional capability of the measurement personnel. We aim to increase the rate of early detection of abnormalities and to undertake reasonable revisions, thus improving the performance of preventative management.

Alternatively, to strengthen employees' preventative management, the Company also arranges for those in positions with elevated risks to undergo knowledge training for occupational hazardous element prevention, e.g. adoption of personal protective gear. Medical service or cooperation with local hospitals is also arranged for major production fa-



cilities, and the medical team will regularly organize health seminars or promote general health education and knowledge.

In occupational disease prevention, we maintain the philosophy of emphasizing prevention and subsequent caring for employees. We also implement a monitoring mechanism step-by-step. All workers with elevated risks will be arranged to undergo health checkup, and those with abnormal results will be arranged for re-examination and health monitoring protocols according to our management procedures. We will supervise the implementation status of health checkup and the re-examination result of those with abnormalities in each month, to early detect any abnormal incident and to offer appropriate assistance. If the abnormality is still found during the re-examination and may be identified as the occupational-related disease, the employee will be transferred to another position that does not have to deal with the source of hazard, and final confirmation of the employee's position will be achieved after the occupational disease identification result has been received. Identification process of occupational disease is filed according to legal regulations, and if the employee files for identification request to the local government, we will also provide the necessary employment information in accordance with local legal regulations.

## Professional Medical Care

Besides abiding by local laws in appropriating medical insurance and arranging health checkup, the Company also provides medical services, including on-site medical center and employee hospital, for employees in all locations. This allows employees with physical problems to receive timely medical care.

We continue to work with Marie Stopes International (MSI), a local organization in Vietnam, to organize employee health clinic and health expo, which includes health education promotions, medical relief, health and physician consultation, and women and children's healthcare education.

Medical centers have also been set up at the Taiwan facility, where doctors from clinics have been invited to serve as resident physicians. A variety of health promotional and stress-relief activities are also offered, including screening for four types of cancer, eye protection, massage from visually-impaired massage therapists, bone density inspection, and nutritional foods.

Besides health checkup and medical care, we also focus on employees' mental and physical well-being by organizing an assortment of activities at each location to enrich employees' lives away from the office. The recreational activities include club and contests such as various sports, jump rope, and aerobics. Moreover, we also promote mental health awareness through carnivals, garden parties, and seminars, which facilitate employees to grow accustomed to group living and foster mutually-assisting, positive relationships between employees.



## Provision of Family Planning and Childbirth Knowledge

### Benefiting Vietnamese Female Workers

On the morning of June 9, 2017, Pou Yuan Vietnam, a Pou Chen subsidiary, initiated the “industry and medical partnership” project. The purpose of the project was to enhance the childbirth and health awareness of the 45,000 female employees hired by Pou Yuan Vietnam, and necessary childbirth and family planning service will also be initiated. The “industry and medical partnership” project was invested by Pou Yuan and sponsored by the Australian government. The Australian government approves the purpose of the project, and has invested AUD\$50,000, while Pou Yuan was responsible for drafting relevant activities and programs so that our medical center could improve its service standards.

Statistically speaking, nearly half of the female workers had to resign due to pregnancy in 2015, affecting their economic independence and family income. This is because there was insufficient long-

term family planning method, which became part of the reasons for the increased rates in employees’ unplanned pregnancies. Marie Stopes International and Pou Yuan established Bluestar Medical Center in line with Marie Stopes’ international standards. The medical center will provide high-quality and necessary birthing and childcare health and family planning services. At the same time, it will also organize various education promotional activities to enhance women’s knowledge, creating the need to provide childcare and health services from our production facility. The local representative Mr. Chris Turner from Marie Stopes International stated that Pou Yuan’s project and the scale of the activity were praiseworthy. Results that could be achieved would benefit its female workers. We are honored and thrilled to contribute toward their health and happiness.

To increase the service quality of our production sites, personnel from Pou Yuan’s medical center will receive training on consultation skills, anti-infection, family planning services, service quality enhancement, and customer care competencies. The project hopes to help female workers conserve the time and expenses needed for external consultation with physicians. The service scope of the project encompasses all female workers in the facility. They will be able to receive positive services on healthy childbirth and family planning.



Opening ceremony of Blue Star corner - Pou Yuan Medical Center at Binh Chanh facility in Vietnam



Pou Chen Group Lecture Tour

## Comprehensive Education and Training Mechanism

### Policy and Commitment

Since talent is the cornerstone of the sustainable development of a business, as the best strategic partner of world-class sports brands, Pou Chen wishes to become the ideal choice for talents everywhere. We actively foster core talent, and help our talents build global perspective and enhance their professional competencies through systematic, diverse, and comprehensive talent cultivation mechanism. In addition, we also build the foundation of our sustainable growth by enhancing our corporate culture and creating competitive advantage through our talents.

- We develop our talent strategy by integrating Company mission, vision, management strategies, and goals, and actively foster leadership and professional talents, increasing our talent pool for the Company.
- We are building our talent pool, and identify key talent through systematic and professional ways, and plan a comprehensive talent development program and training blueprint based on organizational and personal developmental needs.
- Pou Chen strengthens corporate vision, formulates corporate culture and values to create irreplaceable soft skills.
- We continue to innovate by introducing new technologies, concept, or tools to promote individual growth and organizational learning, facilitating the Company and individuals to achieve their respective goals.
- In addition, we focus on employees' self-development and provide diversified learning channels to encourage self-initiated learning. This will help employees to realize their potentials and self-accomplishment.

