



# CSR

2018  
REPORT





# ***CSR*** **2018 REPORT**

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### Notice to readers

The English version of PCC 2018 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 shall prevail.

# Message from the Chairman

Pou Chen's Corporate Social Responsibility (CSR) Report reflects a progress in many areas covered by the 17 Sustainable Development Goals (SDGs) of the United Nations' 2030 Agenda for Sustainable Development.

Since its establishment in 1969, Pou Chen has always adhered to the core values of "Professionalism, Dedication, Innovation and Service" when it comes to its commitment to provide a safe and healthy workplace, to promote responsible production, to cultivate human resources, to serve the social welfare, and to gradually implement the corporate vision of "providing the most valuable solutions to benefit healthy lives of everyone."

As a professional footwear manufacturing group that operates internationally, Pou Chen has established long-term and close cooperative relations with major international brands. In order to meet the high standards of international brands and the world's sustainable trend, Pou Chen began to invest resources in promoting CSR-related works as early as 1997, followed by the formal establishment of the Sustainable Development Department (SD) in 2012, which incorporated CSR into the core business. Through paying attention to material sustainability topics and trends, Pou Chen has been strengthening stakeholders' communication and engagement, according to which it has formulated its CSR policy and drafted the management approaches and action plans covering the environmental, social and governance dimensions of sustainability, so that the CSR could be implemented.

### The Only FLA-accredited footwear Manufacturer in the World

Pou Chen has always insisted on a people-oriented philosophy, and striven to provide a safe and healthy working environment and a friendly and harmonious workplace. In order to promote the principle of fairness and human rights policy, Pou Chen has become a participating supplier of the Fair Labor Association (FLA) since 2011, and has continuously invested a lot of manpower and resources, improved the internal audit mechanism, formulated factory improvement plans, trained professionals, and invited impartial third parties to conduct independent assessments to achieve fair labor and risk management. Pou Chen's social compliance program was successfully approved by FLA in June 2018, becoming the only FLA-accredited footwear manufacturer in the world. With the highest management level committing to engaging in social responsibility affairs, internal training and improvements, and through policy making and internal audits to meet the highest labor standards, Pou Chen ensures that employee rights are protected and employee communication will be continuously strengthened.

### A Warm and Friendly Workplace

Pou Chen provides attractive and competitive salary and benefits, a diverse and comprehensive training mechanism, and the recruitment and retention of outstanding talent. Currently, Pou Chen has more than 350,000 employees of different nationalities, races, languages, cultures, and religious beliefs in the world. In order to take care of employees' mental health and build a platform for mutual trust, Pou Chen had launched an employee life counseling system as early as 1999. Today, employee care is further planned to be launched in four dimensions: listening, life care, home visits, and faith support. Implementation measures include setting up a diverse employee interaction platform, regular dialogues between factory management and unions/employees, organizing summer camps for employees' children, planning festival activities for cultural inclusiveness, actively visiting employees' homes, supporting and guaranteeing employees' freedom of religious belief, etc., in the hope of creating a more humane workplace and a win-win situation among the enterprise, employees, and their family.



## Responsible and Sustainable Production

Due to the severe climate changes, the initiative of the United Nations Sustainable Development Goals and the Paris Agreement's targets of temperature control and emission reduction are inevitable issues for enterprises that pursue sustainable operation. As a responsible manufacturer, Pou Chen adheres to the principle of balancing environmental protection and production and integrates into the operational thinking the philosophy of environmental protection, energy conservation and carbon reduction, and green management. Pou Chen also continuously improves energy efficiency and introduces a digital waste management system (i.e. the Barcode system), sets specific management goals for reduction in energy consumption, and strictly follows brand customers' "Manufacturing Restricted Substance List (MRSL)" for materials procurement. In 2018, Pou Chen's RPE chemical plant in Taiwan, which focuses 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 certified by the Industrial Development Bureau of the Ministry of Economic Affairs. Pou Chen is committed to maintaining close cooperation with brand customers and strategic suppliers to gradually establish a green supply chain, thus ensuring that the manufacturing process is in line with environmental sustainability standards.

## Take from Society, Give Back to Society

Pou Chen's operations are located in Taiwan, China, Indonesia, Vietnam, and other countries. In order to be able to operate on a long-term basis and bring overall improvement and sustainable development to local communities, Pou Chen respects local cultures and needs, and continues to concentrate on the areas of education and culture, health care, and local relations. For instance, in 1999, it constructed the pre-fabricated housing units for victims of the 921 Earthquake; in 2001, it spent seven years and considerable amount of funds to complete the restoration project of the Lukang Lungshan Temple, a level-one national ancient monument; in 2004, it donated to help victims of the South Asia tsunami in Indonesia; in 2008, it donated to help victims of the Wenchuan earthquake in China; in 2009, it launched the "Friendship House" project in Vietnam; in 2013, it completed the construction of the Farming Kindergarten in Vietnam, a building that combines natural landscapes with energy-saving and environmentally friendly architectural design; in 2018, it worked together with the China Medical University Hospital to initiate the "One Country, One Assistance" international medical assistance program to help a Myanmar girl. All of which has demonstrated a positive impact of an enterprise upholding a pro bono value.

## Robust Operational Performance

Enhancing operational performance is the primary key to CSR. By continuing to promote manufacturing upgrades and develop omni-channel operational capabilities, the consolidated revenues of Pou Chen in 2018 reached a record high to NT\$293.3 billion, a 5.3% increase compared to 2017. At the time of a robust operational growth, Pou Chen has long dedicated itself to strengthening corporate governance, participating in social welfare and developing a sustainable environment. Ever since 2015 when it was selected as a constituent of the FTSE4Good Emerging Index, Pou Chen has also become one of the constituents of the FTSE4Good TIP Taiwan ESG Index compiled by the Taiwan Index Plus and the FTSE International Taiwan Ltd. In addition, according to the results of the 5th Corporate Governance Evaluation conducted by the Corporate Governance Center of the TWSE in April 2019, Pou Chen was ranked the top 5% of listed companies, the fifth consecutive year it has won an outstanding rating.

Founded in 1969, Pou Chen is about to walk through half a century with its ever insistence on implementing CSR, continuing to pursue a better economic performance, and concentrating on promotion of a robust progress in the environmental, social, and corporate governance dimensions of sustainability. In the future, Pou Chen will insist and uphold innovative thinking in pursuing a sustainable growth, internalize CSR into a sustainability business model, constantly maximize corporate economic values, create social values hand-in-hand with stakeholders, and implement the long-term corporate vision of sustainable operation.

Pou Chen Corporation  
Chan, Lu-Min

晉泰

# Chapter 1

## Robust Operational Performance

In 2018, the consolidated revenue reached NT\$293.32 billion, with an annual output of 326 million pairs of shoes. The consolidated revenue has been growing for five consecutive years, with a compound annual growth rate of 4.7%. The sales network in Greater China region covers 5,648 directly-operated stores and 3,551 sub-distributor stores.



# Performance Highlight

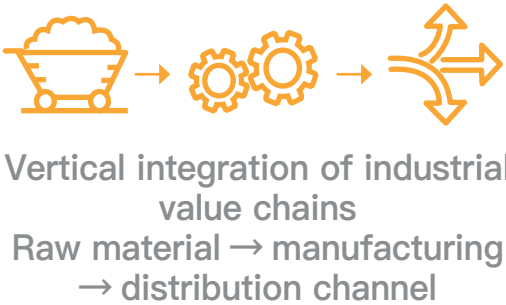
Pou Chen Corporation is committed to creating economic value for shareholders/investors and stakeholders on a long-term basis. Directors, chosen by the Shareholders' Meeting, form the Board of Directors, which then selects the management team and tasks it with sustainable management of the Company. Therefore, the shareholders/investors and the management team of Pou Chen Corporation have created a business model of mutual interests. In 2018, Pou Chen Corporation continued to pursue quality and operational growth. Please see the critical data in the following economic categories.



**NT\$293.32billion**  
2018 consolidated revenue

**Annual output  
of 326  
million pairs of shoes  
in 2018**

**4.7% compound  
annual growth rate**  
Consolidated revenue  
growth for 5 consecutive years



**About 20 %**  
2018 global market share  
Global branded athletic and casual footwear market  
Calculated at wholesale price

**More than 350,000 people**  
Global operations  
Number of permanent employees

# About Pou Chen

Pou Chen Corporation was established in September 1969. The paid-in capital was NT\$29.47 billion at the end of 2018, with a total of approximately 352,000 permanent employees. The operational headquarter 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

The world's largest branded athletic & casual footwear manufacturer  
The leading sporting goods distributor in Greater China region

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 (hereinafter referred to as "footwear business") and sporting goods retailing and brand licensing (hereinafter referred to as "retail business").

## Footwear Business

In its early stage, Pou Chen mainly engaged in producing plastic shoes. In 1978, it entered the athletic shoes OEM market, and thereafter had focused on manufacturing of athletic shoes, casual shoes and outdoor shoes, with its business model transformed from OEM to ODM, and accumulated close partnership with scores of international brand names, including Nike, adidas, Asics, New balance, Timberland and Salomon.

The footwear business is currently operated through Yue Yuen, a subsidiary of Pou Chen and the world's largest footwear manufacturer, which accounts for about 20% of the combined wholesale value of the global branded athletic and casual footwear market. In 2018, a total of 326 million pairs of shoes were manufactured, among which Vietnam, Indonesia and China constituted the major production bases, accounting for 46%, 37% and 14% 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 2018 Annual Report, Yue Yuen's 2018 Annual Report, and Yue Yuen's 2018 Environmental, Social and Governance Report. Yue Yuen's official website: [www.yueyuen.com](http://www.yueyuen.com)

## Retail Business

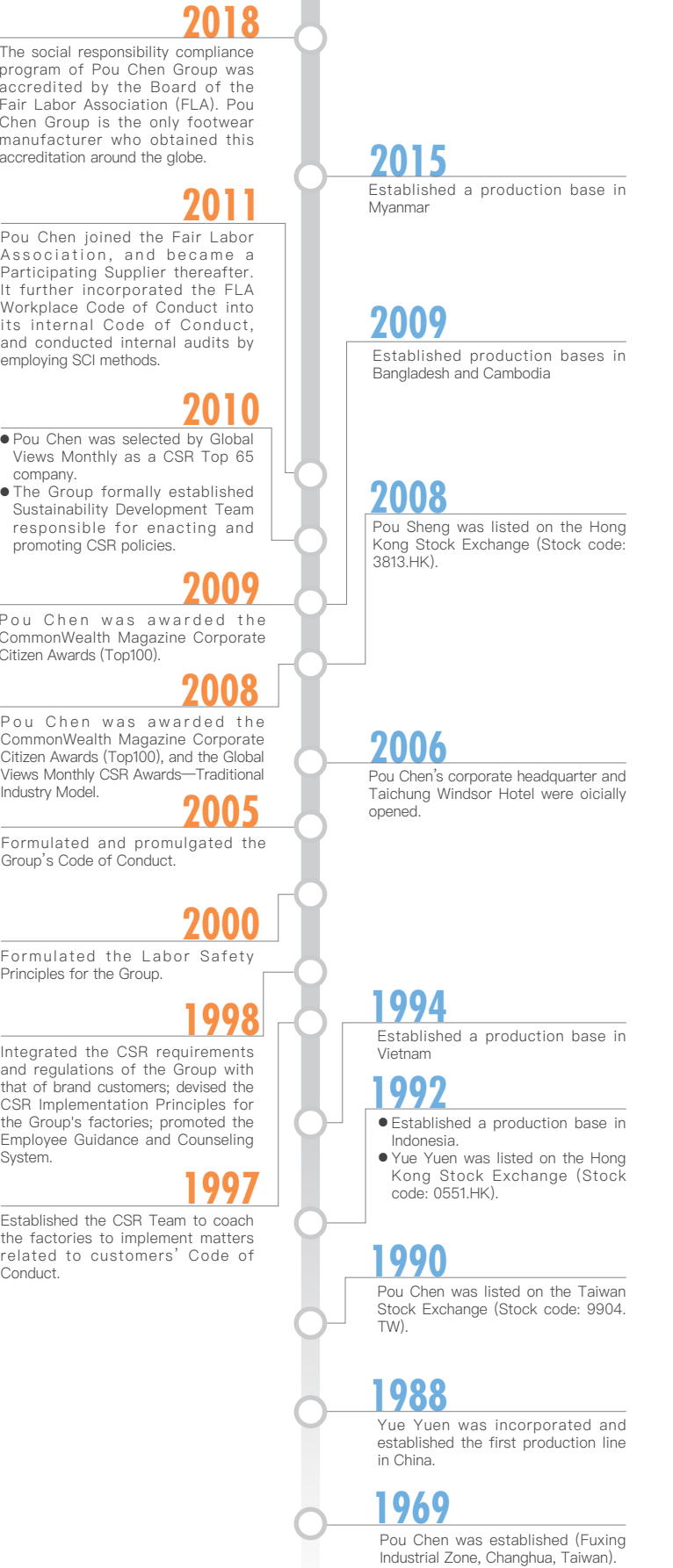
The brand licensing business started as early as 1992. Thereafter, the Company had gradually established a sales network throughout the Greater China region. By setting up diversified distribution channels, the Company provided customers with various footwear, apparel and accessories for international sports and leisure brands, and extended the business scope from sales of products to marketing of sports service.

Currently, the retail business is operated by Pou Sheng, a subsidiary of Pou Chen. As of December 31, 2018, Pou Sheng's sales network in Greater China region had covered 5,648 directly operated stores and 3,551 sub-distributor stores.

For information regarding the business model of the retail business and the environmental, social and governance report, please refer to the 2018 Annual Reports, both of the Company and of Pou Sheng. Pou Sheng's official website: [www.pousheng.com](http://www.pousheng.com)



CSR History



External Organization Participation

In addition, Pou Chen is 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 member. Pou Chen has joined the Fair Labor Association (FLA) as a Participating Supplier since 2011. We have advocated the FLA Workplace Code of Conduct in the hope of creating a fair, appropriate and humane work environment.

Economic Performance

The continued operational performance growth is the foundation for the Company's sustainable operation. Pou Chen emphasizes diversified talent cultivation to strengthen competitiveness and enhance the efficiency of the overall management. Pou Chen focuses on developing the operation of two core businesses, namely footwear business and retail business. 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 to provide the most valuable solutions in the footwear industry supply chain in order to achieve a lasting and stable operational growth in terms of quality and volume.

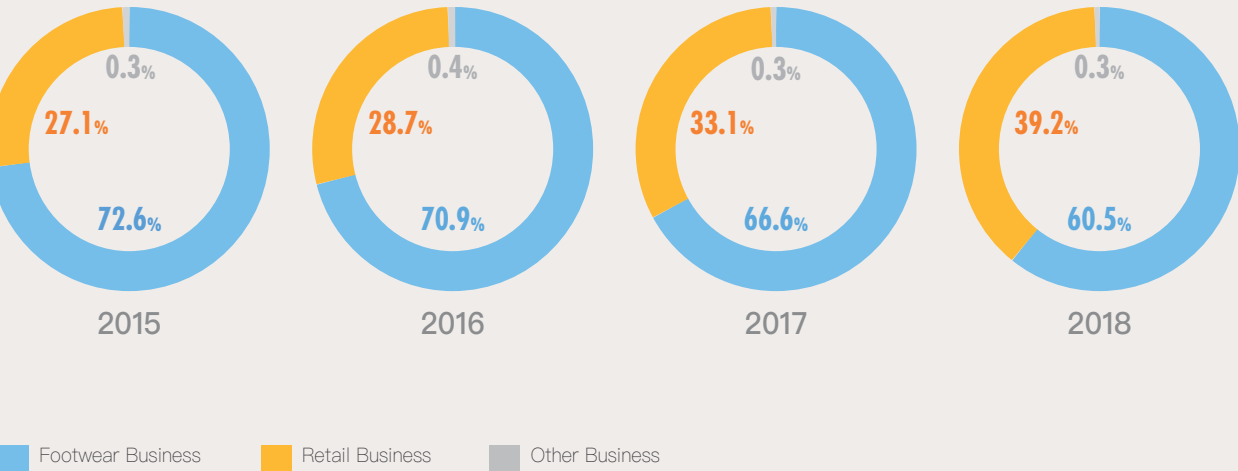
Consolidated Revenue in 2018 Hit New Highs

The consolidated revenue of Pou Chen in 2018 reached a record high, to NT\$293.32 billion, a 5.3% increase compared to 2017. Among them, the footwear business accounted for 60.5%, a main source of the consolidated revenue. The retail business accounted for another 39.2% whereas other businesses accounted for only 0.3%.

As the consolidated revenue of Pou Chen in 2018 continued to grow, the consolidated gross profit and the consolidated income from operations were NT\$75.47 billion and NT\$13.81 billion, respectively. Apart from that, benefited from the injection of the non-operating income, the net income after tax attributable to owners of the Company in 2018 reached NT\$10.71 billion, and earnings per share hit NT\$3.63. Please refer to the 2018 consolidated financial statements of Pou Chen for related operational performance.

The 2017 profit distribution proposal of Pou Chen was already approved at its 2018 Shareholders' Meeting to distribute cash dividends of NT\$2.0 per share. Such distribution had been paid on August 9, 2018. The 2018 profit distribution of Pou Chen was proposed by the Board Meeting on April 30, 2019, where the Board suggested to distribute cash dividends of NT\$1.5 per share. Such proposal had been approved at the Company's Shareholders' Meeting held on June 13, 2019.