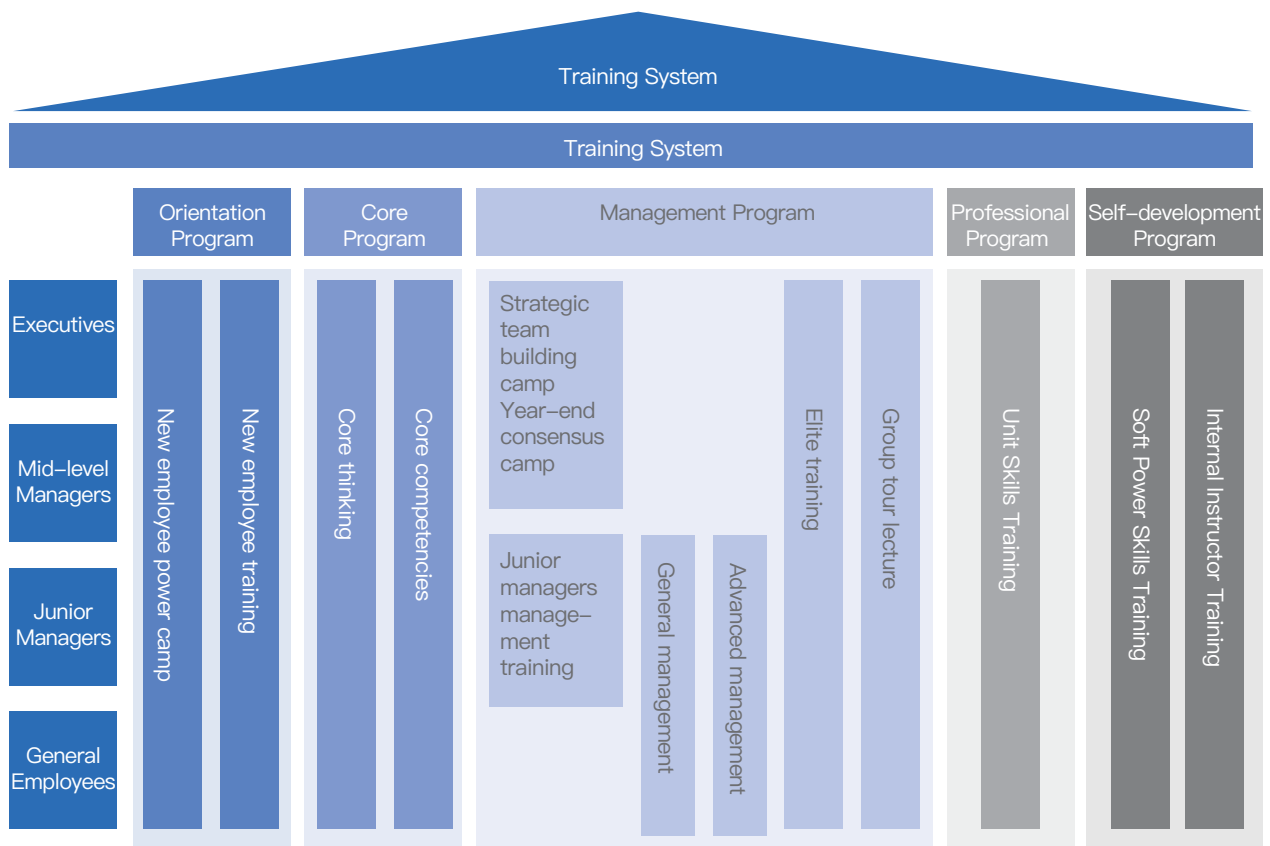
## Training and Development Plan

We continuously enhance the quality of our manpower and technical competency through systematized structure and methods to achieve training development goals. We also inspire employees' motivation and prepare them for new challenges to create greater business value. This will help us to meet our operational goals and strategize for future development.

To achieve Company strategies and goals, the planning of training development takes management vision and goals into consideration. Moreover, employee performance results and competence

gaps are also evaluated, and training structure is established in accordance with the Company's training system. Program including orientation, core knowledge, management, professional skills, and self-development have been developed and provided to employees through either physical or digital learning methods. This allows employees to continuously enhance their professional and management skills while finding room for them to realize their potential, giving them opportunities to grow and to become long-term partners of the Company.

### Pou Chen Group Training System Roadmap



## Training System Program

The Company's annual talent development training plan combines Company mission, vision, management strategies, and goals. We collect and understand the key development and training needs from each business unit, and continuously innovate and introduce new technologies, concepts, and tools to promote personal growth and organizational learning. We also provide a variety of learning channels to encourage employees to learn. At the same time, taking employees' Individual Development Plans, competency training system in each rank, and professional certification courses such as legal regulations into consideration, we have established the "Training Administration Regulations " to facilitate the training.

To cultivate employees' work-related competencies and realize our vision of lifelong learning in practice, the Company has planned training programs that target different needs based on the Company's core values and functional competencies of employees. To strengthen employee's competency for continuous employment, the Company will continuously provide skills training for employee functionalities upon entering to finally retiring from Pou Chen. We hope to build employee cohesion and recognition for organizational values through arranging employee educational training programs so that Company operating performance could be optimized.

- Orientation program: held for new employees of Pou Chen, and those who have worked contin-

uously at the Company for three months will be required to join a Power Camp to enhance their recognition of the Group. Team building activities will be organized to help employees further understand the Pou Chen's core values and build team cohesion.

- Core program: a series of core training program is organized based on the Company's core ideologies and core competencies to build a common language across the Group.
- Management program: relevant learning and development are planned to strengthen the knowledge, technical skills, roles and necessary competencies required by managers of each rank.
- Professional program: to strengthen employees' professional and technical skills, the Company has planned various learning and development courses on R&D, quality control, engineering, production, sales, procurement, supplier management, and administrative tasks according to diverse needs from different functionalities and departments.
- Self-development program: to encourage diversified learning from employees, the Company has established a series of courses to build soft skills. The purpose of which is to increase the added value of learning outside of work. Besides language training, we have also organized Train The Trainer (TTT) to inspire employees' strengths and potentials, expanding the meaning of learning and passing on of knowledge.



## Implementation Status of Education and Training

Cumulatively, the Company has undertaken 12,812,275 hours of training in 2017, and as many as 2,499,414 employees had participated in the training. On average, each employee had received 35.1 hours of training.

In addition, a new online training system had been introduced in 2017, allowing employees to fully utilize their time to learn on the online platform without national, environmental, and time constraints. Moreover, the average hours of training per employee have also increased in the past three years, and we will continue to optimize the online platform to provide even better learning resources for employees.