Consolidated Revenue Ratio (unit : % )





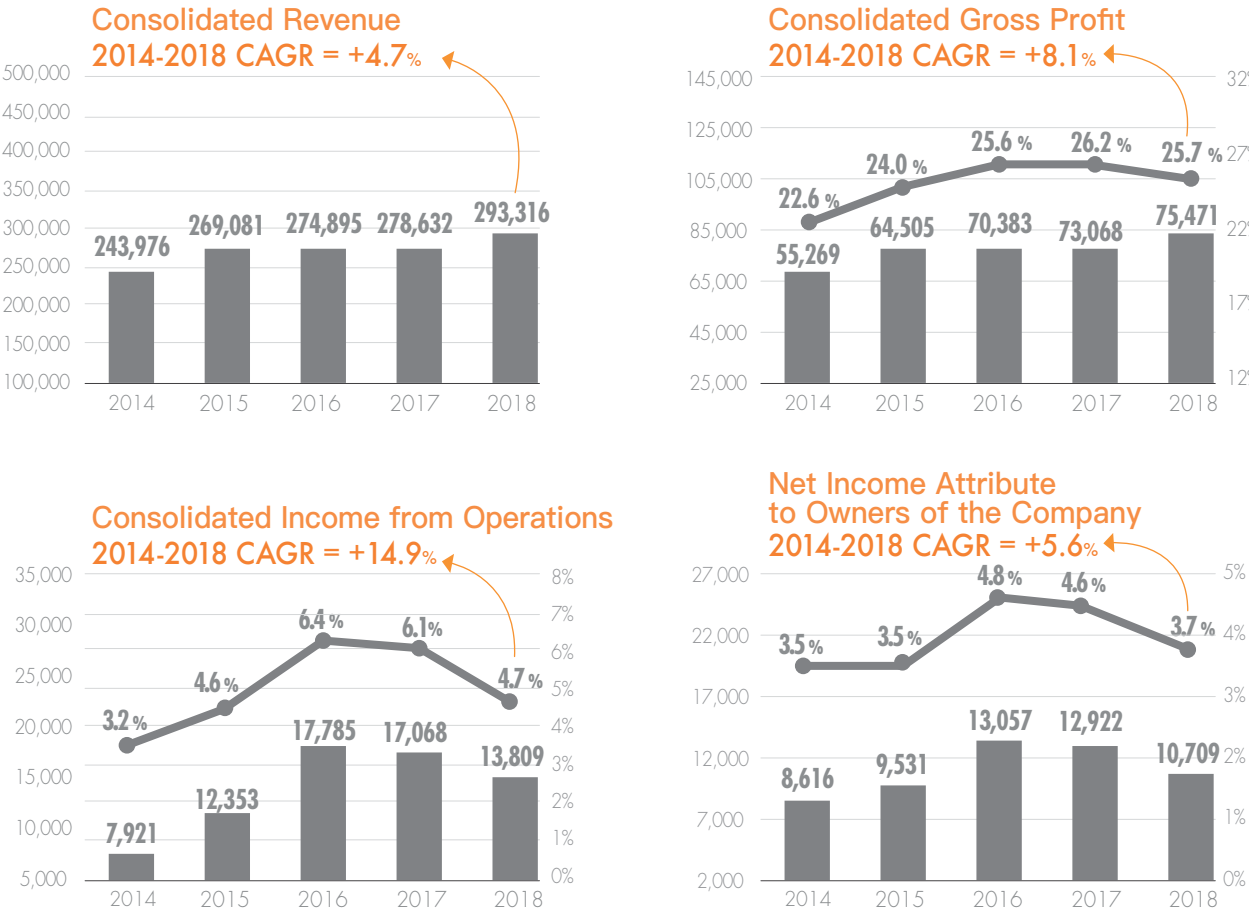
Consolidated Financial Statements

(Unit: NT\$ million; except earnings per share)

Consolidated Financial Statements	2015		2016		2017		2018	
	Amount	%	Amount	%	Amount	%	Amount	%
Operating Revenue	269,081	100.0%	274,895	100.0%	278,632	100.0%	293,316	100.0%
Operating Costs	204,576	76.0%	204,512	74.4%	205,564	73.8%	217,845	74.3%
Gross Profit	64,505	24.0%	70,383	25.6%	73,068	26.2%	75,471	25.7%
Operating Expenses	52,152	19.4%	52,598	19.2%	56,000	20.1%	61,662	21.0%
Income From Operations	12,353	4.6%	17,785	6.4%	17,068	6.1%	13,809	4.7%
Income Before Income Tax	20,240	7.5%	26,280	9.6%	24,818	8.9%	20,260	6.9%
Income Tax Expense	3,639	1.4%	3,278	1.2%	3,087	1.1%	3,888	1.3%
Net Income	16,601	6.1%	23,002	8.4%	21,731	7.8%	16,372	5.6%
Attributable to owners of the Company	9,531	3.5%	13,057	4.8%	12,922	4.6%	10,709	3.7%
Earnings per Share	3.24		4.43		4.38		3.63	
Shareholder Dividend (NT\$/per share)	1.5		1.5		2.0		1.5	
Employee Salaries and Benefits	68,558		71,111		68,564		70,315	

Consolidated revenue growth for 5 consecutive years.

(Unit: NT\$ million)



Tax Policy

Pou Chen supports the sustainable tax policy, fulfills its social responsibilities, upholds the following principles and commitments:

- Operating activities comply with local tax regulations, and tax disclosures are handled in accordance with regulations.
- According to the transfer pricing regulations, profit allocation is based on the arm's length principle.
- Disclose relevant tax information in financial reporting such as financial statements and annual reports, and strive for information transparency.
- Monitor international taxation changes and conduct regular tax risk assessments to formulate response strategies.
- Uphold the principle of good faith and maintain good communication with the tax authorities.

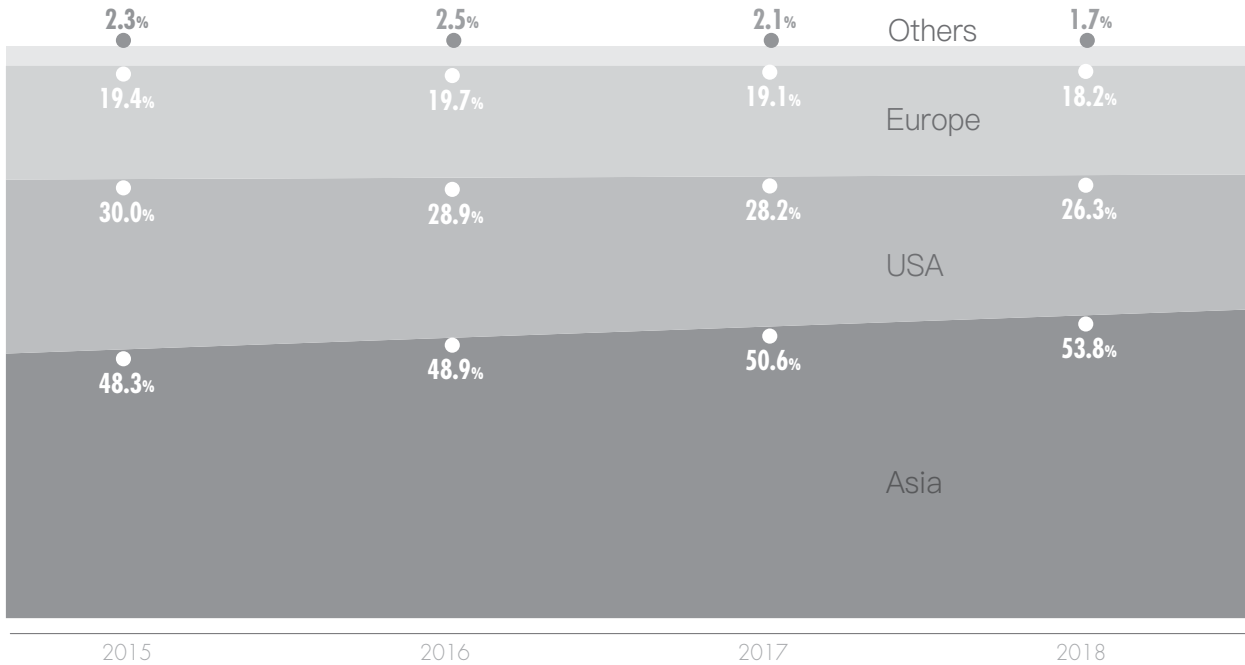
Tax Information

(Unit: NT\$ million)

Item \ Year	2016	2017	2018	Average
Income Before Income Tax	26,280	24,818	20,260	23,786
Income Tax Expense	3,278	3,087	3,888	3,418
Income Tax Rate (%)	12.5%	12.4%	19.2%	14.4%
Income Tax Paid	4,075	3,692	4,207	3,991
Income Tax Paid (%)	15.5%	14.9%	20.8%	16.8%

Note: Please refer to the Consolidated Financial Statements of Pou Chen for 2017 and 2018 for related information.

Sales of Products (Services) by Region



# Chapter 2

## Corporate Governance

Pou Chen is committed to developing and implementing a diversified policy for the composition of its Board of Directors.

The 22nd Board of Directors was elected with 9 directors; 3 of them are independent directors, and 2 directors are female, which shows a practice of gender equality.

All directors have a wealth of industry experience and expertise covering accounting and finance, technology, management and law.



## Performance Highlight

Adhering to its corporate core value, Pou Chen complies with corporate governance under the principle of ensuring shareholders' rights and interests, strengthening the occupational competence of the Board of Directors, improving risk management, tightening control over financial operation, respecting the rights and interests of stakeholders, and enhancing information transparency. In 2018, Pou Chen continued to ensure shareholders' rights and interests and pursue sustainable development, with a belief that building an effective corporate governance structure is the foundation of good corporate governance. Please see the key performance of corporate governance below.



### NO.1

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



Honored with the constituent of FTSE4Good Emerging Indexes.



Honored with the constituent of FTSE4Good TIP Taiwan ESG Index.

### 33.3%

Independent directors account for 33.3% of the Board.

### 22.2%

Female directors account for 22.2% of the Board, demonstrating gender equality in the governing class.



Established the Remuneration Committee and the Audit Committee.



# Core Values

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 growing. In response to the ever-changing challenges of the industrial environment, besides focusing on the footwear business and the retail business, strengthening the connection between, and providing high-quality products, services and comprehensive solutions, Pou Chen also strives to advance its five competitive advantages, namely “speed, flexibility, innovation, quality and sustainability,” and will focus on the sports value chain, continuously exploring opportunities for cross-border development and innovation breakthroughs in order to build a diverse platform of the highest value in the world steered by smart manufacturing and innovative services, and to create an irreplaceable and unique strategic value of the Company and give back to all stakeholders, actively implementing the long-term goal of sustainable development.

## Pou Chen’s Core Values



## Pou Chen’s Sustainable Development Execution Strategy



# Corporate Governance

## Four-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 five 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.

## Strengthening Information Disclosure

In recent years, Pou Chen has continued to strengthen information disclosure through the revision of the Company's Articles of Incorporation and the establishment of a candidate nomination system for election of directors, so that shareholders can obtain sufficient information to exercise their rights. And related disclosures on corporate governance and corporate social responsibility are added to the Company's website. The following are the key actions of our corporate governance:

- Amending the Company's Articles of Incorporation and established a candidate nomination system for election of directors, so that shareholders can obtain sufficient information to exercise their rights.
- Adding the English version of the annual report and shareholders' meeting documents to serve foreign institutional investors and ensure that all shareholders are treated equally.
- Selecting three independent directors and setting up the Audit Committee to strengthen the Board structure and exert its occupational competence.
- Specifying its dividend policy to enhance information transparency.
- Disclosing annual greenhouse gas emissions of the production factories, preparing a corporate social responsibility report certified by a third party, and incorporating corporate social responsibility into the core business.
- More than half of the members of the Remuneration Committee are held by independent directors, strengthening the independence of the Remuneration Committee.
- Purchasing liability insurance for all directors, so that they can perform their occupational competence wholeheartedly and create maximum benefits for shareholders.
- Formulating the “Procedures for Evaluating the Board of Directors' Performance”, and evaluating the performance of the Board at least once a year by means of the director's personal self-evaluation and the Board's self-evaluation or a third party evaluation, of which the results shall be submitted to the next Board Meeting after the year ends.

## Board Responsibilities

The Board of Directors is Pou Chen's highest governance unit and decision-making center. Its main duties include setting up independent directors, functional committees and internal auditing 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 of Directors 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 background. Pou Chen's 22nd Board of Directors was elected with nine directors for a term of three years. There are two female directors and three independent directors. The directors' expertise and skills cover the fields of industry, accounting, finance, technology, management and law. They are also equipped with the knowledge, skills, and literacy necessary 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.

## Avoidance of Conflicting Interests

Pou Chen's “Rules and Procedures of 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 elected three independent directors, whose opinions are taken into consideration during the discussion of any proposal to effectively protect the Company’s interests. All Board operations in 2018 complied with the procedures for preventing conflicts of interests, and there was no violation.

For more detailed information on Board members, their professional qualifications and experience, operations of the Remuneration Committee and the Audit Committee, please refer to the 2018 Annual Report of Pou Chen.

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 regular assessment of the effectiveness of internal control

in terms of design and execution, which helps the management identify existing or potential risks, and provide suggestions for improvement. The results of the 2018 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 and other operation items as defined in the Regulations Governing Establishment of Internal Control Systems by Public Companies. The audit plan was implemented with the approval of the Board. The monthly audit results were submitted to the independent directors for review before the end of the following month, and reported to the Board of Directors with respect to the implementation status of the audit plan, and if any material events were found, they could be reported to the independent directors at any time. Random inspections and verifications of each unit’s self-assessment procedure of the internal control system and audit results for 2018 found no serious anomalies.

Ethical Management 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,” “Codes of Ethical Conduct,” “Ethical Corporate Management Best Practice Principles,” “Procedures for Ethical Corporate 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.

A total of 69 sessions of training regarding ethical management were held in 2018, with 5,587 participants.

Item	Session Type	Content	Number of Participants
Group Motivational Camp for New Employees	Physical session	To campaign for core values and workplace behavior	8 sessions, a total of 346 participants
Group Orientation	Online session	To campaign for the Ethical Corporate Management Best Practice Principles, Codes of Ethical Conduct, and ethical trading and protection of group interests	43 sessions, a total of 712 participants
Group Employee Training	Online session	To campaign for the Ethical Corporate Management Best Practice Principles, Codes of Ethical Conduct, and ethical trading and protection of group interests, and prohibition of internal trading	4 sessions, a total of 1,234 participants
Group Employee Training	Online session	To campaign for refuse of joint monopoly	6 sessions, a total of 2,536 participants
Employee Training of the Global Supply Chain Management	Online session	To campaign for the Code of Conduct for Supply Chain Personnel	8 sessions, a total of 759 participants

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. 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.

Pou Chen has also established an Ethical Management Promotion Team, which is responsible for the implementation of ethical management policies and prevention programs, and reports to the Board of Directors at least once a year. The specific actions taken by the Ethical Management Promotion Team in 2018 are as follows:

- 1.Continued to improve the signing rate of the "Code of Ethics and Integrity Pledge" and the "Non-Disclosure Agreement."
- 2.Amended its Work Rules and added provisions regarding disciplinary measures against unethical conducts.
- 3.The self-assessment questionnaire on internal control of the overseas subsidiaries were added the evaluation item “whether relevant operations are conducted in accordance with the Group’s Ethical Corporate Management Best Practice Principles” in order to strengthen the awareness of ethical management through self-assessment.
- 4.Continued to expand the scope of campaign and training regarding ethical management.

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

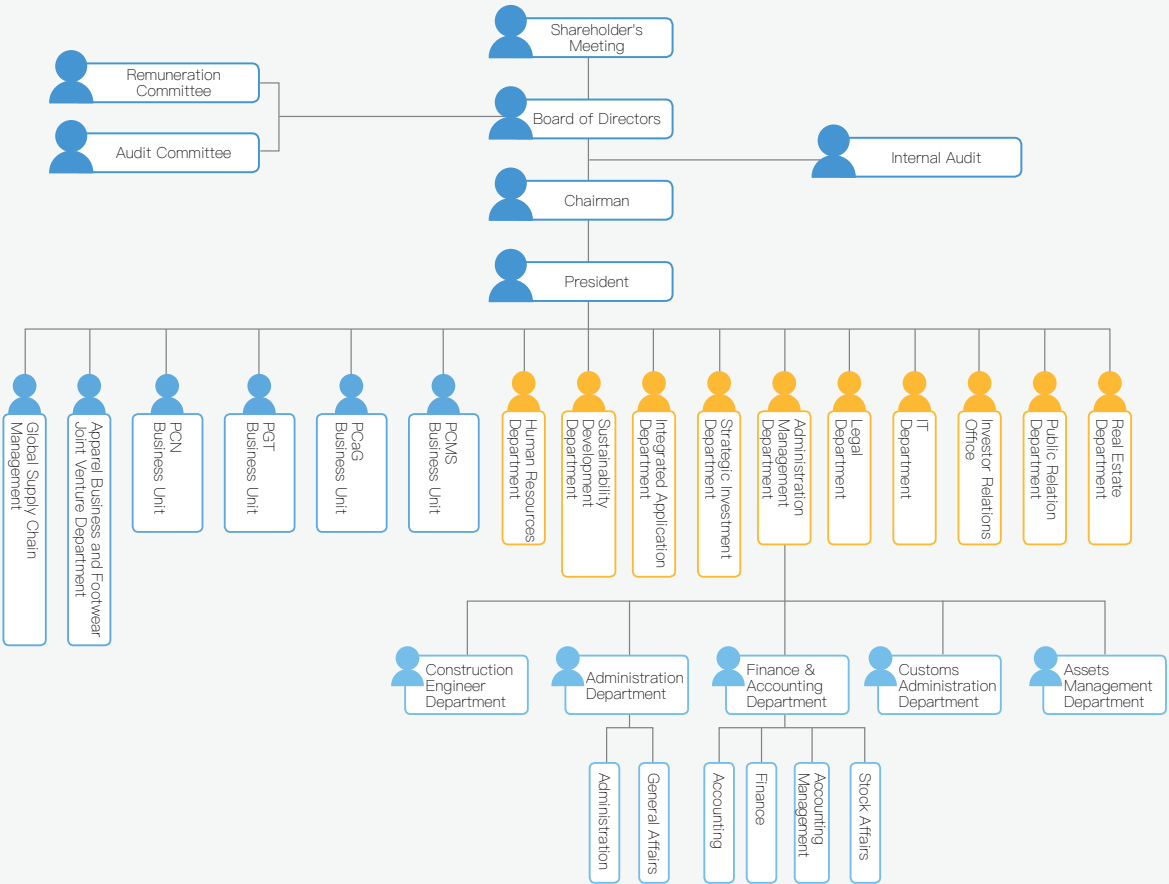
areas engages legal and business authority units to conduct an annual review of the new regulations and regulations that have to be followed. Awareness-raising meetings are held as needed to remind each management unit of the relevant compliance tasks. In 2018, the Company did not incur any heavy fines and administrative penalties imposed due to material violations; there were no cases involving commercial monopoly, anti-competitive and anti-trust violations. Examples of occasionally environmental protection violations in daily operation management are described in the section titled “Environmental Protection and Energy Saving.”

Campaign and Training on Anti-corruption

The Company’s policy on ethical operations is disclosed on its internal website, annual report, corporate website and other company documentation to help employees, suppliers, customers and other relevant organizations or personnel clearly understand its 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

Organizational Chart





direct or indirect offers, promises or requests of improper benefits in any form or on anyone's behalf. These include kickbacks, 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 are given the online courses of “Ethical Trading and Protection of Group Interests” in order to further promote the ethical management philosophy and standards of the Company.

### Inquiry, Complaints and Reporting Principles and Channels

Whenever an employee is unable to judge, or has doubt as to whether his/her execution of business is in violation of the ethical management policy, the employee may consult with his/her direct supervisor, or seek help from the head of the Company's Legal Department.

To respond to employee suggestions and complaints, Pou Chen has established the following five internal grievance 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 of each factory managed directly by the HR Department
- Headquarter 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 before being forwarded to the relevant units based on the scope and nature of the issues concerned for action and response.

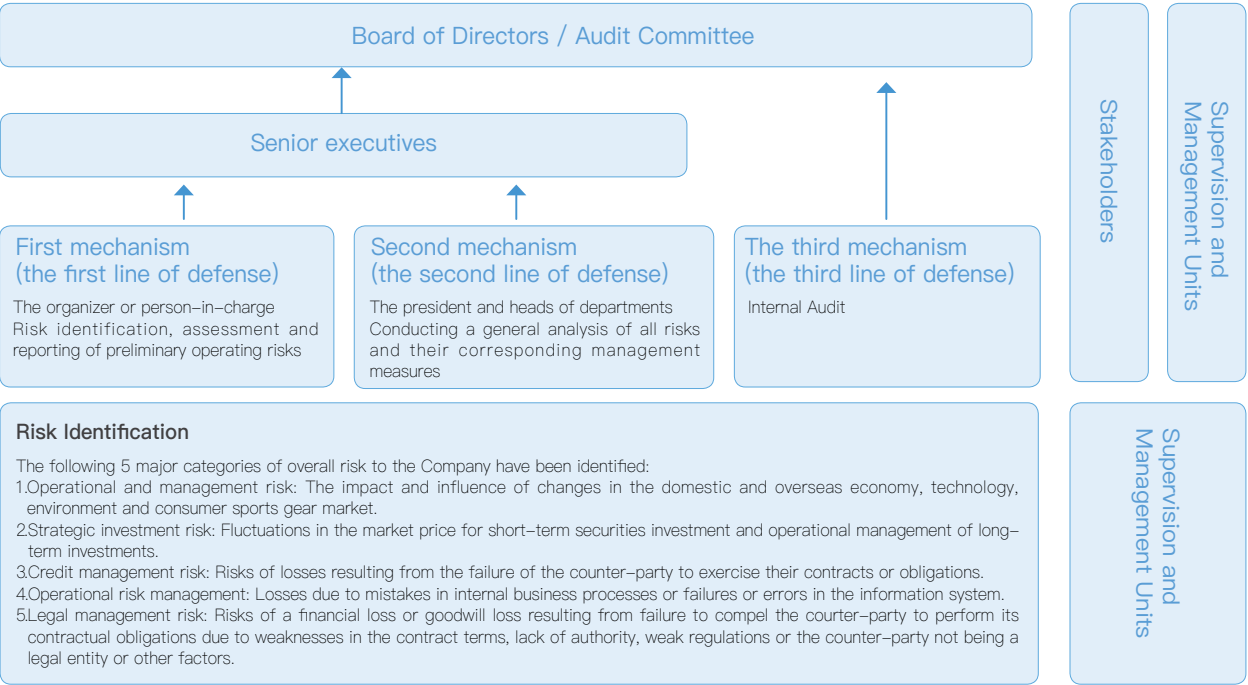
### Operational Risk Identification and Response

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 internal audit's auditing and the board of directors' control and supervision.

### Risk Management Organization and Roles

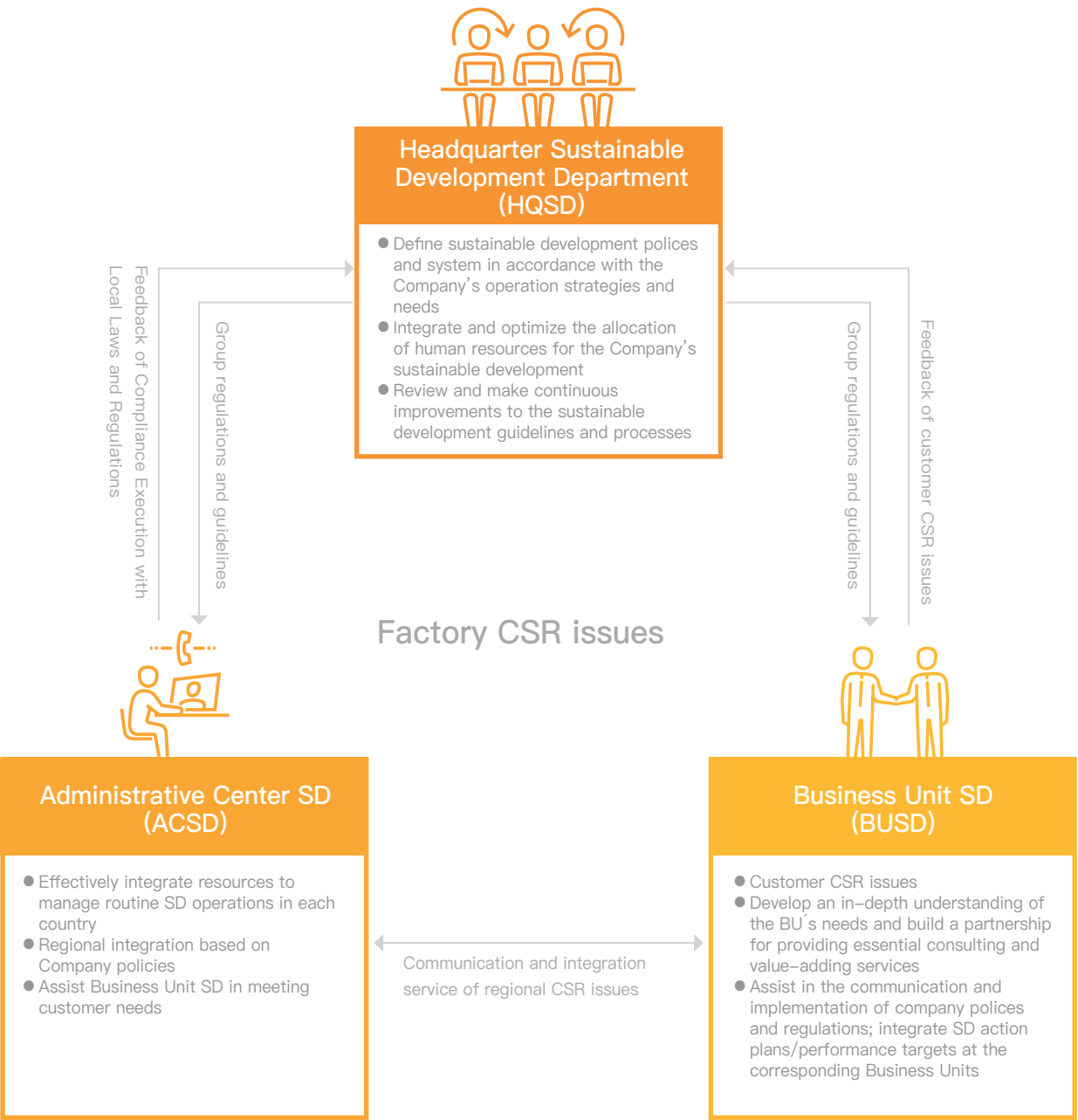


### Risk Identification and Management Measures in 2018

Type	Risk Identification	Risk Management Measures
Economic	Change in Corporate Image	Continuing 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; continuing to enhance information transparency and strengthen the communication with stakeholders.
	Ethics and Anti-Corruption	Internal rules such as the “Code of Conduct,” “Codes of Ethical Conduct,” “Ethical Corporate Management Best Practice Principle,” “Procedures for Ethical Corporate 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. In addition, the Company also continues to launch educational training and campaign regarding regulations on ethics and anti-corruption.
	Operational Risk	Investing in manufacturing excellence, process improvement and technique upgrading in response to industry changes; leveraging the production advantages of each region to retain a production configuration that optimizes output; continuing to promote supply chain integration and manufacturing process optimization; gradually increasing the proportion of automatic production and introducing new production models to improve the diversity and flexibility of its operational ability.
	Financial Risk	Continuing to observe market changes and general economic indicators, selecting appropriate interest rates and currency hedges, actively managing customer risks, and carefully evaluating and managing investment.
	Information Risk	Establishing a comprehensive information management system with multiple controls and network data security measures to strengthen our active protection and warning capability of cyber security.
Environmental	Legal Risk	Continuing to review and collect the latest regulatory changes, promote awareness and hold training to ensure compliance; providing legal advice and contractual reviews to reduce disputes.
	Climate Change Risk	Paying attention to the international trend of climate change risk management and complying with the energy usage policy and emission-reduction requirements set by the local government. Through source management and verification of the consumption of energy resource, replacing with low-carbon clean fuels and seeking opportunity for energy-saving and carbon-reduction. Reviewing and analyzing energy consumption and carbon emission of the factories each month to develop energy-saving and carbon reduction plans.
Social	Changes in Environmental Protection Law	Strengthening the verification of legal compliance of various regions, and regularly reviewing the compliance of the environmental protection documents and the improvement plan for the non-conformity. Actively engaging in pollution prevention facilities and monitoring, enhancing compliance management for the discharge of polluting substances, and continuing to push for clean production and waste reduction. Strengthening the environment, safety and health indicator management system and abnormality notification system to effectively monitor and manage risks associated with daily operations.
	Infectious Disease Control Risk	Strengthening infectious disease prevention measures, including access control at factories, incident response measures, factory disinfection, employee self-health management and health checkups, epidemic reporting mechanism and hospitalization mechanism, and inspection and storage of quarantine supplies.
	Fire Safety Management	Continuing to enforce fire prevention measures, strengthening fire prevention awareness and firefighting training among employees, rigorously enforcing fire source control and internal safety inspections, and conducting regular thermal imaging scans of electrical equipment.
	Health and Safety Risk	Conducting occupational safety and health training for employees; strengthening protective measures and operational controls for potential hazards to ensure the safety and order of production sites; establishing the Workplace Safety and Health Committee to conduct regular inspections of potential workplace hazards and make improvement.
	Human Resources Risk Management	Continuing 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, and continuing 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	Launching comprehensive product quality control policies and strictly adhering to international regulations and brand customers’ MRSL raw material requirements from product development and prototyping to manufacturing and production; implementing “broken needle” protection and “metal detecting measure” during the production process to ensure consumer safety.
	Product Safety Management	Product safety management rules are defined and employee training is 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, intellectual property protection, and crisis management. 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.”

# CSR Organizational 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 the management with regular reports on CSR performance and recommendations.



## Chapter 3 Green Production





# Performance Highlight

Pou Chen's continuous improvement in green production is one of the operations that customers, investors and local authorities attach great importance to. At the 21st Conference of the Parties (COP21) to the United Nations Framework Convention on Climate Change in Paris in 2015, 195 parties ratified the Paris Agreement, agreeing to control the limit of the temperature rise to 2° C and endeavor to limit the temperature rise to 1.5 ° C. In the face of climate change, Pou Chen is committed to responding to the expectations of customers, investors, authorities and the vast number of stakeholders. Below are the performance highlights of the efforts made by Pou Chen for green production in 2018.



**77.0%**

of our footwear production bases have implemented the ISO 14001 management system, and 62.0% passed the certification of ISO 14001: version 2015.



Received the Top 100 Sustainable Enterprise in Vietnam for three consecutive years



Taiwan RPE chemical factory obtained the certification of Green Factory for 2018 Cleaner Production Assessment

**124,235,588.0 MJ**

Remarkable energy saving achievements in 2018

**Barcode system**

Implementing a digital management system for dealing with waste, and effectively improving data accuracy through the use of an electronic scale-linked database system.

**MRSL**

Implemented Manufacturing Restricted Substance List (MRSL)

# Products and Services

## Customer Service

Pou Chen has established long-term partnership with many international renowned brands, for whom it has been committed to providing the best products, customized commercial design, and best solutions among the industry, and between whom it has been consolidating a solid trust foundation. Pou Chen has also set up a development center exclusive for each major customer, strictly separating its production sites and implementing segmentation work practices based on different customers, and thereby protecting the privacy and business secrets of the brand customers. There were no complaints about invasion of customer privacy in 2018.

In response to the sports industry characterized by a fast-changing normality, a small-volume large-variety pattern, and customization, the Company has adjusted the production process and established an electronic system, enhanced and improved production and management efficiency, strengthened R&D capabilities, proactively innovated design, ran the management team, and participated in front-end development and design, in order to serve its brand customers and align itself with the customers regarding mutually beneficial relationships, and provide its brand customers with innovative materials through the shoe material selection mechanism.

In terms of lead time, quality and price, Pou Chen continuously improves its service quality and responds to customer needs in an instant manner. The overall production operation process is supervised and audited by customers, whose request for adjustments therefor, if any, are immediately responded to with feedback, in order to fully satisfy their needs.

Pou Chen's factories have demonstrated outstanding manufacturing and management strengths, and been recognized by its brand customers. In 2018, it has passed the brand customers' factory audit; the Merrell production factory has also once again obtained the FDRA excellent factory certification in 2018.

## 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 the Company's "Product Safety 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 entity to which the R&D center belongs, and strictly abide by the provisions of the confidentiality regulations, letter of commitment, and 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.

At the same time, in order to prevent the leakage of digital data, in each R&D center and production factory, in addition to setting CCTV in each entrance and exit and confidential operation room, the Company also strictly manages the use of recording and photographing devices (including camera phones), and starts regular factory audit on production safety to ensure the minimization of information security management risk within the factory.

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 and basing 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 2018, 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.

Environmental Protection and Energy Saving

In response to the UN's Climate Action to achieve its 17 Sustainable Development Goals (SDGs), Pou Chen actively takes measures to ensure a sustainable production model, in order to shed operational risks and impacts caused by climate anomalies.

The number of footwear products produced by Pou Chen's production base in Southeast Asia accounts for about 80.0% of the total output. In recent years, the likelihood of Southeast Asia being affected by natural disasters and climate variability has increased, posing risks to the Company's sustainable production operations. In addition to continuing to pay attention to the policy and legal requirements of the international community and the trends of response to climate change, we will, in terms of energy management, implement actions for energy conservation and carbon reduction, and improve the energy efficiency of factories, in the hope of effectively reducing greenhouse gas emissions caused by energy consumption, and thereby mitigating climate change risks.

In terms of the environmental management system, we have established an internal management system mainly in accordance with the ISO 14001 environmental management system and our internal management regulations. The basic objective of the system is to meet the local environmental protection requirements, whereas the medium-long-term objective is to strive towards cleaner production and reduction of environmental pollutant emissions. In 2018, 77.0% of our footwear production bases have implemented the ISO 14001 management system, and 62.0% passed the certification of ISO 14001: version 2015. 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



For three straight years, Pou Sung factory has been awarded the Top 100 Sustainable Enterprise in Vietnam. The award was received by the head of PCC Administrative Center on behalf of the factory.

- corporate environmental protection performance.
- Strengthening education and training, and enhancing employee environmental protection awareness to ensure thorough implementation of environmental responsibility.

Since 2016, Pou Chen's factory in Pou Sung, Vietnam (hereinafter referred to as "Pou Sung factory") has been awarded the Top 100 Sustainable Enterprise in Vietnam for 3 consecutive years. The award is a national selection in Vietnam. The organizer selects and awards the Top 100 based on 152 selection indicators, including personnel, environment, finance, etc. At the same time, Pou Sung factory has a good fire prevention management mechanism, strictly follows the Vietnamese fire regulations, and has no fire incidents for three consecutive years. In 2018, it also won the Fire Protection Best Performance Award awarded by the Vietnam central government.

The term "Cleaner Production" as defined by the United Nations Environmental Protection (UNEP) in 1997 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."

Taiwan's RPE chemical factory under Pou Chen focuses on the development and application of chemical materials and shoe materials, and has successfully patented new materials

for several years in a row. It also produces masterbatch that is used at Pou Chen's overseas factories.

In 2014, the Industrial Development Bureau of the Ministry of Economic Affairs (MOEA) issued a certificate of conformity for the Cleaner Production Assessment. In 2017, an extension for the certificate was obtained. In January 2018, it passed the Cleaner Production Assessment for Green Factories conducted by the Industrial Development Bureau of the Ministry of Economic Affairs and was awarded a certificate (No. of certificate: CP0041), which was included in the "2018 Green Factory Label Information of the Industrial Development Bureau, MOEA."



Taiwan RPE chemical factory obtained the certification of green factory for 2018 Production Assessment.



# Raw Material Management

**Pou Chen follows the material standards of brand customers and international standards, and meets the restricted substance standards required by brand customers. We also actively adopt environmentally-friendly and sustainable materials that meet the brand customers' requirements.**

Pou Chen complies with the material specification of brand customers. 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.

## Procurement of Raw Materials for Footwear Production

Raw materials used in footwear production can be broadly divided into upper materials and sole materials. Upper materials are mainly textile (mesh/non-woven), synthetic leather, genuine leather, and accessories. Sole materials are mainly made from EVA resins (Ethylene Vinyl Acetate), PU resins (Polyurethane) and rubber. Environmental-friendly materials, such as Thermoplastic polyurethane (TPU resin), have also gradually been adopted as footwear production materials in recent years.

In the selection of raw materials, the Company maintains close communication with brand customers and material suppliers, and follows the brand policy. Relevant materials must pass the test of relevant standards conducted by a third-party physical testing institution, and must not appear on the restricted substances list of brand customers. In addition, the Company also jointly explores with brand customers the application of environment-friendly materials on various models of footwear.

In 2018, the Group's total purchases of raw materials amounted to approximately 35.96 million tons, among which non-renewable raw materials such as materials and related components amounted to approximately 34.65 million tons. No natural renewable materials or recycled materials were used.

## Implemented Manufacturing Restricted Substance List (MRSL)

The Company is committed to providing customers with high-quality and high-safety products. We value all customer requirements for product quality, e.g., all raw materials used, from the product development and design stage to the manufacturing and production stage, strictly comply 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 manufactured footwear fully comply with environmental friendliness and respect human health.



**EVA Tips**  
EVA resin is characterized by good flexibility, rubber-like elasticity, good flexibility even under -50 ° C, good transparency and surface gloss, good chemical stability, good anti-aging, ozone resistance, and no toxicity. A foaming agent, a cross-linking agent, and an inorganic filler may be added to it to produce a cross-linked foamed shoe material by injection molding.

**Thermoplastic Polyurethane (TPU) Elastomer**  
TPU is a polymer material obtained by polymerizing a chemical raw material such as diphenylmethane diisocyanate (MDI). TPU is characterized by high tension, high tensile strength, toughness, and aging resistance. adidas developed the revolutionary running shoe Energy Boost featuring excellent elasticity and shock absorption characteristics by using BASF's new foaming microsphere Infinergy™. Infinergy is mainly composed of expanded thermoplastic polyurethane (E-TPU). E-TPU is manufactured by foaming the starting material, TPU granules.



# 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-conservation 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 internal management meeting of the Company every year.

In 2018, our footwear business (including Headquarter) used the following types of energy: electricity, fossil fuel, coal (including anthracite), bio-fuel, natural gas and liquefied petroleum gas (LPG). Bio-fuel comes from the fuel used by external contractors for the supply of steam heat. Pou Chen’s total annual energy consumption for 2018 is 5,477.5 trillion joules (TJ). Among them, the proportion of electricity used accounts for 69.1%.

## Energy Use Statistics

Year	Electricity	Fossil fuel (Note 2)			Bio-fuel (Note 3)	Energy Consumption Intensity (Note 4)
		(Heavy Oil / Diesel Fuel / Gasoline / Kerosene)	Natural Gas	Coal (including Anthracite)		
2018	1,051,796.2 ( MWH )	6,376.6 ( KL )	365.1 (10,000 M³)	0.01 (10,000 metric tons)	8.9 (10,000 metric tons)	9.2~23.9 (MJ/pair)
	3,787.2 ( TJ )	222.4 ( TJ )	127.6 ( TJ )	2.5 ( TJ )	1,337.9 ( TJ )	
2017	1,049,472.3 ( MWH )	5,667.9 ( KL )	90.0 (10,000 M³)	0.5(Note 1) (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	1,009,488.6 ( MWH )	6,357.3 ( KL )	83.5 (10,000 M³)	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	938,739.1 ( MWH )	6,894.8 ( KL )	276.7 (10,000 M³)	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.)

Unit Description: ● MJ:Megajoule ● TJ:Terajoule ● Pair:Pair of Shoes

Note 1:Errata:The“Energy Use Statistics for 2017” on page 45 of the 2017 CSR Report misplaced the use of coal (including anthracite) as 36,000 tons, which shall be corrected to be 5,000 tons.

Note 2:The heating value for fossil fuels presented here is based on the “Table of Unit Heating Value of Energy Products” on the Energy Statistics Handbook published by the Bureau of Energy of Ministry of Economic Affairs of Taiwan and the heating value recorded on relevant published materials of the Intergovernmental Panel on Climate Change (IPCC) in 2006, being that heating values for fossil fuels are hard to be obtained from the various countries.

Note 3:The quantity of biofuel use is derived via thermodynamic calculation, which takes the purchased steam quantity (produced by the biofuel boiler) to generate a steam pressure of 10.0 kgf/cm3 in the boiler, and assumes a boiler efficiency of 85.0%, and the heating value of solid biofuel of 3,600.0 kcal/kg.

Note 4:The energy consumption intensity is presented as at the range band of energy consumption intensity by region.