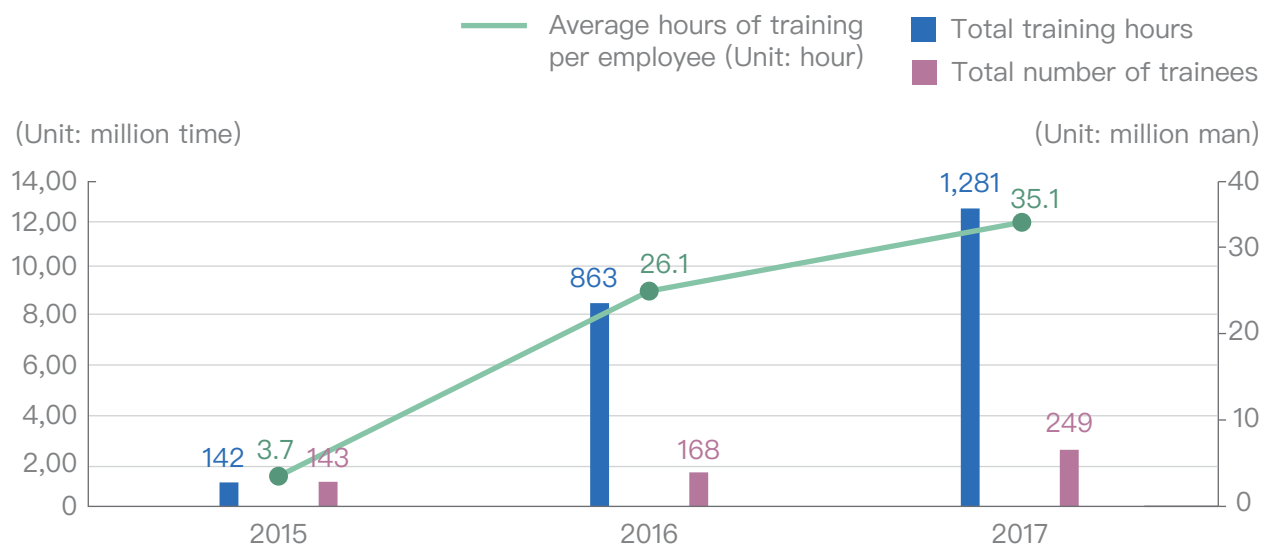
### ▼ Total Hours of Training Per Year by Gender, Rank, and Major Operation sites

Region	Rank	Gender	Number of employees who participated in training	Total hours of training	Region	Rank	Gender	Number of employees who participated in training	Total hours of training
Overall	Entry-level	Female	1,915,371	10,358,096	Vietnam	Entry-level	Female	700,899	5,407,579
		Male	474,392	2,166,109			Male	150,405	924,905
	Mid-level	Female	48,875	158,749		Mid-level	Female	11,479	93,610
		Male	51,679	112,759			Male	5,346	57,413
	Senior-level	Female	6,693	7,669		Senior-level	Female	43	312
		Male	2,404	8,893			Male	93	795
Taiwan	Entry-level	Female	8,812	24,886	Indonesia	Entry-level	Female	317,119	3,470,057
		Male	6,506	21,767			Male	69,494	576,851
	Mid-level	Female	2,223	9,377		Mid-level	Female	2,566	18,947
		Male	2,719	11,543			Male	1,723	7,385
	Senior-level	Female	104	1,277		Senior-level	Female	421	748
		Male	361	4,325			Male	719	1,072
China	Entry-level	Female	884,855	1,444,724	Cambodia	Entry-level	Female	67	87
		Male	242,051	634,338			Male	97	252
	Mid-level	Female	32,444	36,188		Mid-level	Female	27	36
		Male	41,760	35,822			Male	47	76
	Senior-level	Female	6,099	5,251		Senior-level	Female	0	0
		Male	1,203	2,481			Male	0	0

Region	Rank	Gender	Number of employees who participated in training	Total hours of training	Region	Rank	Gender	Number of employees who participated in training	Total hours of training
Bangladesh	Entry-level	Female	2,884	2,247	USA and Mexico	Entry-level	Female	146	1,286
		Male	5,617	5,444			Male	61	465
	Mid-level	Female	7	14		Mid-level	Female	83	466
		Male	28	42			Male	33	379
	Senior-level	Female	0	0		Senior-level	Female	3	22
		Male	2	5			Male	12	50
Myanmar	Entry-level	Female	499	6,934	Others	Entry-level	Female	90	297
		Male	143	2,045			Male	18	40
	Mid-level	Female	1	14		Mid-level	Female	45	97
		Male	2	30			Male	21	69
	Senior-level	Female	0	0		Senior-level	Female	23	59
		Male	0	0			Male	14	166

Note: Entry-level includes ranks 1-6, mid-level includes ranks 7-10, while senior-level includes ranks 11 (inclusive) and above.

#### Implementation Status of Training in the Past Three Years



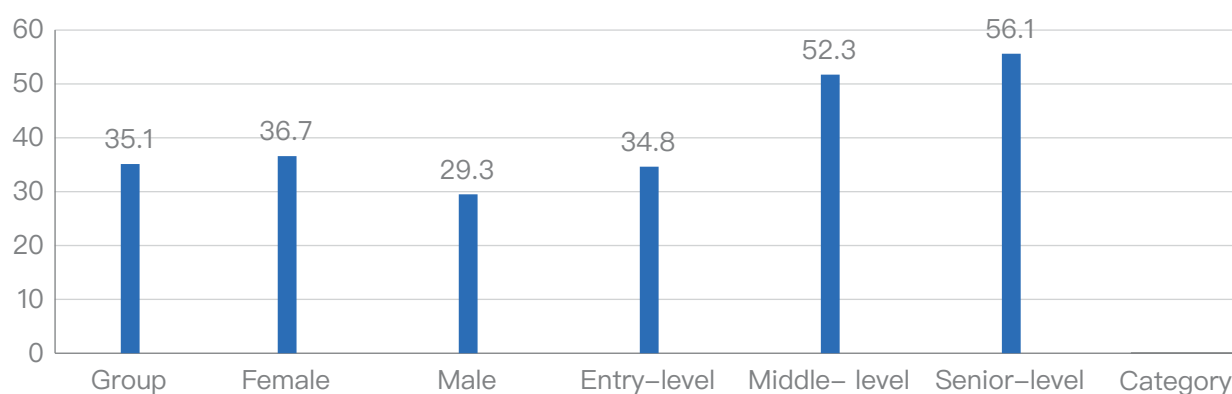
## ▼ Average Hours of Training Accepted by Each Employee Per Year

Category	Total hours of training (Hours)	Total employees participating in training (Headcount)	Average hours of training per employee (in hours)
Pou Chen Group (Group-wide)	12,812,275	2,499,414	35.1
All female employees in the Group	10,524,514	1,970,939	36.7
All male employees in the Group	2,287,761	528,475	29.3
Group entry-level	12,524,205	2,389,763	34.8
Group mid-level	271,508	100,554	52.3
Group senior-level	16,562	9,097	56.1

Note: Total hours of training =  $\Sigma(\text{hours of training per class} \times \text{number of participants per class})$ ; Average hours of training per employee = total hours of training/total employees in that year.

## Average Hours of Training Per Year Received by Employees by Gender and Type

Average hours of training per employee



# Talent Development Performance Management

The Company has established a performance management system to achieve operating goals and to enhance employees' capabilities. The target of the system includes all employees from major operation sites ranging from China, Hong Kong, Macau, Vietnam, Indonesia, Myanmar, and Cambodia, and does not distinguish between gender and age. During the performance evaluation period, all employees who have continuously worked for the company for over three months will take part in the performance system. The focus on entry-level employees is to assist them to improve day-to-day performance through the monthly evaluation system. For mid-level supervisors and above, performance evaluation will be carried out twice a year (mid-year and end of the year) on the organizational and individual goals. Formal performance interview will be carried out to help managers and employees to understand the organization's goals and individual developmental aspirations, so that the organizational and personal goals can be clearer and more correlated.

In addition, performance management courses are held for managerial staff to enhance the effectiveness of performance interviews between managers and employees. They will also participate in training from internal lecturers, in which managerial staff will serve as lecturers to disseminate and share knowledge and experiences related to performance management. Experiential-based activities will also be organized during these courses, allowing managers to observe, analyze, and mutually-share their experiences and perceptions through such activities, so that they may acquire more knowledge and feedback.

The purposes of performance management is to mostly evaluate the status of employees on goal

achievement and functional performance.

The final evaluation result will be used as one of the references for

employee's promotion, incentives, training, and personal development. We strive to formulate a performance-oriented corporate culture through a complete performance management system. In addition, we also inspire employees' performance and functional performance, thus fostering and developing their personal competencies.



## Huadong District Fall Cultivation Project

To build better teamwork while achieving the goals of going above and beyond one's capability and training the team as a whole as well as to be more innovative, the Shang Gao Yisen plant in Huadong had organized the "Fall cultivation project." The project was taken by 1,988 persons, and the purposes also included developing employees' and managers' potentials, strengthening team cohesion, and increasing their motivation for work..



Managers served as a team of lecturers to preach and share knowledge and experiences related to performance management.



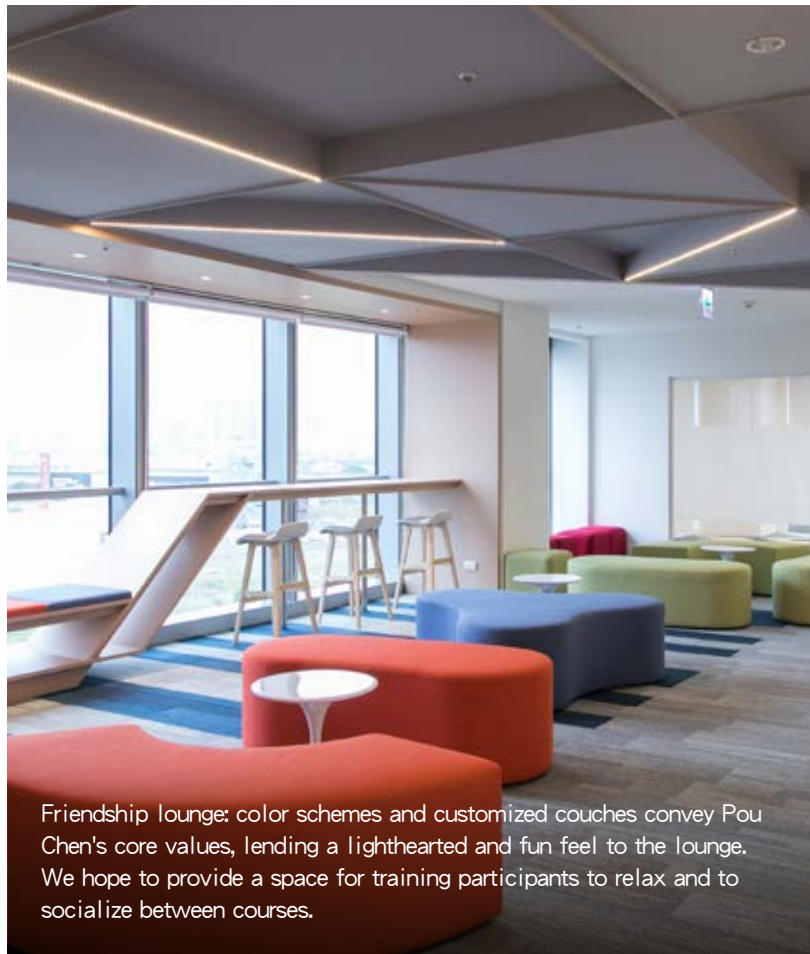


## Talent Development Center

The “Pou Chen Group Talent Development Center” was officially launched in August 2017 at our Taiwan headquarters. The purpose of which is to build a positive learning environment. The Group has established and launched the most comprehensive environment and facilities at our headquarters, allowing employees to learn in the most comfortable space. The Group’s milestone, a summary of the Group, and a lounge have also been planned, enhancing the overall quality of training and creating an atmosphere for learning. We spent over NT\$12 million and 8 months of planning and construction to build the Pou Chen Group Talent Development Center, which spans approximately 1,286 square meters.

The Company is focused on employee training and development, and strives to enhance employee functionalities and competitiveness. Diverse types of training programs have been planned according to employee functionalities. In terms of talent development, we will continue to promote talent management and heritage program. We undertake functional evaluation and personal development plans for key personnel; furthermore, the talent management system has also been introduced to allow timely review of the progress of the talent development program and various management indicators. This helps to increase the effectiveness and efficiency of talent management as well as the heritage program.





Friendship lounge: color schemes and customized couches convey Pou Chen's core values, lending a lighthearted and fun feel to the lounge. We hope to provide a space for training participants to relax and to socialize between courses.



Pou Chen Group milestone area: exhibition of both images and videos demonstrate the Company's important accolades, history, and the Group's present day outlooks. All explanations are written in both Chinese and English, hoping to bring the viewers with more in-depth understanding of the Group.





## 6 / Social Care and Community Engagemen

# 6

## Chapter

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# Social Outreach and Community Engagement

Founded nearly 50 years ago, the Company proactively work with local governments and organizations to ensure the localization of each production site and sustainable operation for its local factories.