## Successful Reduction of Energy Consumption Intensity

In accordance with the Company's energy management policies and strategic objectives, and in line with the milestone objectives of the sustainable development of brand customers, the Company has established energy-conservation systems and targets for each factory, and formulated a four-year overall energy conservation plan, which covers 2016 to 2020, aiming to lower the energy consumption intensity in 2020 by 8% as compared with 2016.

The Company has implemented energy-conservation measures for key factories, which, judging from their performance in 2016 as the baseline and that as of 2018, have effectively achieved a reduction in energy consumption intensity. The energy-conservation plan at the present phase focuses on the energy consumption of Pou Chen’s key footwear factories, and has set off since 2016 by conducting energy-efficient equipment procurement at the source end with the annual factory budget for energy conservation to replace the old energy-consuming equipment, setting annual targets and key implementation measures, holding regular meetings to review and share experience in energy-conservation technologies and measures at various production sites, and holding the competition for improvement proposals to encourage factory personnel to participate in energy-conservation and carbon-reduction activities.

In terms of energy management, in 2018, Pou Chen verified and improved compressed air system leaks and steam leaks in the factory, and commenced energy audits of Pou Chen’s factories. Energy conservation in 2018 reached 124,235,588.0 MJ. Energy consumption intensity in 2018 declined by an average of 2.6% in 2018 as compared with 2016. In view of the possible increase in energy consumption in the future due to automated and technology-based footwear production, it is expected that from 2019 onwards, the de-steaming policy will be gradually implemented, and substitute with electricity for heating in order to enhance energy conservation.

## Competition for Improvement Proposals

Based on the principles of Plan-Do-Check-Act (PDCA), we have long, as early as 2016, tracked the contents of the improvement proposals, formulated the selection mechanism therefor, and analyzed the benefits thereof.

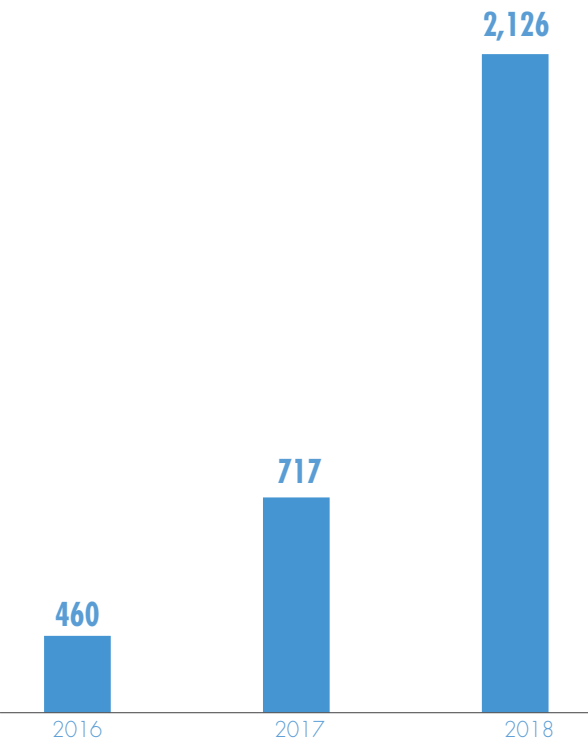
Most of the improvement proposals in 2018 are energy-conservation related proposals, and the number of proposals has grown to 2,126. Our selection mechanism includes actions done by internal business units, including preliminary selection and evaluation, screening, and final selection. The Company finally selected the Top 3 prize winners, as well as those for the Best Creativity Awards. The first prize winner will be awarded a prize equivalent to NT\$80,000, the second NT\$60,000, the third NT\$40,000, and those for Best Creativity Awards NT\$20,000.

## Achievements of Energy Conservation Measures in 2018

Source Procurement	3,059,681.0 MJ
Factory Energy Conservation Projects	59,751,806.0 MJ
Improvement in Compressed Air System Leaks	33,886,901.0 MJ
Overall Energy Conservation	124,235,588.0 MJ

The number of improvement proposals doubled in 2018.

Number of improvement proposals over the past three years





Cool air was channeled out of rinsing machines to help employees work in a comfortable environment, save energy, and reduce carbon.

## Measurement of Air Compressor Leakage Rate

In 2017, Pou Chen began to detect the leakage rate of air compressor. We applied such method to carry out the leakage test for all air compressors in key factories, and stipulated that the key factories conduct a self-measurement semi-annually. In 2018, it was firstly included as an item in the internal audit plan, in which colleagues from the head office audited the measurement in key factories and required those fell below the target to improve. Overall compressed air system leakage rate was brought down from 45% in 2017 to 33% in 2018, significantly, which conserved the energy. The project of compressed air system leakage will continue to be implemented in 2019, and is expected to reach a leakage rate target of less than 15.0% by 2020.



Schematic diagram of the measurement of air compressor leakage rate

## Energy Audit

In 2018, energy management was included in the Company's internal ESH management performance evaluation for the first time. An on-site audit was conducted in factories in Vietnam, China, Indonesia, Cambodia, Bangladesh, and Myanmar; the audit included the establishment of energy-conservation task force, on-site management of compressed air leaks and steam leaks, equipment operation efficiency and maintenance requirements, and other related items in order to gradually carry out energy inventory and effective management.

## De-steaming Policy

In 2019, it is expected to implement the de-steaming policy on the factory sites, e.g., gradually deactivating the steam heating equipment and replacing it with electric heating one to reduce the impact on the environment.

## Improvement in Ventilation System

In the aspect of an architecture design that is more ventilated and with cooling effect, in 2018, the Company introduced to key factories the ventilation system designed via physical calculation, allowing a ventilated and properly-tempered working environment for workers. Ventilation improvements totaled 51 cases, and survey on employees' satisfaction rate with cooling improvements reached 88%.



# GHG Management

Pou Chen keeps paying attention to the sustainable development of the international community, responds to the United Nations' "2030 Agenda for Sustainable Development – Sustainable Development Goals (SDGs)", and has taken measures to cope with global climate changes and their impacts, and 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. 69.1% of the Company's energy source comes from the consumption of electricity. Therefore, the medium-term goal of GHG emission reduction will be mainly to reduce Scope 2 emissions. We will reduce GHG emissions by improving energy efficiency.

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 fossil 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 the self-conducted inventory results, in 2018,

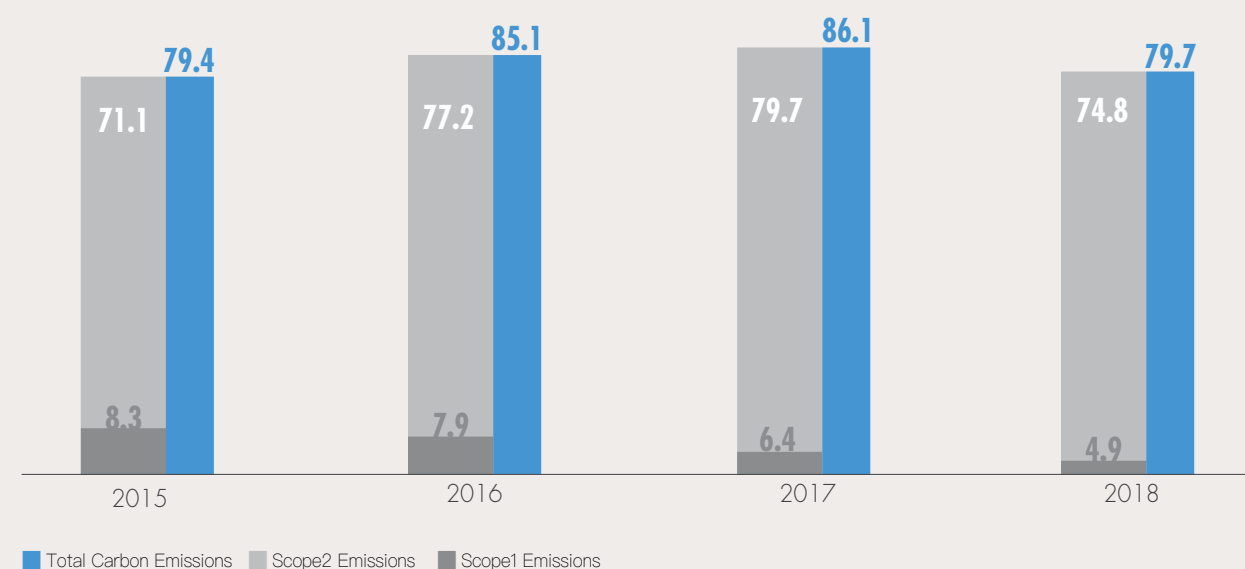
the Company's footwear business produced Scope 1 GHG and Scope 2 GHG in the aggregate of 797,000 tons of CO<sub>2</sub>°. Among them, Scope 1 carbon emissions amounted to 49,000 tons of CO<sub>2</sub>°, constituting 6.2%, while Scope 2 emissions amounted to 748,000 tons of CO<sub>2</sub>°, constituting 93.8%. In the main sources of carbon emissions in Scope 2, purchased electricity accounted for 83.3% and purchased steam made up for 16.7%.

Due to the differences in production processes of different footwear models and regional energy carbon emission coefficients, the average carbon emissions produced by Pou Chen's factories in China, Indonesia and Vietnam, which are the main production bases, ranged between 4.7–1.8kg CO<sub>2</sub>/pr in 2018.

## First-time Voluntary Disclosure of Scope 3 Emissions

In 2018, the Company voluntarily disclosed its Scope 3 GHG emissions for the first time. According to self-conducted inventory results, the total amount of GHG emissions generated by the downstream transportation of the Company's finished footwear was approximately 9348.2 tons of CO<sub>2</sub>°, whereas business flight travels by employees in Taiwan totaled 759.3 tons of CO<sub>2</sub>° in 2018. See Appendix D for related calculation principles.

## GHG Emission Statistics (Unit: 10,000 tons of CO<sub>2</sub>°)







# Water Resource Management

Footwear manufacturing does not involve high water consumption. Therefore, most water consumption in the factories is for the employees’ daily uses. Only a minor part is used in the sole-making processes. In response to stakeholders’ concerns on the safety and health management of employees’ drinking water as well as international sustainable trend about water resources, 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 at gradually increasing the reuse of water resources within the factories to avoid depleting natural water resources.

For water safety management, currently the water resources supply at the production bases comes primarily from local municipal water supply. Reverse osmosis (RO) water purification system and water purification treatment facilities are 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 released 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 municipal water, river water and lake water. In 2018, the total water consumption of our footwear production bases was measured to be approximately 14,767 million Liters. The water source and water withdrawal both fell within the range approved by the local government and did not have a significant impact on the water source.

## Continuous Improvement Measures

Faced with the global climate change risks and the international trend and challenge of reducing GHG emissions, as well as the possible hike of energy consumption caused by the introduction of manufacturing processes such as automation and technology shoemaking, Pou Chen deeply reckons the needs to cooperate with the overall industry and its upstream and downstream supply chain, to align with the national policies of each region, and to discuss with brand customers and supply chain manufacturers about the new manufacturing process technology for sustainable production, as well as new opportunities for energy conservation and carbon reduction.

Solar energy is recognized by the public as a type of environmentally sustainable renewable energy. Due to changes in the Chinese government’s energy policy in 2018, the planned solar power generation plan has been delayed. However, in order to gradually increase the utilization rate of green energy to reduce GHG emissions, the Company’s green energy policy will keep pushing for the solar power generation plan.

In addition to continuing the original energy conservation measures and performance in 2019, the following matters will be gradually strengthened:

1. Conduct inspection, repair, maintenance, and management and carry out education training on general affairs and engineering to ensure the stable and efficient operation of equipment and systems.
2. Manage compressed air leaks and steam leaks to avoid energy waste.
3. Measure air compressors efficiency and gradually replace the equipment with low operating efficiency to avoid energy waste.
4. Verify the efficiency of factory manufacturing processes, establish Best Practice factories, and gradually improve the efficiency of manufacturing processes.
5. Conduct in-depth counseling for factories with low energy efficiency to improve their energy efficiency.
6. Gradually de-steaming and reduce the use of energy with high environmental impact.

## 2018 Total Water Withdrawal of Footwear Production Bases

Unit: Million liters

Location	Total water withdrawal (million liters)	Main source of water supply		
		Municipal water supply / other public or private water supply	Surface water (wetland/river/lake/ocean)	Groundwater
Taiwan	193.0	193.0	0.0	0.0
China	5,123.0	4,035.0	1,088.0	0.0
Indonesia	2,263.0	537.0	1,131.0	595.0
Vietnam	6,868.0	3,534.0	3,334.0	0.0
Bangladesh	73.0	73.0	0.0	0.0
Cambodia	129.0	0.0	0.0	129.0
Myanmar	110.0	0.0	0.0	110.0
Mexico	8.0	8.0	0.0	0.0
Total	14,767.0	8,380.0	5,553.0	834.0

Note: The consumption of rainwater directly collected and stored is zero. The consumption of wastewater from other organizations and extraction of cooling water is zero.



# Effluent Discharge Management

Pou Chen has formulated "Effluent Pollution Prevention and Management Regulations," which gives priority to reduction at the source end, and followed by recycling and reuse. The ultimate goal is proper handle in accordance with the regulatory requirements. Regarding management in practice, in addition to compliance with local discharge regulations, short-term management focuses on data collection and management of water use and discharge, while medium-and long-term management objectives are aimed at improving water reuse and gradually reducing discharge targets.

Most of the sewage in the footwear factories comes from employees’ domestic water use, while a small part is industrial wastewater from the cleaning, printing and spraying operations during soles manufacturing process. All factories have installed chemical coagulation pre-treatment equipment for industrial wastewater to lower the concentration of pollutants to discharge standard. The treated wastewater is then channeled to the factory’s large-scale sewage treatment work for secondary bio-degradation treatment.

All sewage treatment works 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. Sewage that meets water quality standards is ultimately discharged through legally permitted means. Effluent from stand-alone factories is all discharged into receiving water bodies (specified in environmental assessment documentation) designated by the local authorities. Factories located in local industrial parks discharge their wastewater into the municipal or industrial parks' sewage treatment treatment works 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 works. These are used as the water supply source for subsequent reuse in the factories and to provide employees with an area for rest and recreation.

Pou Chen is planning further measures to improve the reuse of water resources. It is expected that the discharge volumes of treated sewage can be disclosed within 2 years on the CSR Report.

## Treated Water Reuse Ratio of Factories under Pou Chen’s PCN Business Unit

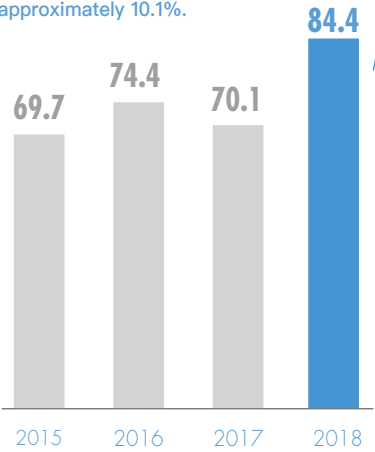
Factory Code	Treated water reuse ratio (%)		Clean water usage decline ratio (%) (VS. 2017)	Note
GSI	2017	9.8%	5.0%	1. For customers, clean water is defined as municipal water, groundwater, and river water.
	2018	71.6%		
IY	2017	100.0%	-22.3%	2.From 70.1% (2017) to 84.4% (2018), an increase of 20.4%. Data calculation (84.4/70.1-1)*100.0%=20.4%.
	2018	100.0%		
RY	2017	42.9%	-36.1%	3.The calculation formula for the reduction of clean water consumption: $\frac{(\text{Total clean water usage}(\text{m}^3) \times 1,000(\text{L}/\text{m}^3))}{\text{Output (pair)}}$ The calculation formula is based on the brand customer specification.
	2018	74.2%		
VP	2017	38.9%	-9.1%	
	2018	62.2%		
VY	2017	100.0%	-4.6%	
	2018	100.0%		
YS	2017	92.0%	-3.6%	4.Calculation formula for the reused amount of water recovered from wastewater treatment: $\frac{(\text{Water reuseage after WWTP}(\text{m}^3))}{(\text{WWTP water treatment volume}(\text{m}^3))} \times 100.0\%$ The calculation formula is based on the brand customer specification.
	2018	85.0%		
Implementation Measures	Watering green plants, flushing, replacing with reclaimed water, roof cooling, and fire drill water		Clean water pipeline decompression, pipeline leak detection, and campaign for water conservation	

## Wastewater Reclaim Rate

(Unit:%)

The wastewater reclaim rate of Pou Chen’s PCN Business Unit has increased year on year. Through decompression of clean water pipeline, pipeline leak detection, and campaign for water conservation, Pou Chen effectively raises the volume of reclaimed wastewater. Reclaimed wastewater are for the use of watering green plants, flushing, replacing with reclaimed water, roof cooling, and fire drill water.

The wastewater reclaim rate in 2018 increased to 84.4%, a 20.4% increase compared to 2017. The clean water volume of 16.9 L/pair decreased by approximately 10.1%.



# Waste Management

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

## Waste by Type and Disposal Method

Factory waste is sorted mainly into two categories: general waste and hazardous waste. Every factory has a Recycle Material Control Center (RMCC), where wastes are collected for sorting, measurement and reporting. General waste are disposed of through government-certified contractors in accordance with local laws. Hazardous waste as defined by local regulations is identified and sent to the dedicated hazardous waste storage area managed by dedicated personnel. Local environmental protection companies licensed to handle hazardous waste are then contracted to handle subsequent delivery and processing. The total waste of Pou Chen in Taiwan in 2018 is 567.6 metric tons, with 42.0 metric tons of hazardous waste and 525.6 metric tons of general waste. All waste are disposed of through incineration, and reported to the EPA system within specified time duration for declaration and tracking. Pou Chen’s production bases are located in different countries, which have different waste classification standards due to national regulations. From 2019, Pou Chen will unify the waste categories in different regions and quantify each category for statistics purpose, so as to gradually summarize the total waste output of its production bases.



Factories under the Company's PCN Business Unit wholly promotes the waste digitalization management system (a barcode system). With the electronic scales connected to the database system, waste is managed through barcode scanning conducted from the production line to the storage center and the final cleaning and processing, effectively improving the accuracy of waste data. The barcode records information about the waste category, waste category, weight, hazard type, and the disposing contractor.

Barcode System

In view of the fact that it’s common of human errors or omissions in inputting the weight value of waste when they enter the storage center, and in order to effectively improve the accuracy of the waste data, the Company's PCN Business Unit has fully introduced the Barcode system. With the electronic scale connected to the database system, the waste weight can be directly measured when they are transported out of the workplace and a barcode sticker is produced, which is affixed to the waste packaging bags. Barcode scanning for the purpose of weight management is conducted from the production line of the workplace, to the storage center, and then to the final cleaning process, so as to avert human input omissions, improve the connectivity between the waste data and the production sites, and effectively monitor and track the waste categories and data.

In the future, this barcode system will be gradually extended to the online production information board, in order to instantly display the status of the unit's waste production and serve as a data management tool for waste reduction. It can also accumulate big data of various categories of waste, which can be rendered for feasibility assessment studies on waste reuse, as well as measures for reduction of waste by model (WBM).

Air Pollutant Emission Management

The air pollution sources of footwear factories are mainly volatile organic compounds (VOCs), fuel boiler flue gas, and generator exhaust. In respect of management of air pollution control, the Company has formulated the “Management Regulations for Air Pollution Control,” which gives priority to emission compliance with local standards. The Company also sets up control equipment and conducts air pollutant emission testing in accordance with local laws and regulations in order to ensure compliance with local emission standards. For air pollutant emissions, data will be gradually collected for estimation.