Each factory has been quietly undertaking various activities to forge relations with the community. By participating in the Civil Society Organization activities, the Company has strengthened its sustainable operation as a whole. In line with the Company's core values, service, namely respect, and care, developing into an enterprise of happiness, the Group's social participation principles are formulated, which, hopefully, will promote sustainable co-

operation with CSOs. The following principles shall be followed when the units under the Group interact with and participate in local community activities or cooperate with citizen groups:

- Compliance Management: When the headquarters was integrating the deficiencies of external compliance audit at each of Group's factories in recent years, it discovered that the root cause for most of the non-compliance cases was that they did not understand or misunderstand the local labor-related laws and regulations. Therefore, all site factories should actively interact with local citizen groups, who promoted labor and environ-



mental regulations, to understand their local labor and environmental regulations and government policies, so as to take timely measures to reduce the risks to and impacts on the Company.

- Health: Footwear manufacturing is a labor-intensive industry. As the Group's overseas production sites are mostly located in developing or under-developed countries, the medical resources are relatively scarce, and typhoid fever and dengue fever would have a significant impact on the employees' health. Therefore, we should actively disseminate the knowledge about environmental hygiene and disease prevention to employees.

Meanwhile, since the Group's majority of employees are females, it is particularly important to help the employees develop correct concepts of reproductive health and fertility planning. Therefore, each unit should cooperate with

local civil society groups who engaged in relevant health education to obtain the necessary information and disseminate it to the employees to ensure their health.

- Education: As mentioned above, due to the nature of this industry, the economic development of the countries where the overseas production sites are located is relatively backward, so the people are in a relatively disadvantaged condition, and education is less common. Each of the Group's factories has long been involved in local communities. They should cooperate with local civil society groups to provide scholarships to encourage local disadvantaged groups to attend schools, train talents, and lay the foundations for future talents.
- Local Relations: Each of the Group's production sites employs a large number of local employees. To understand local people's cultures and customs and integrate into the local society, we should actively engage in dialogue with local agencies to understand the needs of local communities, help local communities develop, and care for local residents, so as to develop harmonious and mutually beneficial relationships with local communities.



## Lighting Taiwan: Charity and Love—Giving back to the land

Pou Chen Corporation adheres to the spirit of “taking from society and giving back to society”. Every year, it carefully plans social outreach activities based on the theme of “education, philanthropy, and promotion of local community development”. By cooperating with various organizations, employees participate in the activities to protect the environment and reach the disadvantaged.

### **Taichung Hui Ming School To offer them a clean and comfortable environment**

The Company has cooperated with Taichung Hui Ming School for many years. We talk to the teaching staff every year to understand and offer services that meet the school’s needs. In the past, besides assigning personnel to support its important activities, such as school anniversaries or fairs, to accompanying its students to complete each task, in 2017, we mobilized employees from the Taichung Headquarters to clean the schoolyard before the start of the school year to jointly maintain the cleanliness and comfort of the learning space.

### **Maria Social Welfare Foundation Love never stops— To keep disabled people company**

While participating in annual charitable activities, the Company came to realize the disadvantaged groups’ needs. The seemingly easy tasks, such as swallowing, sitting up, pronouncing the word “mama” for children on average might take mentally retarded children a few years to pick up. The Company works with the Maria Social Welfare Foundation, allowing the colleagues to actually participate in Maria’s teaching activities. Through the interaction with physically and mentally disabled people, they jointly made the “magic box of love” to experience different life experiences, re-





flect on their own lives, and experience the beauty of giving based on individual differences, so as to devote themselves to reach the disabled people. Hopefully, through the making of that small box, such goodwill and action will have a “kind” impact on the society.

### Mountain clean-up for a clean homeland

Only by being close to the nature will you fall in love with it, which, in turn, will prompt you to protect the environment. The Company encourages its colleagues to “clean up mountains”, “stay quiet in the mountains,” and “respect mountains”, allowing them to enjoy the nature and relieve their stress while evoking their awareness of “being a friend with nature while taking trash home,” as well as prompting them to develop healthy lifestyles. This will be more aligned with the Company’s image as in the sports industry.

### illuminating the World: charitable medical care goes deep into the community

Pou Chen has actively adapted into local cultures and lives and established friendly neighborhoods. In early days, it assisted local infrastructure construction. at present, the Company makes



donations and helps extend the infrastructure. In Vietnam, it cares for the Vietnam War disabled veterans’ and poor residents’ needs, and regularly repairs their houses to ensure a safe and warm place. In China, annual summer and winter camps are held to take care of employees’ children. The employees visit nursing homes and orphanages on a periodic basis to convey the Company’s kindness to the senior and young. Due to the relatively scarce local medical care resources in the operating regions, Pou Chen in Indonesia, Vietnam, and other regions, cooperates with medical professional groups, and jointly provide charity clinic services and medical resources to the rural communities, contributing its part to public health in the local communities.



# Spreading Love to the Operating Sites Worldwide

## Community home visits by the team in Vietnams

In 2017, a total of 13 community home visits were conducted in Vietnam, with 6,100 participants. The community home visit each time was conducted in cooperation with local authorities on different themes, serving employees and community residents..



## Factories in Indonesia and Bangladesh Ramadan and Eid al-Fitr

Eid al-Fitr Islam is like the Chinese New Year in Taiwan. The Company usually holds breakfasting events at factories in Indonesia and Bangladesh during these days. The factories in Indonesia also provide free transport services to employees for returning to their hometowns, and even participate in the Eid al-Fitr activities with local orphanages and community residents during Ramadan to welcome the Islamic New Year.



## Factories in Indonesia

### Community fence beautification

To beautify the community environment and alleviate the traffic congestion caused by the gathering of vendors outside the factory, after the discussion government officials in Serang, the Pou Chen Corporation Serang factory in Indonesia undertook the peripheral fence greening and beautification project in 2017. After the completion of the work, the green belt around the fence will be donated to the local community.



## Factories in Vietnam

### Kindergarten establishment

The Pou Chen's factories in Vietnam invested more than NT\$60 billion in the construction of the Farming Kindergarten project in Phuong Hoa An, Bien Hoa City, Dong Nai Province and the project was completed in October 2013. The project occupied an area of 3,800 square meters and is a combination of natural landscape and energy-saving components. The building was nominated by the Royal Institute of British Architects (RIBA) as one of the 30 global architectural models in 2016.









### Local community charitable participation and activities

- Environmental Day: Events include seedling donation and tree planting activities, community and local school environmental cleaning services, environmental knowledge dissemination, a creative waste reuse competition, and environmental handicraft making.
- Charity Clinics and Blood Donation: Blood donation events are held on a regular basis. We also partner with local medical resources to provide free charity clinics and donations of supplies to rural communities.
- Donation of Friendship Houses: The houses are donated to poor disabled veterans living in the local community in Vietnam.
- Materials Donations: Donations of food, daily necessities, old clothes, and gifts; we also help repair and paint local schoolhouses, and donate goods to local holiday celebrations.
- Community Scholarships: In 2017, Vietnam Pou Chen “Seeds of Hope Scholarship” provided scholarships to a total of 1,485 students; the factories in China donated around 100 computers to the Shanggao Special School in Jiangxi; another 40 computers were donated to the Zhongshan Village Primary School in Yangxing County; the primary school’s computer classroom was repainted as well.
- Community Visits and Care for the Disadvantaged: Outreach visits to local nursing homes, disabled people and children, and orphanages, as well as community accessibility volunteering service.

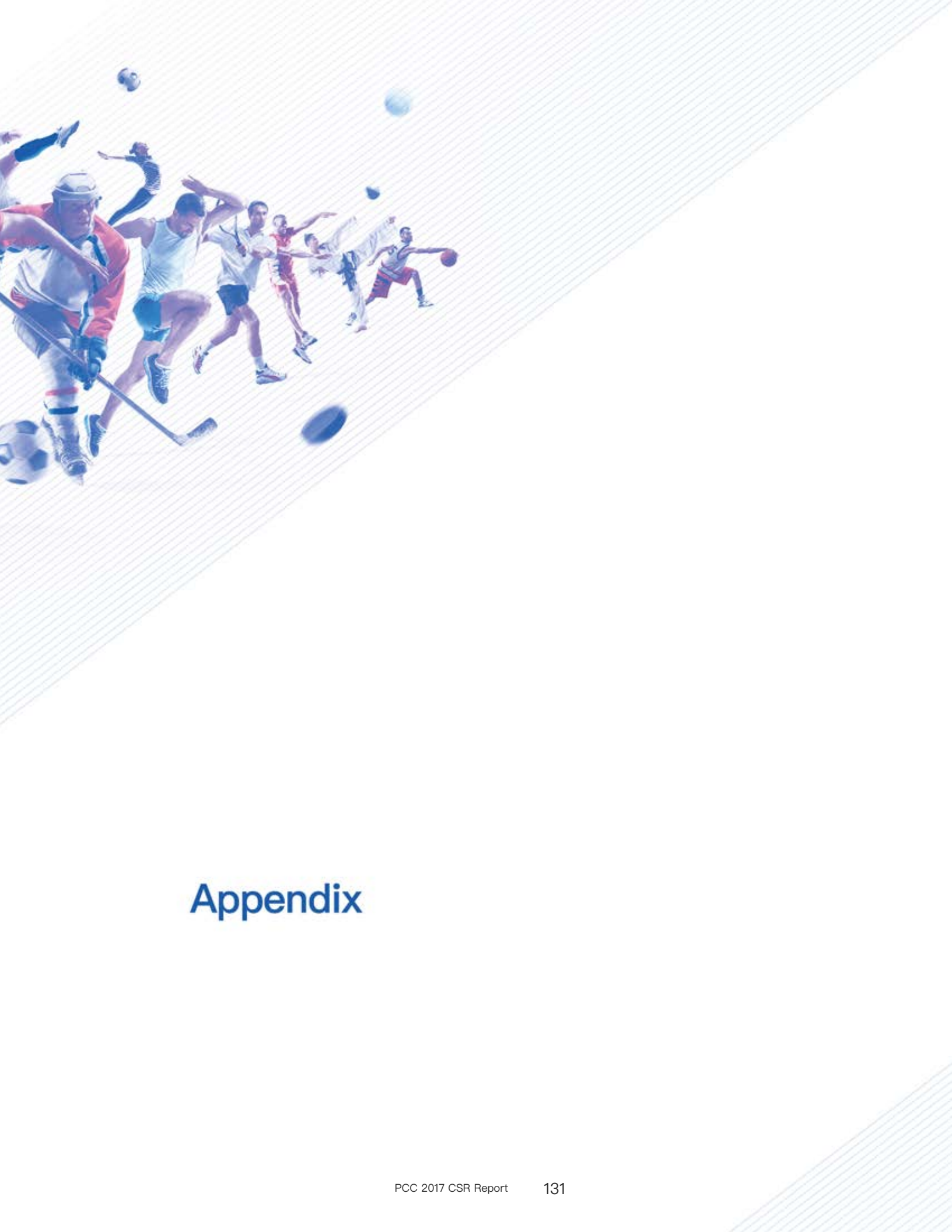
## ▼ Vietnam District

Title of the Chinese and Vietnamese awards	Date of Award	Award Content	Note
Tinh Long An People's Committee awarded a certificate of merit to Pouyuen Vietnam.	2017.12.25	Pouyuen Vietnam provided sponsorships for social charitable activities in Duc Hoa County, Tinh Long An, and achieved good results in 2017.	
Quan Binh Tan Standing Committee on Learning awarded a certificate of merit to Pouyuen Vietnam in Quan Binh Tan.	2018.01.18	In 2017, Pouyuen proactively participated in and sponsored the work of encouraging learning and going to work.	

## ▼ Factories in Cambodia

Item	Time	Location	Person	Cause
Certificate of Appreciation	2017.03.28	Cambodia Kampot Provincial Police Headquarters	Retired police officers	Provision of relevant supplies to the 100 disadvantaged retired police officers to improve their lives after retirement.
Certificate of Appreciation	2017.05.02	Cambodia Kampot Labor Bureau	Labor Bureau	Participation in the May 1st Labor Day event organized by the Kampot Provincial Labor Bureau
Certificate of Appreciation	2017.06.16	Cambodia Kampot Provincial Environmental Protection Agency	Environmental Protection Agency	Participation in the environmental cleaning activities organized by the Kampot Provincial Environmental Protection Agency
News report	2017.09.02	Overseas Chinese Schools, Kampot Province, Cambodia	Overseas Chinese School Students	Scholarships and grants were provided to a total of 59 overseas Chinese school students in Kampot Province.
Certificate of Appreciation	2017.12.04	Cambodian Kampot Provincial Environmental Protection Agency	Environmental Protection Agency	Participation in the environmental cleaning activities organized by the Kampot Provincial Environmental Protection Agency





## Appendix



# Appendix A: Third Party Assurance Statement



## ASSURANCE STATEMENT

### SGS TAIWAN LTD.'S REPORT ON SUSTAINABILITY ACTIVITIES IN THE POU CHEN CORPORATION'S CORPORATE SOCIAL RESPONSIBILITY REPORT FOR 2017

#### 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 2017 (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 2017 and its presentation are the responsibility of the directors or governing body (as applicable) and the management of PCC. SGS has not been involved in the preparation of any of the material included in PCC's CSR Report of 2017.