Environmental Legal Compliance

Compliance with local emission regulations and environmental protection regulations is the top priority in management in terms of production. In 2018, Pou Chen’s production sites saw no incidents 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. Respecting environmental legal compliance, according to the Company's Abnormality Reporting System, there were 3 environmental penalty cases in 2018, which are described below.

PCN Business Unit Factory Manufacturing Waste Output in 2018

(Unit: Metric tons)

Category	Total weight	Disposal method								
		Reuse	Recycle	Compost	Recovery (Note 1)	Incineration	Deep–well injection	Landfill	Current location storage	Other disposal methods
Hazardous waste	1,152.0	0.0	0.0	0.0	0.0	1,152.0	0.0	0.0	0.0	0
Non–hazardous waste	13,489.8	482.6	4,814.0	0.0	6,808.9	0.0	0.0	0.0	0.0	1,384.3

Note 1: Recovery refers to the disposal method for recovering energy after heat treatment.  
Note 2: Other disposal methods: Refer to the customer’s designation and consent to recycle for use in sponsored products, and in–house recycle for use.

PCN Business Unit Factory Rubber Recycle Volume in 2018

Unit \ Factory	VP	VY	IY	RY	GSI	YS
Kg	16,500.0	2,500.0	4,000.0	0.0	0.0	3,040.0

PCN Business Unit Factory Waste Reduction Measures and Results in 2018

Items	Total waste reduction by weight (tons)	EVA edge material		Sole edge material		Fabric edge material	
		g/pair	VS 2017 Total (%)	g/pair	VS 2017 Total (%)	g/pair	VS 2017 Total (%)
GSI	42.0			– 5.1	– 4.5%		
IY	123.0	– 3.8	– 2.0%	– 0.2	– 0.1%	– 1.0	– 1.0%
RY	7.1			– 0.4	– 0.3%	– 0.4	– 0.3%
VP	149.6	– 6.5	– 4.0%	– 1.5	– 1.0%	– 2.0	– 1.0%
VY	622.4	– 11.0	– 7.0%	– 15.5	– 10.0%	– 6.4	– 4.0%
YS	22.6			– 1.4	– 1.0%		
Implementation Measures		1. Foaming mold rectification: 675.0 Kg/Factory per month 2. Old molds for intensive maintenance and repair to reduce scrap and foaming materials.		1. Sole typesetting adjustment 2. Covering material width and quality improvement		1. Efficiency improvement by power cutting	

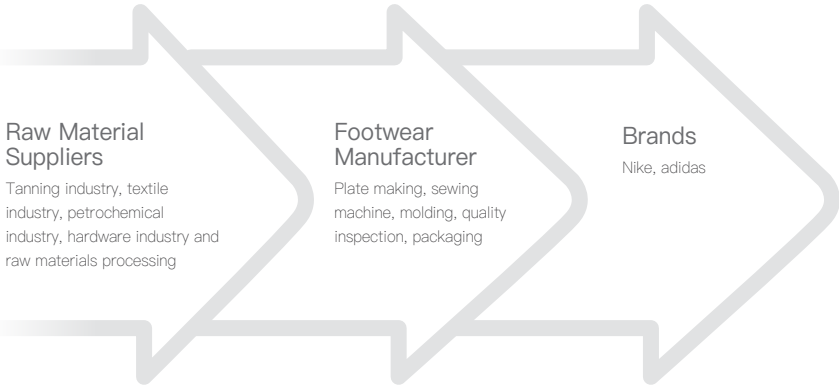
Environmental Penalty Record

Region	Violation	Penalties	Improvement Actions	Preventive Measures
Taiwan Changhua Factory	The waste declaration did not feature an input/output mass balance.	NT\$6,000	Giving on–site instructions as to what should be noticed when using the declaration system, and demanding such instructions be strictly abode by when conducting declaration.	The dedicated personnel regularly checks the declaration system and the status of the waste declaration of the factory at the storage center, and compares it with the Waste Disposal Planner and, where necessary, makes application for updates.
	The monthly output of waste exceeded the approved amount.	NT\$60,000	Applying for change of the Waste Disposal Planner to increase the maximum monthly approved output of waste.	
China Huangjiang District	It was discovered in PrimeAsia Leather in Huangjiang, China, that industrial wastewater directly flew into rainwater wells for discharge.	RMB 100,000	Excavating a repair channel in between to block the water. Walls in the rainwater well and the sewage well are reinforced with cement. Repair and re–inspection have been completed.	Regularly inspecting the rainwater/wastewater pipelines in the factory for testing, water testing and inspection.

# Supply Chain Management

Adhering to the Company's long-standing business philosophy, we understand that co-prosperity with suppliers is a key factor in implementing sustainable management of the supply chain. We also hope that through the integration of industrial resources and cooperation in terms of knowledge and technology, we can integrate the upstream, midstream and downstream of the industry and thereby establishing a complete supply chain system. The Company's main suppliers by type can be divided into: Raw material suppliers, machinery and equipment suppliers, engineering contractors, and service contractors.

Supply Chain of Footwear Production



## Global Logistics, Flexible Supply

In recent years, through the integration of the supply chain and advance in its management, the Company has focused on local supply and flexible supply in the hope of shortening the lead time and responding to market demand quickly, thereby enhancing brand customers' satisfaction. On the other hand, we also cooperate with brand customers and partners to collaborate on the application of innovative materials and environmental sustainability.

Our supply chain management policy regard integrity as the cornerstone of cooperation between two parties. All suppliers, who must abide by local regulations, and product/information security concerns, and the principle of anti-corruption, shall sign a confidentiality contract, letter of committeemen for product safety, and an ethical trading agreement before they can be selected as a supplier of Pou Chen. Partner suppliers must go through a supplier selection mechanism, in which quality and sustainable development are assessed to ensure that their product quality and sustainable development comply with laws and regulations. Six months or quarter, the corresponding suppliers are assessed and classified for management purpose.

## Number of material suppliers and their locations

The number of material suppliers with which trading behavior have been maintained for three consecutive years is 1,463 in 2018, 1,547 in 2017, and 1,803 in 2016; and the number of machinery and equipment suppliers is 359.

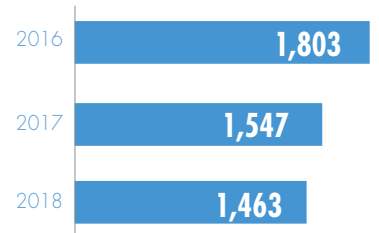
25.9% of material suppliers' locations are in China, 24.9% in Taiwan, 21.9% in Vietnam, 8.4% in Hong Kong, 7.7% in Indonesia 7.7%, and 11.2% in other regions.

## Localized Purchase

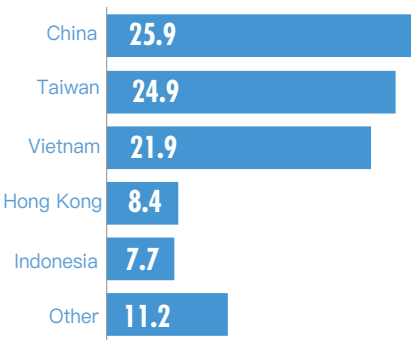
In order to align with the brand strategy and rapid response to market demand, the Company's procurement policy advocates for the principle of local development and local supply, and actively seeks for cooperation with local suppliers to reduce supply risks, operating costs and carbon emissions generated from long-distance transportation.

The Company's footwear production bases include Taiwan, China, Vietnam, Indonesia, Cambodia, Myanmar, Bangladesh, and Mexico. Among them, the first four are main production bases in that they accounted for more than 95.0% of total purchases.

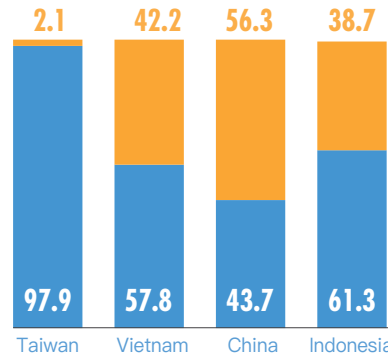
Number of material suppliers with which trading is maintained for three consecutive years



Geographic distribution of material suppliers (Unit:%)



Proportion of procurement from local suppliers (Unit:%)



Local procurement (%) Non-local procurement (%)



# Supplier Quality Management

## In accordance with ISO 9001 international standards

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 checklist.

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 Items

The supply chain management headquarter's audit system for supplier quality management contains 11 quality management items:

1. IQC Supplier Management
2. Manufacturing Process Control
3. Quality System
4. Finished Product and Shipment Inspection
5. Laboratory Management
6. Non-conforming Product Control
7. Education and Training
8. Storage and Delivery
9. Customer Service
10. Document and Record Control
11. Environment and Labeling

## Results

At the time of quality audit, 39 suppliers were audited of their RSL management practices, and 5 failed.

Suppliers are required to fully comply with the Restricted Substances List (RSL) standard of each partner brand. The audit of RSL management practices commences when conducting a quality audit for suppliers.

In 2018, we conducted RSL management coaching for 3 suppliers to reduce the negative impact of suppliers on the environment and fulfill corporate responsibility.

# Supplier Sustainability Management

## In accordance with ISO 14001 international standards

In 2018, we implemented supplier sustainability development management and formulated auditing components based on the ISO 14001:2015 environmental management system, including environmental management, fire safety, and occupational safety and health. Meanwhile, we reward suppliers with outstanding performance, including green design, green production, green innovation, green marketing, green procurement, green recycling, and green product.

The selection of the audited suppliers is based on the Group's procurement strategy, and the Supplier Management Center proposes the expected implementation list for the current year.

Because of the different scales of suppliers, management capabilities and levels of cooperation vary accordingly. Suppliers who cannot meet the Company's sustainable development management indicators will be first required to improve before 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 meet the basic environmental protection requirements of ISO 14001:2015 and international sustainable development trends.

100%

(Restricted Substances List, RSL)  
Suppliers shall fully comply with the RSL as required by brand customers.

## Supplier Sustainability Development 12 Audit Items

The supply chain management headquarter's audit system for supplier sustainability development contains 3 types of auditing items:

### Environmental Management

1. Environmental protection management system
2. Industrial exhaust discharge permit
3. Wastewater discharge permit
4. Hazardous waste disposal and treatment

### Fire Safety

5. Fire Safety inspection
6. Fire equipment maintenance
7. Fire equipment inspection
8. Fire evacuation drill

### Occupational Safety and Health

9. Occupational safety and health management system
10. Operating environment monitoring
11. Safety and health, emergency personnel, dangerous machinery operators
12. Dangerous machinery and equipment management

## Results

In 2018, a total of 91 suppliers were audited for sustainability development, and 7 failed.

The main environmental risks of supplier operation mainly come from wastewater discharge permit and effective treatment of wastewater, air pollutant discharge permit and control measures, and proper disposal of hazardous waste.

The audit results will be reported to the Supplier Management Center, who will then incorporate those suppliers failing the audit into a supplier black list.

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.



## Supplier Development

Pou Chen regards suppliers as partners. In September 2018, it held a Vendor Fair in Binh Chanh, Vietnam, and a total of 61 suppliers participated. By doing so, Pou Chen provided a platform for suppliers and its R&D staff to have a face-to-face interaction, during which they might share needs and development trends of products and materials. In addition, Pou Chen set up a web platform during the fair to assist suppliers in promoting new materials, new technologies, and 41 future trends. Meanwhile, suppliers took the initiative to introduce their newly developed eco-friendly materials and newly designed safety devices for mechanical equipment at the Vendor Fair. 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.

## 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 environmental management, occupational safety and health, the Company'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.

91

In 2018, implemented audit of supplier sustainability development amounted to 91 suppliers, leading them to continuous improvement year after year



# Chapter 4

## Decent Work

The Only Footwear Manufacturer Accredited by FLA

The Group attaches great importance to supervisors training and will continue to develop courses according to different management systems, so that they can better grasp the clear direction in which they lead the team; through the use of requirements of the highest labor standards and internal audits, we will ensure employees' rights and interests; In particular, in the production sites in Cambodia and Myanmar, we will develop exchange channels between the Group and local employees.

CEO of Pou Chen Group  
Tsai, Pei-Chun

## Performance Highlight

For Pou Chen, employees are undoubtedly the most valuable assets, and one of the most important stakeholders. We not only abide by the UN Universal Declaration of Human Rights and the ILO Declaration of Fundamental Principles and Rights at Work in conducting responsible employment, but also accept that the Fair Labor Association (FLA), an American impartial third party, conducts labor inspections at each production site of the Company. The following highlights the performance of responsible employment achieved by Pou Chen in 2018.

### FLA Accreditation

The only sports shoes manufacturer in the world that is accredited by the Fair Labor Association (FLA). An accumulation of 7 independent and objective cross-border labor inspection reports over 8 years, showing that Pou Chen has been providing a working environment, salary and benefits that meet the legal requirements, and thus ensuring the rights of 350,000 employees worldwide.



### 67 Muslim prayer rooms

In Indonesia and Bangladesh, more than 100,000 employees believe in Islam. In view of this, we have set up 67 prayer rooms and 12 mosques, where they can follow the Koran and pray in the direction of Mecca, a city of Saudi Arabia, five times a day.



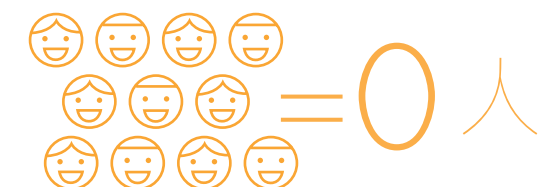
### 350,000 Persons

More than 350,000 full-time employees are employed worldwide



### 0 child labor

Compliance with International Labour Organization (ILO) C138—Minimum Age Convention and no employment of child labor.

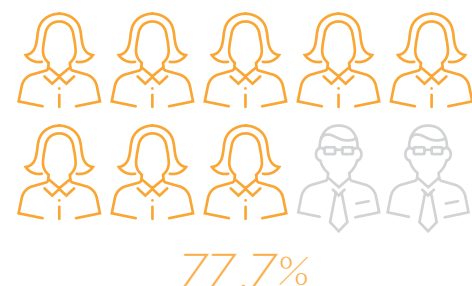






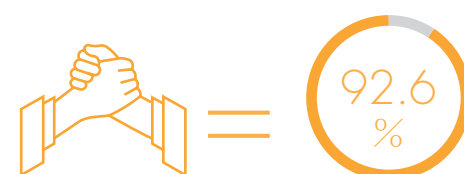
**270,000** Persons

Provided employment for 270,000 female employees, who account for 77.7% of all employees, and committed to gender equality.



**92.6%**

The Collective Bargaining Agreement covers approximately 300,000 workers worldwide, accounting for 92.6% of the total number of employees in the footwear sector.



Benefited **3,893** households

Since 2010, factories in China have been holding a 30-day "Pou Chen China Children's Summer Camp" from July to August each year. Since its first summer camp in 2010, it has benefited a total of 3,893 households.



Settlement rate close to **100%**

The Voice of the Employee (VOE) survey was conducted, and the Employee Relationship Management system recorded a total of 7,089 cases of complaints and inquiries, of which the total settlement rate reached 99.1%.



## Pool of diverse talents

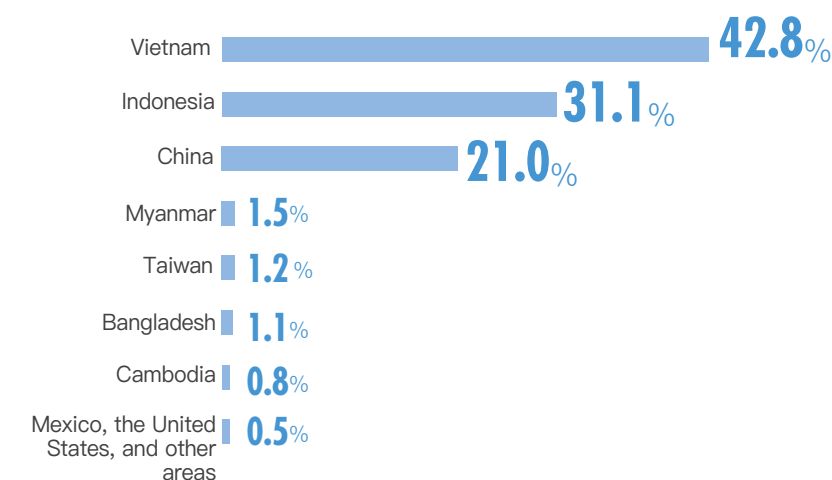
Pou Chen focuses on the two core businesses, namely footwear business and retail business. In the footwear business, it continuously improves its production technology and research and development capabilities, optimizes production efficiency, and works closely with international brands to provide the highest quality products and comprehensive services. In the retail business, Pou Chen provides a high-quality customer service, product portfolio, marketing and publicity activities, and establishes a retail brand image, namely, YYSports. Doing so is for the purpose of strengthening the core competitiveness and creating the Group's maximum value through the professional division of labor in the footwear business and the retail business.

Pou Chen has operations in Taiwan, China, Vietnam, Indonesia, Hong Kong, the United States, Mexico, Bangladesh, Cambodia and Myanmar. The main footwear production bases are China, Vietnam, and Indonesia.

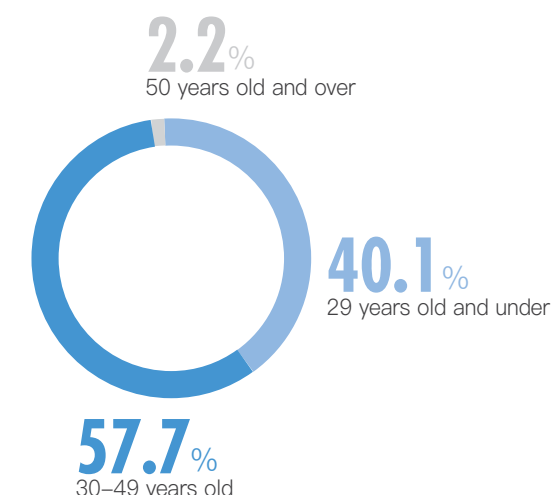
As of December 31, 2018, the total number of full-time employees was approximately 352,000. Among them, Taiwan employees accounted for 1.2%, China 21.0%, Vietnam 42.8%, Indonesia 31.1%, Cambodia 0.8%, Bangladesh 1.1%, and Myanmar 1.5%, and Mexico, the United States and other areas 0.5%. In addition, in China, 77 temporary agency workers are employed to perform production line operations normally carried out by director labors. We have gradually reduced the use of such temporary agency workers.

The Company welcomes talent from different fields and continuously builds our professional capability. Our talent recruitment procedures, which are in line with local laws and regulations and conducted under the principal of openness and transparency, recruit new talent from different industries and select suitable talent, with whom to motivate innovative thinking.

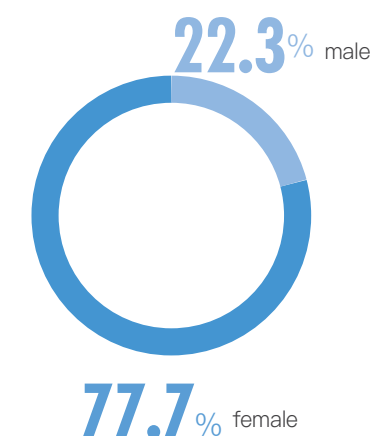
### Employees by Geographic Area



### Employees by Age

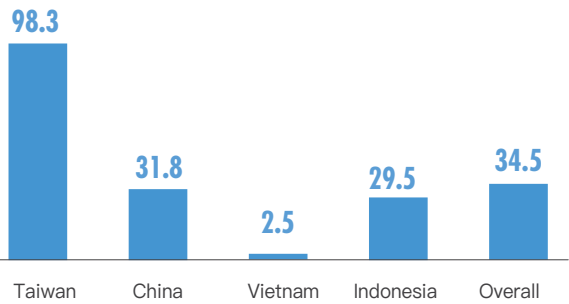


### Employees by gender



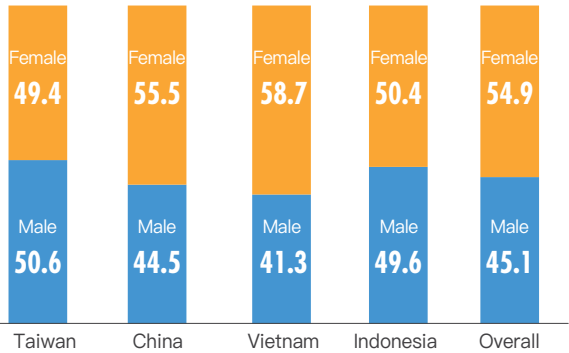
Pou Chen has long adhered to the concept of “Talent Has No Borders” and incorporated diverse cultures. Its promotion channel is transparent, fair, and does not differ on account of sex or nationality; the employee ratio of male to female is about 22.3% to 77.7% ° Among the main operations, local employees (i.e. those with local nationality) who serve as top management account for 34.5%, of which females account for 54.9%, an achievement that is expected to ensure the diversity and localization of human capital.

Percentage of local employees as top management (unit:%)



Definition of “top management”: manager level or above in Vietnam and Indonesia, and deputy director level or above in China and Taiwan.

Sex ratio of local employees as top management (unit: %)



Placing the Right People in the Right Positions

The Company proactively invites talent to join, and the recruitment process is fair and impartial across all nationalities, genders, age groups, and religions. In addition to recruiting 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 join our campaign to find decent talent by conveying our concept of “finding your best partner”, in order to recruit outstanding talent from various fields through diversified channels. The Company also actively participates in campus recruitment activities at each university in each year. We help students to quickly familiarize themselves with the industry through campus exhibit, seminars, corporate internship, and management trainee programs.

In addition, the Company also continues to manage its recruitment channel on social media, and provides the latest information on vacancies and professional footwear production training via the social media's functions. We also organize activities from time to time to increase interactions with external job-seekers. The platform is also used to share basic footwear production processes, as we hope to encourage more talent with an interest in the footwear industry to join Pou Chen in this age of information.

Ratio of new employees to all employees by gender and age

Area	Gender				Age					
	Female		Male		29 or under		30–49		50 or above	
	Number	Ratio (%)	Number	Ratio (%)	Number	Ratio (%)	Number	Ratio (%)	Number	Ratio (%)
Total	47,009	13.4%	17,393	4.9%	39,775	11.3%	23,355	6.6%	1,272	0.4%
Taiwan	315	7.6%	234	5.7%	324	7.8%	212	5.1%	13	0.3%
China	25,406	34.3%	8,948	12.1%	17,404	23.5%	15,809	21.4%	1,141	1.5%
Vietnam	10,720	7.1%	3,904	2.6%	10,584	7.0%	4,021	2.7%	19	0.0%
Indonesia	5,145	4.7%	1,894	1.7%	5,499	5.0%	1,523	1.4%	17	0.0%
Cambodia	1,164	40.0%	271	9.3%	1,008	34.6%	427	14.7%	0	0.0%
Bangladesh	465	12.2%	1,339	35.1%	1,482	38.8%	319	8.4%	3	0.1%
Myanmar	3,394	61.6%	497	9.0%	3,027	54.9%	864	15.7%	0	0.0%
US / Mexico	400	24.6%	303	18.6%	444	27.3%	180	11.1%	79	4.9%
Other Areas	0	0.0%	3	7.1%	3	7.1%	0	0.0%	0	0.0%

Note 1: New employees are those whose seniority does not reach one year as of the end of December 2018.  
Note 2: New employee ratio = number of new employees/number of employees at the end of the year.  
Note 3: Other areas: Production sites in Israel and Brazil.

Ratio of voluntary–turnover employees to all employees by gender and age

Area	Gender				Age					
	Female		Male		29 or under		30–49		50 or above	
	Number	Ratio (%)	Number	Ratio (%)	Number	Ratio (%)	Number	Ratio (%)	Number	Ratio (%)
Total	32,061	9.1%	10,479	3.0%	24,590	7.0%	17,302	4.9%	648	0.2%
Taiwan	213	5.1%	205	5.0%	195	4.7%	208	5.0%	15	0.4%
China	17,804	24.1%	6,694	9.0%	13,819	18.7%	10,313	13.9%	366	0.5%
Vietnam	9,866	6.6%	2,758	1.8%	6,942	4.6%	5,460	3.6%	222	0.1%
Indonesia	2,984	2.7%	349	0.3%	2,420	2.2%	908	0.8%	5	0.0%
Cambodia	546	18.8%	143	4.9%	517	17.8%	171	5.9%	1	0.0%
Bangladesh	68	1.8%	82	2.1%	111	2.9%	39	1.0%	0	0.0%
Myanmar	335	6.1%	45	0.8%	298	5.4%	80	1.5%	2	0.0%
US / Mexico	244	15.0%	195	12.0%	283	17.4%	122	7.5%	34	2.1%
Others	1	2.4%	8	19.0%	5	11.9%	1	2.4%	3	7.1%

Note 1: Turnover ratio = number of turnovers/current number of employees at the end of the year.  
Note 2: Other areas: Production sites in Israel and Brazil.  
Note 3: Voluntary turnover excludes job termination, retirement, or employee death.

Parental leave

The Company ensures employment right of employees after they 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 2018, 55 employees have applied for unpaid parental leave in Taiwan. Most of whom were females, account for 49 applicants. In 2018, the reinstatement rate of male employees after unpaid parental leave was 100.0%, and female employees 87.5%, showing that most of the employees preferred a career plan to go back to the workplace after the unpaid parental leave period expired. Moreover, a total of 23,341 female employees have applied for maternity leave at the Company's other overseas production sites in 2018. A total of 18,149 employees have returned to their positions after the leave, achieving a reinstatement rate of 77.8%.

Unpaid parental leave applications and reinstatement statistics in 2018 in Taiwan

Year	2018		
Items	Male	Female	Total
Number of employees qualified for unpaid parental leave in 2018	298	184	482
Expected number of reinstated employees from unpaid parental leave in 2018 (I)	6	40	46
Number of employees that actually applied for unpaid parental leave in 2018 (A)	6	49	55
Number of employees that actually reinstated from unpaid parental leave in 2018 (B)	6	35	41
Reinstatement rate from unpaid parental leave in 2018 (C=B/I)	100.0%	87.5%	89.1%
Total number of employees reinstated in 2017 and still in service as of December 31, 2018.	3/8=37.5%	27/43=62.8%	30/51=58.8%

Reinstatement rate from unpaid parental leave in 2018 (C) = Number of employees that actually reinstated from unpaid parental leave in 2018 (B) / Expected number of reinstated employees from unpaid parental leave in 2018 (I).

Data source: The number of reinstated employees from unpaid parental leave in 2018 is the number of incumbent employees of the Group who have a child under the age of 3 as at December 31, 2018, and had previously applied for an unpaid parental leave and reinstated when or before such a leave was due.

The 2018 retention rate of those taking unpaid parental leave = Number of employees who had reinstated from the unpaid parental leave and is still in service 12 months after the termination of such a leave/Number of employees who had reinstated from their unpaid parental leave in the previous year.

The 20th anniversary of the China factory sites

In 2018, Pou Chen's China factory sites marked its 20th anniversary with a celebration, during which we thanked all employees for all their hard work and reviewed every bit of efforts we made together throughout the 20 years to establish the factory from scratch to glory. We also awarded 469 senior employees who have served 20 years with a commemorative medal and a special commemorative coin made by the Company, and made photos and a "Glory Wall" for them, so as to stimulate and motivate all employees in China.



Competitive and Fair Remuneration System

The Company sees employees as our greatest asset. To attract, inspire, and retain quality personnel, the Company provides attractive and competitive remuneration conditions, and treats all employees fairly. No unfair treatment in terms of remunerations is made based on gender, ethnicity, religion, political standing, sexual orientation, or marital status. In terms of remuneration approval, based on the principle of equal pay for equal work across all genders, our remuneration standard is based on an employee's academic background and experiences, position, professional and 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 remuneration 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 remuneration 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 merits 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 operating results.

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



Number and average wages of non-managerial full-time employees

Year	2018	2017	Changes (%)
Number of non-managerial full-time employees	3,396	3,364	1.0%
Average wages of non-managerial full-time employees	NTD 859,000	NTD 852,000	0.8%

Note 1: The above information only covers Pou Chen Corporation.

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

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

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



# Diverse Employee Welfare Benefits

The Company attaches great importance to the physical and mental health and welfare of employees, and provides diversified and flexible welfare measures according to the actual situation of each region in order to ensure the quality of life of employees and promote the balance between work and life.

## Taiwan

- **Health care:** Provide general employees with regular statutory health check-ups and mid- and top-level management with health check-up grants and various health promotion activities and lectures, and help employees establish correct health awareness and healthy living.
- **Comprehensive facilities:** Hire a five-star chef from the Windsor Hotel to cook meals and provide a comfortable dining environment; provide commuter service to and from the main factory sites; set up a breastfeeding room and provide a full range of facilities for employees to work in peace.
- **Life recreation:** Provide club activities and discounts at contracted stores, various (sports, charity, team competitions, etc.) and events for major festivals, allowing employees to relax and strike a balance between body, mind, and soul after work.
- **Festival cash gifts:** Provide a variety of cash gifts, including birthday cash gifts, cash gifts or vouchers for the Dragon Boat Festival, Mid-autumn Festival, and the Year-end, Labor Day gifts or cash gifts, wedding cash gifts, and childbirth cash gifts.
- **Family care:** Help employees who have undergone major sufferings and in urgent need of assistance, providing them with subsidies for funerals, hospitalization, and major emergency to help them overcome difficulties.

## Employee Welfare System and Measures at Overseas Major Operation sites

In addition to the above-mentioned welfare measures in Taiwan, namely health care, life recreation, festival cash gifts, and family care, different measures and facilities are provided for the overseas areas according to their characteristics.

- Various sports facilities: Set up basketball courts, football courts, fitness gyms, tennis courts, and recreation centers.
- Recreation center: Established employee libraries, where books and magazines are borrowed free of charge
- Nursery has been set up in main factory sites.
- Clinics have been established at individual sites to provide adequate medical services.

# Employee Pension Plan

A pension plan to which appropriate contributions are made helps to attract talent and maintain the stability of the employee team, thereby supporting the employer's long-term financial and strategic planning.

Pension contribution as required by law is made by the Company, whose 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 contribution and payout for each employee. In the case of Taiwan, 81 employees applied for retirement in 2018. Pension appropriation according to the previous retirement plan was NT\$220 million, while pension appropriation according to the new system was NT\$220 million, ensuring employee's pension payment.

## Employee welfare and subsidy expenses for the employee welfare system and activities in Taiwan in 2018 exceeded NT\$ 27.0 million.

Items	Number of Beneficiaries	Subsidized Amount (in NT\$)
Weddings, funerals and celebrations / childbirth / hospitalization subsidies	640	1,029,600
Birthday cash gifts / vouchers	5,416	5,322,000
Labor Day cash gifts	1,610	483,000
Dragon Boat Festival cash gifts	5,433	2,682,900
Mid-Autumn Festival cash gifts	5344	2,641,800
Travel subsidies	5,369	13,190,000
Retirement compensation	83	1,258,400
Senior employee rewards	111	555,000

Note: A senior employee means an employee who has served the Company for more than 15 years 52 and been making a contribution to the welfare system; they were rewarded with a gold ring weighted one mace.

## Pension System of Pou Chen

Area		Taiwan		China	Vietnam	Indonesia		Bangladesh	USA	Mexico
Pension system		Old pension system	New pension system	Retirement insurance from social insurance	Retirement fund from social insurance	Social insurance		Pension system	Retirement insurance from social insurance	Retirement insurance from social insurance
						Senior insurance	Retirement insurance			
Proportion of contribution	Employer	2.34%	6.0%	13.0% ~19.0%	17.5%	3.7%	2.0%	100%	6.2%	5.2%
Proportion of contribution.	Employees	Contribution not required	Individual options 0.0-6.0%	8.0%	8.0%	2.0%	1.0%	Contribution not required	6.2%	Contribution not required

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

# Employee Care



Since the production of footwear is a labor-intensive industry, the production bases are mostly located in areas where labor costs are relatively low. Therefore, many employees of Pou Chen's factories are workers who left home and stay in the Company's dormitory. They contribute energy and strength during the work and some of them may feel lonely after work, deriving emotional misadjustments or frustration but there's no one to be their company, and thereby gradually lose their enthusiasm for work or even have a negative attitude towards life. Therefore, since 1999, Pou Chen has actively conducted out unprecedented humanitarian initiatives in the footwear industry—the employee counseling and guidance system, in which the "Life Counseling and Guidance Office" is set up with counseling professionals and systems in order to train professional counseling personnel with consultative skills. We also hold the Management and Worker Conversation in the factories, provide employees with counseling service regarding work and life, and help them communicate and address the grievance, so that we can effectively relieve employees' physical and mental stress and problems. Doing so not only wins the trust of employees, but also significantly improves the production efficiency and stability of employees in the factories. By means of collecting employee complaints and suggestions, the factories are also able to improve the working environment and management tactics accordingly.

## 1 VOE (Voice of Employee)

Employee care measures "listening": Smooth communication channel for employees—face-to-face conversation / grievance mechanism

We encourage the management to engage in direct conversations with employees. In addition to collecting various opinions from employees through diverse channels, we have also established various grievance channels for employees in different areas and a platform to record and analyze employees grievances systematically. 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.

**31,413**  
Persons

In 2018, 756 Management and Worker Conversation Meetings were held and 31,413 employees participated.

With the original intention of increasing communication opportunities between management and employees, since the 1990s, the Company has provided a variety of employee communication channels, including telephones/hotlines, social media or mobile APP, short message service (SMS), suggestion boxes, e-mails, Management and Worker Conversation Meetings / Heart to Heart Communication Meetings / Management Communication Meetings, internal and external referrals, direct communication / interviews, and the Counseling centers.

It is worth mentioning that since 2012, the Management and Worker Conversation Meeting has been included in the necessary implementation scope of the Company's internal compliance program. Currently, most factories are able to hold such meetings once a month. All the factories of Pou Chen are able to put

into practice, improving the quality and frequency of communication. In 2018, 756 Management and Worker Conversation Meetings were held and 31,413 employees participated.

During the meeting at each factory, employees are free to express their opinions and made suggestions. Factory operation managers were required to attend all Management and Worker Conversation Meetings. Besides expressing their appreciation for employees' hard work, and promoting or disseminating important information at the Conversation Meeting, they also listen and respond immediately to problems raised by employees, which set themselves as an example to other managerial staff, shows the meaning of focusing on voice of employees, and helps to bridge the gap between the management and employees.



### VOE (Voice of Employee)

Case Source	Total
Internal referral	33
Short message service (SMS)	1,356
External referrals (brand customers, the government, third party referrals)	92
Direct communication / interviews	407
Social media or mobile APP	545
Management and Worker Conversation Meetings / Heart Bridge Communication Meetings / Management Communication Meetings	3,458
Suggestion boxes	132
Emails	39
Telephones/hotlines	536
Counseling Office / Life Guidance and Counseling Office	491
Total	7,089

**99.1%**

In 2018, the Company's Employee Relationship Management system recorded a total of 7,089 cases of complaints and inquiries, of which the total settlement rate reached 99.1%.



## Grievance Mechanism for Controversial Employee Complaints

According to the Company's Grievance Management Procedures, the progress and results of complaints shall be reported back to the complainant and related reporting units in a timely manner no longer than 10 working days thereafter, or two months at most thereafter when the case is a sensitive case involving issues like sexual harassment, harassment, or abuse, depending on the intervention circumstances.

Since Pou Chen operates globally, it is never easy to understand or communicate in different culture contexts. To ensure that the Group's operations handle issues under the principle of fairness and impartiality, the internal policy to form "Discipline / Engagement Committee" was passed in 2017. In 2018, the Discipline / Engagement Committee mechanism was commenced at various operations.

To cope with the needs to deal with employee complaints that are controversial, each region shall set up an investigation task force, the members of which shall not overlap with those of the Discipline / Engagement Committee. Overseas management shall not constitute more than half of the members of the Committee, and the complaints shall be dealt with in a fair and impartial manner that reflects and respects the local culture.

## Issues in 2018 of Concern to Stakeholders

In March 2018, some employees in a factory in Dong Nai province of Vietnam participated in a slowdown, mainly due to the misunderstanding between the Company and the employees of the factory when they had been communicating the existing salary framework and expected improvement solutions. Such an event

concluded smoothly after active communication efforts made by local supervisors. The Company's existing salary framework and expected improvement solutions are in full compliance with the local labor laws of Vietnam. The Company will be open-minded, respect the opinions of employees and various interest groups, comply with relevant local laws and regulations in Vietnam, and continue to seek the best solutions, so as to cope with the rapidly changing environment and achieve sustainable operation in the region.

In June 2018, due to the dissatisfaction of the people in Vietnam against the Vietnamese government's special economic zone policy, Pou Chen's Pou Yuen footwear factory in Ho Chi Minh City, Yue De footwear factory in Tien Giang Province, and Pou Li footwear factory, and Pou Hung footwear factory in Tay Ninh Province, were forced to partially shut down. After close communication and cooperation with the local government and unions in Vietnam, the incident concluded successfully. As the incident did not last long, it did not have a major impact on the Company's overall operations, finances or business.

In September 2018, Pou Chen was informed by the client that some employees filed a complaint with an external NGO, Center for Alliance of Labor and Human Rights (CENTRAL) over the dispute that Pou Chen's Phnom Penh footwear factory in Cambodia did not abide by the unbinding ruling of the Cambodia's Arbitration Council that demanded it pay compensation based on the direction of unspecified duration contracts (UDC) at factory closure. After the Company was informed of the incident, it actively contacted and communicated with the NGO and employee representatives, stating that the factory had objected to the arbitration ruling according to local laws and regulations, and the local labor department officially sent to the employee representatives a letter indicating its confirmation that Company's practices complied with the local law. In order to respond to this dispute in a solid manner, the Company once again obtained the clarification of the compensation issue from the Ministry of Labour and Vocational Training of Cambodia, confirming again that the compensation packages of termination of the Company was in compliance with local laws and regulations. However, adhering to the philosophy of caring for employees, and on a legal basis, Pou Chen was willing to expand its compensation adjustments to all eligible employees of the Phnom Penh factory in 2017 based on the direction of the unspecified duration contracts (UDC) as advocated by the NGO and some employees. As of December 2018, 82% of employees have received it.

In view of the popularity and convenience of electronic information in the society, the Company also set up a message exchange platform at major production and operation bases to provide information on local activities and information exchange, from which platform one can learn at the first moment about news regarding Pou Chen's latest developments, recent employee activities, culture information, and life and knowledge.

- Pou Chen Group (Pou Chen Corporation)
  - Facebook <https://www.facebook.com/pouchengroup/>
  - LinkedIn <https://tw.linkedin.com/company/pou-chen-group>
- Vietnam: Pou Chen Vietnam Facebook
  - Website: <https://www.facebook.com/PouChenVN/>
- Indonesia: Pou Chen Indonesia Facebook
  - <https://www.facebook.com/PTNikomasPouchen/>
- China: Pou Chen China Wechat ID: POUCHENHOME

# 2 Diverse Club Activities

## Overseas Areas

Adhering to the people-oriented, whole-person considerations, the implementation of employee care is more diverse. In order to balance work and life, the Company cooperates with the labor unions to frequently hold related labor off-work clubs, various types of activities, and even activities in combination with cultural festivals. Activities include soccer games, singing, mountain hiking, yoga, etc., enriching the life of employees after work.