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 (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 high 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 2 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 2017 verified is accurate, reliable and provides a fair and balanced representation of PCC sustainability activities in 01/01/2017 to 12/31/2017.

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 2, High 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 and criteria applied to identify materiality could be more precise to obtain the material topics. In addition, the emphasis within a report is expected to reflect their relative priority.

##### 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

##### Principles

The report, PCC's CSR Report of 2017, 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.

##### General Standard Disclosures

More governance related GSDs may be further enhanced in future reports.

##### Specific Standard Disclosures

More disclosures on the specific actions taken to achieve CSR goals and targets are recommended. Detailed disclosures on EN22 and EN23 are encouraged. Moreover, complete disclosures on material aspects having boundaries within the organization are expected in the next report.

Signed:

For and on behalf of SGS Taiwan Ltd.

  
David Huang, Director  
Taipei, Taiwan  
07 June, 2018  
WWW.SGS.COM



**AA1000**  
Licensed Assurance Provider  
000-8



## Appendix B: GRI G4.0 Index Table

General Standard Disclosures	Chapter	Page numbers
Strategy and Analysis		
G4-1 (Organizational statement on sustainability)	Message from the Chairman	3
Organizational Profile		
G4-3 (Organization name)	About Pou Chen	5
G4-4 (Main brands, products, and services)	About Pou Chen	5
G4-5 (Location of organizational headquarters)	About Pou Chen	5
G4-6 (Number and name of countries where the organization operates)	About Pou Chen	5
G4-7 (Nature of ownership and legal form)	About Pou Chen	5
G4-8 (Markets where the organization provides products and services)	Chapter 1: Economic Performance	24
G4-9 (Scale of organization)	About Pou Chen	5
G4-10 (Total number of employees by employment type, contract, region, and gender)	Chapter 5: Friendly Workplace	81
G4-11(Percentage of employees covered by collective bargaining agreements)	Chapter 5: Friendly Workplace	94
G4-12 (Description of the organization's supply chain)	Chapter4: Customer Service and Supplier Management	70
G4-13 (Significant changes in the organization's size, structure, ownership, or supply chain during the reporting period)	<p>There were no significant changes in the Company's structure, ownership, and operational sites during the reporting period. However, due to the adjustment of the capacity allocation by the brand customers, the percentage of production capacity of each major production site has slightly changed. China's share of overall production decreased from 20% (2016) to 17% (2017). Vietnam's share of overall production increased from 44% (2016) to 45% (2017). Indonesia's share of overall production increased from 34% (2016) to 36% (2017)</p> <p>Chapter4: Customer Service and Supplier Management</p>	81 49
G4-14 (Organizational precautionary approaches or principles)	Chapter 2: Corporate Governance	37
G4-15 (List of externally developed economic, environmental and social charters, principles or other initiatives that the organization subscribes to or endorses)	<p>About Pou Chen</p> <p>Chapter 5: Friendly Workplace</p>	5 77
G4-16 (List of membership of public associations and national or international advocacy organizations)	About Pou Chen	5

General Standard Disclosures	Chapter	Page numbers
Identified Material Aspects and Boundaries		
G4-17 (Description of all entities included in the organization's consolidated financial statements or equivalent documents)	About Pou Chen About the Report	7 9
G4-18 (The process of defining report content and the aspect boundaries)	About the Report Stakeholder Engagement	9 14
G4-19 (Material aspects)	Stakeholder Engagement	14
G4-20 (The internal boundary of each material aspect within the organization)	Stakeholder Engagement	15
G4-21 (The external boundary of each material aspect within the organization)	Stakeholder Engagement	15
G4-22 (The impact of and reasons for any re-edited information)	There was no re-edited information during the reporting period.	136
G4-23 (Significant changes in the scope and boundary of each aspect during the reporting period)	During the reporting period, there were no significant changes in the scope and boundary of each aspect.	136
Stakeholder Engagement		
G4-24 (List of stakeholder groups)	Stakeholder Engagement	11
G4-25 (Stakeholder identification and selection)	Stakeholder Engagement	11
G4-26 (Approaches to stakeholder engagement)	Stakeholder Engagement	11
G4-27 (Topics of concern to stakeholders and the organization's responses)	Stakeholder Engagement	11
Report Profile		
G4-28 (Reporting period)	About the Report	9
G4-29 (Date of the most recent report)	About the Report	10
G4-30 (Reporting cycle)	About the Report	10
G4-31 (Contact representative for questions regarding the report content)	About the Report	10
G4-32 (a. The "compliance" option chosen by the organization)	About the Report	9
(b. GRI Content Index)	Appendix B: GRI G4.0 Index Table	135
(c. Assurance reference)	Appendix A: Third Party Assurance Statement	133
G4-33 (External assurance policy and current practice for report)	About the Report	9

## Appendix B: GRI G4.0 Index Table

General Standard Disclosures	Chapter		Page numbers
Governance			
G4–34 (Organizational governance structure)	Chapter 2: Corporate Governance		33
G4–38 (Composition of the highest governance body and its committees)	Chapter 2: Corporate Governance		30
G4–41 (How the highest governance body avoids conflicts of interest and whether conflicts of interest are disclosed to stakeholders)	Chapter 2: Corporate Governance		32
G4–52 (Process of determining remuneration)	Chapter 2: Corporate Governance		32
Ethics and Integrity			
G4–56 (Organization’s values, principles, standards, and norms of behavior)	Chapter 2: Corporate Governance Appendix C: Pou Chen Group Code of Conduct		34 141
G4–57 (Internal and external mechanisms for seeking advice on ethical and lawful behaviors, and matters related to organizational integrity)	Chapter 2: Corporate Governance		34
G4–58 (Internal and external mechanisms for reporting unethical or illegal behavior)	Chapter 2: Corporate Governance		36
Specific Standard Disclosures			
Material Aspects	DMA/indicator	Chapter	Page numbers
Economic			
Economic performance	DMA		21
	G4–EC1	Chapter 1: Economic Performance	21
	G4–EC3	Chapter 5: Friendly Workplace	85
Market image	DMA		85
	G4–EC5	Chapter 5: Friendly Workplace	85
Procurement practices	DMA		50
	E4–EC9	Chapter 4: Customer Service and Supplier Management	50