Compared to 2017, the Company implemented the activities at overseas bases in a more comprehensive manner in 2018. The internal activities of the employees include local festival celebrations for cultural inclusion, sports contests for strengthening of interaction and cohesion, and Company's community engagement focusing on education and health. In addition, local officials and union representatives are also actively invited to participate in internal activities. Through these activities, we have consolidated employee cohesion and recognition, and made the work more compatible with life. In 2018, 205 internal employee activities were held at overseas bases.

## Taiwan

Adhering to the spirit of service and innovation of the core values of the Company, the Company actively and strategically focuses activities on the six dimensions: Sports Vitality, LOHAS, Health and Wellness, Wealth Management, Festival Activities, and Charity. In 2018, 131 events were held, with a total of 14,577 participants and expenditure of NT\$8,378,962.

# 14,577 Persons

In 2018, 131 events were held, with a total of 14,577 participants and expenditure of NT\$8,378,962.





Taiwan's Diverse and Abundant Club Activities

Activity Theme	Activity		Times of Holding Activities	Number of Participants	Activity Expenditure
Sports Vitality	Sports activities	Organizing club activities (mountain hiking clubs, badminton clubs, bowling competitions) and participating in badminton games, providing a variety of sports activities for employees to increase communication channels	16	584	546,497
	Sports experience lecture	Pursuing happiness is an important goal of life. Through doing sports, one can also find the secret of happiness in life	1	164	63,392
	Enjoyment during sports	Encouraging employees to participate in internal and external sports activities, develop exercise habits, and achieve a balance between life and work	1	83	112,290
	Allowances and rewards for sports	Promoting the Group's atmosphere for doing sports, and encouraging employees to actively participate in various sports contests in the name of Pou Chen Group and raise the exposure rate of activities if they won a medal.	1	41	15,984
	Pou Chen vertical marathon	By means of this event, encouraging employees to challenge their limits by persistence and will, to enjoy the excitement of the process, and achieve the effect of physical fitness	1	84	209,674
	Sports diet lecture	By means of lectures, teaching employees how to rely on continuous exercise and diet control to find their own formulas for health and beauty	1	54	13,000
	10K vitality jogging training camp	Employees are trained by an experienced jogging coach, who assists employees in starting the entry-level jogging, fostering correct jogging concepts, and finishing the contests.	8	30	38,479
Festival Activities	Creative auspicious words competition	To welcome the New Year, employees voted on FB for the best creative auspicious words.	1	46	0
	Let love shine—Mother's Day activities	Passing the heart of gratitude, enhancing the interaction with family members by expressing gratitude. We offer each employee a carnation and a blank card to convey gratitude to the mothers	1	4,201	32,076
	Let love spread	Letting employees at home and abroad convey blessings and gratitude to each other for Christmas Day	1	279	91,548
	Dragon King Festival	Cooperating with the Changhua County Government to participate local festivals	1	45	77,456
Wealth Management	Tax lecture	Due to that tax filing is a duty that every employee should do, tax experts were invited to clarify tax problems for employees.	2	74	5,883
	Wealth management lecture	Through the process of financial planning, employees could clearly understand the financial status of themselves and that of their families, and set financial goals, and was assisted in achieving their dreams in life through professional financial management.	3	120	44,764
Spiritual Charity	Spiritual charity lecture	Promoting the mental health of employees, and guiding employees' discussion about emotions and interpersonal and parental issues through lectures	11	450	275,663
LOHAS	Pou Chen Camping	Encouraging employees to experience with nature and invite family members/friends and relatives to participate in company activities; in addition to strengthening the ties between relatives and friends, it also created memories for both the Company and employees.	1	480	1,302,835
	Singing contest	The 3rd Best Singer Singing Contest of Pou Chen allowed employees of their self-expression through singing contests, and to exert other professions and interests in their spare time.	1	33	225,368
	Pou Chen's Family Day for Sports	Strengthening unit cohesion via fun contests; improving parent-child relationship for participating employees and relatives; enhancing the sense of belonging of employees for the Company via relaxing activities	1	5,800	4,900,530
Health and Wellness	Health promotion activities	Regularly organizing seminars related to physical and mental well-being and blood donation activities at a fixed site; emphasizing the concept of prevention over treatment, and strengthening mental and physical balance for employees	79	2,009	423,523

3 Employee Home Visit

Pou Chen attaches great importance to the practice of sustainable services and conducts family visits from the perspective of whole-person care. Through home visits, the Company is closer to local employees and the community, and employees' direct supervisors and management of factories have the opportunity to be more close to employees' family, to understand the local culture and living environment, and to provide necessary assistance for the families actually in need of help.

Employee home visits are one of the long-running projects of the Company. Through frequent employee home visits, Pou Chen understands the needs of employees' families and those of communities where they reside, and establishes good interactions with their families. In addition to enhancing local employment and opportunities for economic development, Pou Chen also brings in various community-friendly services, including volunteer medical services, house repairs and



modification, and scholarship programs. With employees as the focus and the notion of whole person care as the scope, Pou Chen connects the employees' families and communities, hoping to bring quality of life and sustainable development to the society as a whole. In 2018, Pou Chen visited homes of 1,265 employees, including excellent employees, employees with difficulties, pregnant employees, injured employees, etc., and delivered 1,265 batches of daily necessities. The visitor and those being visited together accumulated 10,036 hours of footprint of home visits.

10,036 hours

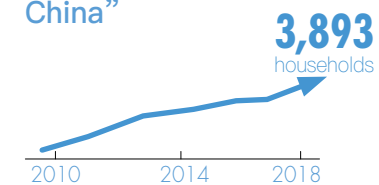
As of 2018, Pou Chen visited homes of 1,265 employees. The visitors and those being visited together accumulated 10,036 hours of footprint of home visits.

## 4 Employee Children's Summer Camp

"True employee care requires us to observe and to find employees' actual needs." For employees who left their homeland for work, nothing could concern them more than their families and children, a reason why it has been normal in the China factory sites that employees quit their jobs as a result of their worries as to where their children can go during the summer vacation. Seeing that employees and their children are more apart than accompany, Pou Chen's related units began to consider the possibility of integrating the various activities and resources. Considering the issue from employees' perspective, Pou Chen, since 2010, has been holding the "Pou Chen Children's Summer Camp in China," which sits between July and August and lasts for about 30 days. During the summer vacation, the summer camp allows children to learn about love, service, and moral education during a variety of courses and activities during daytime. At night, they can enjoy family time with their parents. Since its first summer camp in 2010, it has benefited a total of 3,893 households.



### Data on Benefited Households of "Pou Chen Children's Summer Camp in China"



Since 2010, factories in China have been holding "Pou Chen Children's Summer Camp in China," benefiting a total of 3,893 households.

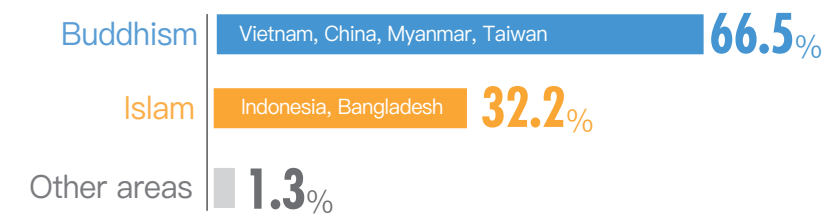


## 5 Respect for Diverse Religions and Cultures

There are thousands of religious beliefs in the world. People pursue the Almighty and spirituality in the hope of finding a bridge leading them from real life to a supernatural world, where their soul will enjoy peace and eternity. Pou Chen supports and ensures the freedom of employees' religious beliefs, flexibly adjusting the management system to encourage employees to follow their religious rituals during working hours.



Pou Chen’s Employee Distribution by Religion



Number of employees totaled 352,000. Among them, Taiwan employees accounted for 1.2%, China 21.0%, Vietnam 42.8%, Indonesia 31.1%, Cambodia 0.8%, Bangladesh 1.1%, and Myanmar 1.5%, and Mexico, the United States and other areas 0.5%.

5,500 employees in Myanmar Compound

In the Myanmar compound, Pou Chen employs about 5,500 people, all are faithful to Buddhism. Therefore, we set up a large statue of Buddha in the compound, from which employees can draw spiritual sustenance.

Established prayer rooms for 100,000 Indonesian and Bangladeshi employees to remember Allah.

Pou Chen’s Indonesian compound and the Bangladesh compound have more than 100,000 employees, of which more than 90.0% believe in Islam. According to the Islamic classic "the Koran," Muslims must pray in the direction of Mecca, a city in Saudi Arabia, five times a day to show their appreciation with Allah and to follow the guidance of Islam every day.

Pou Chen respects the religious beliefs of its employees and has set up several prayer rooms, aka. mosques, in the compounds for employees’ own use. There is also an independent small prayer room in the workplaces to facilitate the use of employees.

The fasting of Islam requires Muslims not to eat or drink from dawn to dusk during the Ramadan. The purpose of fasting is to pursue the feeling of being close to Allah. Muslims must be grateful and dependent on Allah in the Ramadan to make up for the mistakes they made in the past and to pay attention to those in need. The annual Eid al-Fitr, or Festival of Breaking the Fast, is the equivalence of the New Year. Believers will get up very early, and after they have finished their early prayers, they can eat, then go to the mosque to listen to the imam recite the Koran before worshiping in the direction of Mecca. On this day, Muslims will visit relatives and friends, hug and greet each other, and restore contact with friends and relatives. Muslims will wear festive clothes on this day, featuring a happy atmosphere. Eid al-Fitr is not only the end of Ramadan, but also a peaceful and happy festive day to appreciate Allah for making their faith firmer.

Pou Chen usually holds fast-breaking (i.e. Eid al-Fitr) events at factories in Indonesia and Bangladesh. The factories in Indonesia also provide free transport services for employees to return to their hometowns, and even participate in the fast-breaking activities with local orphanages and community residents to welcome the Indonesian New Year.

Joined an Independent Third Party FLA Labor Inspection

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

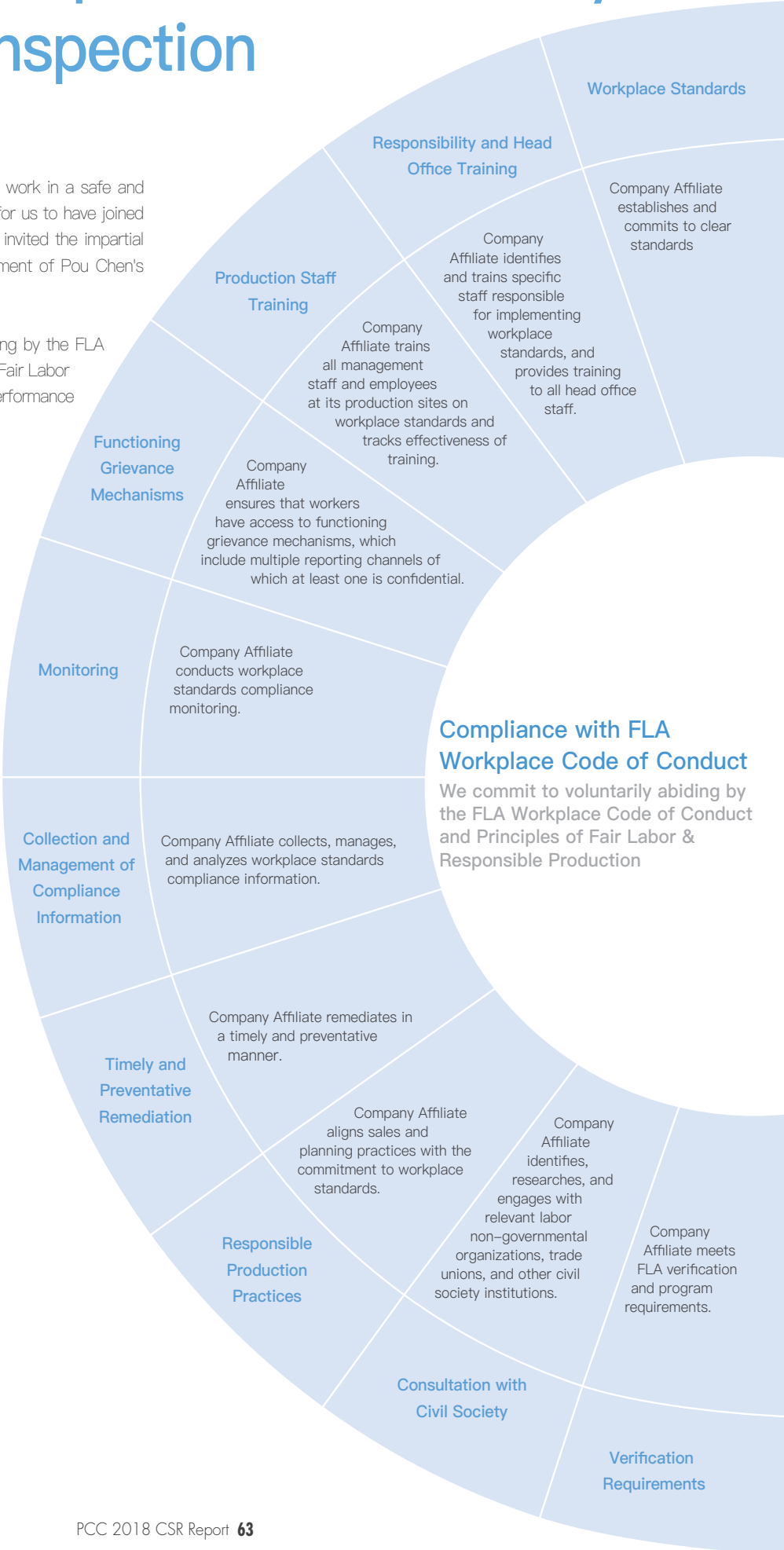
We have joined the FLA and commit to abiding by the FLA Workplace Code of Conduct and Principles of Fair Labor & Responsible Production and relevant key performance indicators (KPI).

Glossary

The Fair Labor Association (FLA) is a non-profit labor group in the United States that is dedicated to assisting overseas OEM companies of well-known consumer brands in effectively improving labor conditions and promoting safe and fair working conditions. Since 2002, FLA has conducted more than 1,500 times of assessment on 113 enterprises, including H&M, Nike, and adidas. This multi-national multi-group labor supervision system has functioned in supervision and protection of labor rights to a certain extent. Please go to the FLA official website to learn more. ([www.fairlabor.org/accreditation](http://www.fairlabor.org/accreditation))



Please go to the FLA official website to learn more.





FLA have audited Pou Chen for 8 consecutive years and released 7 compliance reports.

# FLA Sustainable Compliance Initiative (SCI) Assessment

Pou Chen continues to strengthen the transparency of production and manufacturing conditions. Since 2011, it has taken the initiative to accept the annual FLA’s SCI assessment to assess the compliance of Pou Chen’s factories located in the area designated by the FLA each year. Such an assessment has been taken for 8 consecutive years, with 7 compliance reports publicly issued. Pou Chen will adopt corrective measures according to the suggestions on the report and regularly provide feedback with an action plan, and systematically and regularly receive human rights assessment/monitoring conducted by NGO groups. The FLA SCI assessment covers Pou Chen’s major global manufacturing operations. All compliance reports regarding labor conditions are disclosed on the FLA official website: <http://www.fairlabor.org/transparency/workplace-monitoring-reports>.

Since 2012, Pou Chen has also established an internal evaluation mechanism, including Human Resources KPI (HR KPI) and Sustainable Development KPI (SD KPI), which are used annually for inspecting the Company’s exclusively-owned footwear factories. The inspection standards include the implementation level of human rights and environmental safety management, and a division of their compliance performance into different hierarchy, so that the overall compliance can be actively and effectively reviewed and managed. In the future, Pou Chen will continue our efforts in striving to realize the standards and philosophies of the International Labour Organization (ILO) and FLA, and to provide good labor relations and working conditions for our employees.

## Pou Chen’s Internal Assessment Mechanism

- **Human Resource Management (HRM)**  
Recruitment, education and training, personnel development and promotion, termination/dismissal, working hours, and remuneration and benefits.
- **Labor**  
Workplace Conduct and Discipline, the grievance mechanism, non harassment, nondiscrimination, internal communication, and control of special employees.
- **Environmental, Health and Safety (EHS)**  
Safety and health, fire safety, energy management, and environmental protection.

FLA audited Pou Chen for 8 consecutive years and released 7 compliance reports.

2018	2016	2015	2014	2013	2012	2011
Myanmar Audit Report Latest update 7/5/2019	Bangladesh Audit Report Latest update 7/5/2019	Vietnam Audit Report Latest update 10/10/2018	China Audit Report Latest update 10/9/2018	China Audit Report Latest update 10/9/2018	China Audit Report Latest update 10/9/2018	Indonesia Audit Report Latest update 10/5/2018

# Working with labor inspections conducted by a third party signifies that Pou Chen is committed to responding to the UN Sustainable Development Goals (SDGs).

SDG 8 states the hope to promote sustained, inclusive and sustainable economic growth, full and productive employment, and decent work for all. Pou Chen sets up a factory in Bangladesh in 2009, providing about 3,800 job opportunities. Many local workers had relatively weak awareness on working conditions and safety and health in the workplace. We had created a working environment that is safe, friendly and inclusive, and at the same time decent for female. We also committed to creating a decent employment environment and accepting inspections conducted by the FLA, a third-party labor inspection agency.

Taking the production base in Bangladesh as an example, in recent years, 104 non-compliances have been remedied to create better labor conditions and working environment. The number of remedied non-compliances has been increasing year by year. The following is an excerpt of the progress and results of our efforts to improve the working environment and labor rights.

Installed a Central Fault Display System (CFDS).

Installed fire detectors in all areas of the factory, including the annex rooms.

Used the Infrared Radiation (IR) inspection equipment to scan the electrical system and the instrument panel monthly and, in case anything unusual is found, to repair the system and reduce the risk of catching fire.

Completed the installation of lightning rods on the staff restaurant and Building No.2, and measured the grounding resistance of these areas every year to ensure effective avoidance of lightning strikes.

Completed all grounding measurements at the factory and performed resistance measurement and calibration plans based on the situation of the grounding connections of sockets.

Installed safety guards on all machines.

Replaced broken air vacuum exhaust equipment to effectively eliminate VOCs in the production line.

Installed awnings in the chemical storage area to avoid direct sunlight.

Record workplace temperature and humidity regularly to ensure a comfortable working environment.

Operators of forklifts (stackers) had obtained operational training certificates.

Purchased a large new refrigerator, which keeps the ingredients at 4.0°C to ensure the freshness of the ingredients.

Water tanks are cleaned annually to ensure that the water quality meets safety and health requirements.

Signs demanding the use of personal protective equipment (PPE) are posted throughout areas where there was a risk of cutting injury, and all workers in the areas had received training on the effective use of PPE.

In response to the Montreal Protocol on Substances that Deplete the Ozone Layer, which requires the control of ozone-depleting substances, the purchase of R22 refrigerant is prohibited.

Provide chairs with a back support for all pregnant employees, and employees who requests it.

The permit for use of the generator had been applied to the Bangladesh Export Processing Zones Authority (BEPZA) in accordance with local regulations.