Specific Standard Disclosures			
Material Aspects	DMA/indicator	Chapter	Page numbers
Environment			
Raw materials	DMA		47
	G4-EN1	Chapter 3: Environmental Protection and Energy Conservation	47(Note)
Energy	DMA		51
	G4-EN3	Chapter 3: Environmental Protection and Energy Conservation	51
Water	DMA		56
	G4-EN8	Chapter 3: Environmental Protection and Energy Conservation	56
Emissions	DMA		54
	G4-EN15	Chapter 3: Environmental Protection and Energy Conservation	54
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Effluents and waste	DMA		58
	G4-EN24	Chapter 3: Environmental Protection and Energy Conservation	58
Products and services	DMA		51
	G4-EN 27	Chapter 3: Environmental Protection and Energy Conservation	51
Compliance	DMA		61
	G4-EN29	Chapter 3: Environmental Protection and Energy Conservation	61
Supplier environmental assessment	DMA		72
	G4-EN32	Chapter 4: Customer Service and Supplier Management	72

Note: Since July 2017, the raw material weight system for each of the Group's factories in each region has been developed. After data are verified and collected system problems are resolved, the weight of raw materials and packaging materials is expected to be obtained from the procurement information in 2018. Therefore, it is further expected that the information about the weight of procured raw materials will be gradually disclosed in 2019.



## Appendix B: GRI G4.0 Index Table

Specific Standard Disclosures			
Material Aspects	DMA/indicator	Chapter	Page numbers
Society – Labor Practices and Decent Work			
Labor/Management relations	DMA		77
	G4-LA1		83
	G4-LA2	Chapter 5: Friendly Workplace	87
	G4-LA3		93
Labor/Management relations	DMA		77
	G4-LA4	Chapter 5: Friendly Workplace	94
Occupational Health and Safety	DMA		102
	G4-LA5		102
	G4-LA6	Chapter 5: Friendly Workplace	105
	G4-LA7		109
Society – Labor Practices and Decent Work			
Training and Education	DMA		112
	G4-LA9		115
	G4-LA11	Chapter 5: Friendly Workplace	118
Labor practices grievance mechanisms	DMA		96
	G4-LA16	Chapter 5: Friendly Workplace	96
Society–Human Rights			
Non-discrimination	DMA		79
	G4-HR3	Chapter 5: Friendly Workplace	79
Freedom of association and collective bargaining	DMA		80
	G4-HR4	Chapter 5: Friendly Workplace	80
Child labor	DMA		80
	G4-HR5	Chapter 5: Friendly Workplace	80

Specific Standard Disclosures			
Material Aspects	DMA/indicator	Chapter	Page numbers
Society–Human Rights			
Forced or compulsory labor	DMA		77
	G4–HR6	Chapter 5: Friendly Workplace	80
Human rights grievance mechanisms	DMA		77
	G4–HR12	Chapter 5: Friendly Workplace	96
Society–Society			
Compliance	DMA		34
	G4–SO8	Chapter 2: Corporate Governance	34
Society – Product Responsibility			
Customer health and safety	DMA		47
	G4–PR2	Chapter4: Customer Service and Supplier Management	66
Customer privacy	DMA		65
	G4–PR8	Chapter4: Customer Service and Supplier Management	66
Compliance	DMA		65
	G4–PR9	Chapter4: Customer Service and Supplier Management	66

## Appendix C: Pou Chen Group Code of Conduct

To fulfill corporate social responsibility, the Company adheres to the laws and regulations of the host country in a rigorous, open, and transparent manner. If there are any discrepancies or conflicts between different standards, the more rigorous ones are taken as the basis for compliance. The Company also regularly refers to the code of conduct formulated by large non-governmental organizations and many of its brand customers, as the core standard for all employees to perform their work; efforts are made to identify potential problems through internal and external audits to continuously improve the work environment and control risks; we further strive to promote harmonious labor/management relations and create an enterprise of happiness. The Pou Chen “Code of Conduct” is as follows

- **Employment Relationship:** Employers shall adopt and adhere to employment rules and conditions that respect workers and provide basic rights protection to employees in accordance with national and international labor- and social security-related laws and regulations.
- **Non-discrimination:** Employees are not subject to employment discrimination based on gender, race, religion, age, disability, sexual orientation, nationality, political opinion, social status, or ethnic minorities, in terms of recruitment, compensation, benefits, advancement, discipline, dismissal, or retirement.
- **Harassment or Abuse:** Every employee shall be treated with respect. No personal, sexual, psychological, or verbal harassment or abuse toward employees is allowed.
- **Forced Labor:** Forced labor is not allowed, including prison labor, indentured labor, bonded labor, or other forms of forced labor.
- **Child Labor:** Employees under the age of 15 or under the age for compulsory education shall not be employed; the stricter of the two standards applies.
- **Freedom of Association and Collective Bargaining:** Employers shall recognize and respect employees’ rights to freedom of association and collective bargaining.
- **Health, Safety, and the Environment:** Employers shall provide a safe and healthy work environment to avoid unsafe accidents and injuries that occur when employees are engaged in work-related activities or when using tools provided by employers. Employers shall adopt responsible measures to mitigate the negative impact of the workplace on the environment.
- **Working hours:** Employers shall not require employees to work for more than regular working hours and overtime hours set forth in the laws of the country where the factory is located. Regular working hours should not exceed 48 hours a week. Employers must allow employees to take at

least 24 consecutive hours of rest in every seven-day period. All overtime work shall be based on mutual consent. Employers may not require employees to work overtime on a frequent basis, and overtime work shall be paid at an appropriate rate. Unless otherwise, exceptional case occurs, the total number of regular and overtime working hours a week may not exceed 60 hours.

- **Remuneration:** Every employee has the right to receive corresponding remuneration for a regular working week, and this remuneration shall be sufficient to meet his/her basic needs and provide some disposable income. Employers shall take the local minimum wage or the appropriate current wage (whichever is higher) as the payment standard; employers shall comply with all legal requirements on wages, and provide fringe benefits in accordance with the law or contract. When remuneration is insufficient to meet employees' basic needs and not able to provide disposable income, employers shall do their best to seek appropriate solutions to reach the legal remuneration standards step by step.
- **Community Outreach:** Pou Chen shall actively participate in community charitable activities to promote community development and create a harmonious society collectively.





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