All applicants passed the exam before they were employed to ensure they had the ability to read English and numbers. Through the monthly communication meeting, the factory continued to train the workers to understand the salary calculation process to help them understand the texts recorded on their "salary slip." Contractors were also required to provide workers' salary information every month to ensure that the contractors met the minimum wage standards.

The Employee Manuals stipulates that the normal working hours per day shall be 8 hours, and the daily overtime hours shall be less than 2 hours. In addition, the normal working hours per week shall be within 48 hours, and the total working hours per week shall not exceed 60 hours. The Company negotiated with brand customers regarding the order lead-time, so that factory working hours could comply with local laws and regulations.

The factory designed new identification badges and custom-made uniforms for pregnant female employees, and provided written documents for pregnant employees and their production line leaders to ensure that they both understand the working hours policy. Women who are pregnant for more than 6 months shall not work the night shift, nor work overtime. In addition, the workplace and working hours are properly arranged for female employees who were in their postpartum lactation period and disabled employees.

Members of the Worker's Participant Committee (WPC) were elected by all employees in March 2017. The positions of chairman and vice chairman of the WPC were taken by employees.

The WPC and the factory managers hold a monthly communication meeting and promulgated the FOA (Freedom of Association) policy and procedures.

Check the employee grievance mailbox daily and respond to their grievances.

Socialize grievance procedures at the monthly communication meeting. According to the results of the employee satisfaction survey in the factory, 96.3% of the workers clearly knew the grievance channel.

Establish an employee self-defense mechanism into disciplinary procedures; when an employee finds that a disciplinary measure is inappropriate or has objections, the WPC member will communicate with the employee and provide advice for the management.

The above specific measures are aimed at making all employees in the Bangladesh compound fully aware of their work rights. Remuneration, benefits of paid leaves are issues open for labor-management communication; two-way communication is fully implemented between labor and management.

***The top management has invested a lot of manpower and funds to standardize the workplace system throughout the Group. Both the production class and the management have learned these innovative, comprehensive, and ongoing labor standards. A complete evaluation and incentive system has been provided for production factories and suppliers, in order to improve the working conditions.***  
***Pou Chen's top management promises to invest in social responsibility, internal training, and improvement.***  
***Special accreditation to Pou Chen's highly transparency in factory labor violations, social responsibility training, and multi-channel grievance mechanisms***

Extract from FLA's Assessment for Accreditation Report

# Occupational Safety and Health Management

## 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 incidents, we will initiate the facility medical rescue mechanism and emergency relief procedures.

## Management System

In terms of occupational safety and health management, besides complying with clients' requirements and local laws and regulations, we have also made a series of management procedures in line with the FLA Workplace Standards to bind all units to implement management, and to avoid hazards. Pou Chen has launched its safety and health management system in a phased manner by means of internal standards and regulations, and based on laws. In 2018, footwear production factories that have implemented the OHSAS 18001 occupational safety and health management system and passed the external accreditation accounted for 62% of the total.

Environmental, Energy, and Safety and Health Committee has also been established at each factory 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. The committee has formulated various safety and health management procedures for the factories to execute, established a safety and health management performance system to track management performance, and established an online abnormality management system, using data analysis to focus on major risk prevention mechanisms.

Pou Chen's Environmental, Energy, and Safety and Health Committee Management Procedure stipulates that each committee needs to comprise 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 factory. 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. Except for the management class and the dedicated window, the rest of members of the Environmental, Energy, and Safety and Health Committee are representatives of workers, accounting for approximately 80.0%. The management class

continues to focus on relevant issues and track them through the ESH committee.

## Autonomous Environmental Health and Safety Management

Besides having designated full-time EHS personnel (also known as "SD personnel") and a responsible 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 unit 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 non-compliance remedy to effectively implement and improve safety and health management in practice.

Since the issues concerned and guidelines of occupational safety and health are to reduce the occurrence of occupational hazards and occupational diseases on employees, and we wish to maintain a good and safe working environment together with employees, the Company has gradually implemented hardware improvement and software management according to internal plans, implemented the management of operation standardization from top down, and promoted the self-improvement by all employees at the grassroots level from bottom up, in order to continuously improve the environment of the workplace and reduce the hazards and risks of the operating environment.

The following work is particularly strengthened in 2018:

**1. Train the Health and Safety Personnel:** In addition to the deployment of full-time safety and health management personnel in accordance with local laws and regulations, the Group's factories are assigned duties that playing an important role in promoting internal safety and health management. Therefore, after the initial training, the advanced training was arranged in 2018. Through regular internal training and testing, we have strengthened the professional knowledge and operation skills of relevant personnel, and conducted the education and promulgation of the Group's unified management procedures from this year.

**2. Continuously Strengthen the Abnormal Incident Management:** We have standardized and systemized the management procedures for occupational injury investigation to ensure the implementation of incident notification and tracking. This year, we strengthened the review of the investigation report and confirmed the cause of the incidents, with the help from safety and health management personnel in each region to confirm the improvement effect and horizontal development. We also gradually improved the hardware and software management measures by analyzing the incident indicators in each region.

**3. Workplace Improvement Proposals:** We encourage our rank-and-file employees to spot problems on the workplace, provide creative and feasible suggestions, and be brave in making improvements and problem-solving, thereby improving the autonomous sense of workplace safety awareness. We also organized improvement proposal activities and, through a selection system based on feasibility and performance, selected the annual excellent and creative proposals and gave them proper rewards and praise. The total number of proposals in 2018 was 2,126, an increase of 196.0% compared to 2017, indicating that the proposal activities received obvious employee support and participation. The Company will continue to promote measures to enhance employees' safety awareness.

In 2019, the key work of occupational safety and health is to strengthen the "machine safety" and "management measures." In the "machine safety" aspect, we will continue to enhance the source management and the acceptance mechanism of key machinery procurement, and improve the safety of existing machines. "Management Measures" is to promote the training and certification system for machine operation and maintenance personnel, and launch activities of on-site supervisors conducting a health and safety walkthrough, and launch campaign for zero day lost due to disabling injury, so that such a participation by all can raise the safety awareness and set off an effective chain reaction from top-down.

From 2018, the Head Quarter (HQ) also implemented the SD-KPI (ESH Management Performance Assessment) system, which comprehensively assessed and grasped the internal ESH-related risk issues by using the four major indicators, namely, safety and health, fire safety, environmental management, and energy management. The HQ also set for each unit grading criteria, based on which each unit's ESH performance was assessed, by referring to internal standards and regulations and by establishing a consistent auditing procedures. The assessment frequency is once a year. In 2018, the ESH assessment of 48 factories was completed as scheduled, and ranked based on their performance in accordance with the internal auditing procedures; follow-up improvements were conducted accordingly. The Company has also established a systematic follow-up procedures to facilitate the timely reply of non-compliance remedial measures and follow-up from the various factories. By conducting the SD-KPI audit, we are set to response to regional risks and set up an overall response project accordingly. According to the results of the 2018 annual assessment, the daily maintenance and operation of machinery is the main issue concerning occupational safety and health. Therefore, in 2019, we plan to

launch a certification system for high-risk machine operation and labeling, attending to the machine safety issue from the perspectives of both the hardware and the software. In addition, through the assessment mechanism, it is found that the daily execution of the ESH has been gradually on track. As early as 2014, the internal ESH training mechanism was started. In 2018, the ESH staff of the factories were graded, of which the grading results will be taken for differentiated training to be held in 2019, from preliminary ESH professional curriculum training to advanced ESH professional curriculum training, so as to improve the daily execution of ESH and manage the implementation status.

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 injury, days lost, disabling frequency rate (FR) and disabling severity rate (SR). Statistics from occupational injury management in 2018 indicated that there were a total of 580 cases of occupational injury and 18,059 days lost due to disabling injury. The days were calculated based on the days of disabling injury, and did not include transportation injuries.

Statistically speaking, Vietnam had more occupational incidents and a fatal occupational incident in 2018. Based on such a fatal occupational incident, the Company improved the safety design of new machines and required machine suppliers to improve theirs as well in order to avert any occurrence of such kind. However, the FR and SR did not feature a significant rise in all areas, mainly due to the difference in populations and difference in frequency and severity of occupational injury in different areas. The various management mechanism evidence that occupational incident management is the indicator and issue of concern to the Company. To avert any recurrence risk, the Company will strengthen the analysis of causes of occupational incidents and make improvements based on the analyzed underlying causes, and implement daily management of safety and health affairs in line with the Company's policy.

Health and Safety Indicators of Footwear Compounds in 2018

Items	Number of Occupational Injury			Ratio of Days Lost (%)		FR			SR			AR(%)	
Area	Total	Male	Female	Male	Female	Total	Male	Female	Total	Male	Female	Male	Female
Overall	580	220	360	57.5	42.5	0.88	1.60	0.69	27	75	15	2.6	2.2
China	126	63	63	38.2	61.8	1.18	2.62	0.76	50	85	40	1.1	0.9
Indonesia	103	31	72	42.4	57.6	0.58	0.78	0.53	2	4	2	4.5	3.9
Vietnam	292	96	196	66.9	33.1	0.85	1.55	0.70	33	123	13	1.9	1.6
Cambodia	16	2	14	4.4	95.7	2.40	1.89	2.49	7	2	8	1.9	1.5
Bangladesh	20	17	3	90.3	9.8	2.24	2.83	1.03	54	72	16	2.0	1.6
Myanmar	6	1	5	0.0	100.0	0.56	0.99	0.51	16	0	17	1.4	1.2
Taiwan	17	10	7	46.2	53.9	2.32	3.39	1.59	30	35	27	0.7	1.2

- Note 1 The statistical source of the occupational injury data is derived from the internal data-based occupational injury management system of the Company. The total hours worked are calculated by multiplying the number of workdays of each unit by daily working hours and the number of workers present. Since it was unable to obtain the total hours of work of contractors and agency workers, the data was not included in the occupational injury indicators presented in this report.
- Note 2 The occupational injury indicators did not include the data of the Mexico compound, which will be disclosed after its personnel information is fully collected by the personnel information collection system.
- Note 3 Frequency Rate (FR) = number of disabling injuries \*1,000,000/total hours worked  
Disabling Frequency Rate (Male) = number of disabling injuries (male) \*1,000,000/total hours worked (male).  
Disabling Frequency Rate (Female) = number of disabling injuries (female) \*1,000,000/total hours worked (female).
- Note 4 Disabling Severity Rate (SR) = total number of lost days \*1,000,000/total hours worked.  
Disabling Severity Rate (Male) = total number of lost days (male) \*1,000,000/total hours worked (males).  
Disabling Severity Rate (Female) = total number of lost days (female) \*1,000,000/total hours worked (females).
- Note 5 Absenteeism Rate (AR) = total hours of employee absentee throughout the year/total man hours of work  
The absenteeism rate is derived from the internal data-based personnel and payroll management system of the Company. The total hours worked are calculated by multiplying the calendar days by daily working hours and the number of workers present.



Occupational Disease Risk Prevention

The Company adopts a management principle of prioritizing high-risk jobs during preventative management of occupational diseases. Evaluation of high-risk jobs 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 promulgation of hazardous elements before employment, workplace environmental management, and employee health checkup. To provide employees with a safe and healthy workplace, the Company undergoes environmental monitoring according to legal regulations, including chemical exposure, hearing, and lighting. Engineering revision will be made for abnormalities found on the measurement results, and appropriate personal protective equipment will also be provided. At the same time, annual plans are prepared for internal measurement, and internal measurement training courses are provided to strengthen the professional ability of the measurement personnel, and to improve the preventive management performance of early identification of and reasonable improvement in abnormal areas.

According to the internal management and control mechanism, there were 7 cases confirmed of occupational disease regarding hearing loss. The Company changed their jobs according to local laws and monitored the follow-up, and cared for the job adaptation from time to time by interviewing with those employees. For those who succeeded them in their jobs, the Company will strengthen the training and provide personal protective equipment, and implement the area-wide control method to contract the noise exposure area.

Alternatively, to strengthen employees' preventative management, the Company also arranges for those in high-risk jobs to undergo knowledge training for occupational hazardous element prevention, e.g. adoption of personal protective equipment. Medical service or cooperation with local hospitals is also arranged for major production facilities, 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 in high-risk jobs 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 job 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. Adhering to the control methods related to occupational diseases in various regions, we track whether cases are registered or closed, and whether job changes are implemented, and provide workplace measurement and personal protective equipment for high-risk jobs.

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.

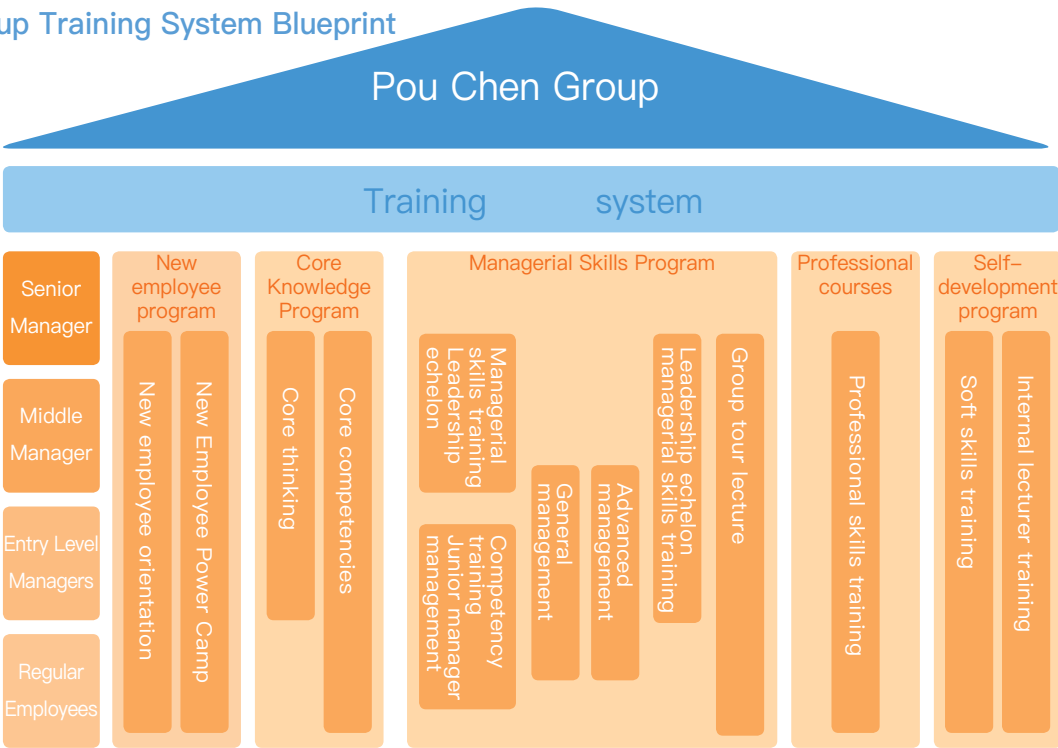
- We develop our talent strategy by integrating Company mission, vision, management strategies, and goals, and actively foster leadership and professional talents, improving our talent-readiness ratio for the Company.
- We are building up our talent pool, and identify key talent through systematic and 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, concepts, 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 motivate their potentials and realize self-accomplishment.

Development Plan of Education and Training

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 strategies 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 competency gaps are also evaluated, and educational training structure is established in accordance with the Company's training system. Curriculum including new employee program, core knowledge program, managerial skills program, professional skills program, and self-development program 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 Blueprint





New Employee Orientation



New Employee Power Camp



Core Knowledge Program—  
Systematic Thinking



Self-development—Train the  
Trainer



10 HR Programs

## Training System Curriculum

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, 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' personal development goals, functionality training system in each rank, and professional certification courses such as legal regulations into consideration, we have established the Education and Training Management Procedures 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 competencies of employees. To strengthen employee's competency for continuous employment, the Company will continuously provide skills training on employee competences 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.

- New employee program: We hold new employee orientation courses for those new to the Company, and New Employee Power Camp for those new employees who have served their service for three months or more, in order to raise their recognition of the Group. Also, through the Team Building activities, we make them further understand the Group's core values and thus build up a team consensus.
- Core knowledge 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.
- Managerial skills program: Based on the managerial competencies required of management of different rank, we devise corresponding learning and development courses in order to improve their skills, knowledge, role definition, and necessary managerial competencies required.
- Professional skills 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 various required competencies and departmental duties.
- Self-development program: To encourage employees to engage in diversified learning, 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 internal lecturer training in the hope of inspiring employees' strengths and potentials and expanding the meaning of learning and passing on of knowledge.



Managerial Skills Program—  
General Management



Managerial Skills Program—  
Advanced Management



Strategic Consensus Camp



Group Tour Lecture



## Leadership Echelon Managerial Skills Training

Foreseeing its 50th anniversary, Pou Chen has been expanding its territory, growing and prospering. Adhering to the belief of "value talents, human-oriented," we have been committed to talent cultivation and sustainable development in recent years. We firmly believe that the cultivation of successors is a continuous and lasting echelon cultivation plan, of which the focus is the cultivation of talent for existing jobs and talent for reserve purpose. This year, we held the "Leadership Echelon Managerial Skills Training" for middle-level and senior management. In addition to thickening the talent pool of medium-level and senior management, exploring key potential talent, improving risk management and decision-making power, and strengthening the leadership of middle-level and senior management, we also concurrently utilized the talent management system and the performance assessment system to review the progress of talent development and track various managerial indicators, and strengthen the effectiveness and efficiency of talent development and successor plans.



Training participated by

**2.79** million employees





**5.86**  
 Million Hours  
 Total Hours of Education  
 and Training in 2018

# Talent Development Performance Management

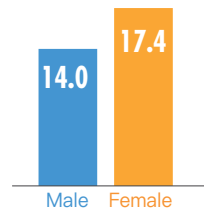
The Company has established a performance management system to achieve operating goals and to enhance employees' capabilities. The target of the system includes all employees from major operating locations ranging from China, Hong Kong, Macau, Vietnam, Indonesia, Myanmar, and Cambodia, and does not distinguish between gender or 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 rank-and-file 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 mostly to evaluate the status of employees on goal achievement and competence 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 competence performance, thus fostering and developing their personal competencies.



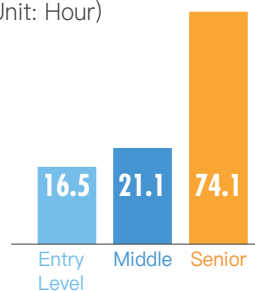
**Average Employee Training Hours in 2018 by Gender**  
 (Unit: Hour)



## Cultivation of key technical professionals: Pattern Master Program

In order to ensure the continuity and sustainability of the Group's key professional technologies, since 2018, we have been launching the "Pattern Master Program," alongside with a series of professional courses and multiple learning channels. Meanwhile, through the hands-on experience and acceptance process, we aim to improve the effectiveness of employees' learning the core technology, in order to ensure the strength of high-quality talent. Pou Chen believes that employees are the most important assets of the Company. To meet the needs and goals of employees' career development, we have established a diversified and complete personnel development framework, strengthened supplementary measures for HR-related systems, and provided a development environment suitable for employees. After the "Pattern Master Program" is completed, those participants' work status will be continuously tracked, and their adaptation status and development potential will be assessed, and appropriate career development will be arranged for them.

**Average Employee Training Hours in 2018 by Employee Category (Unit: Hour)**  
 (Unit: Hour)



## Implementation Status of Education and Training

In 2018, the Company invested 5,864,496 hours in education and training, participated by 2,787,262 employees; each was trained for an average of 16.7 hours. In addition, the introduction of a new online training system in 2017 allows employees to participate in online learning without the constraints of the country, environment, time, etc., achieving the synergy of sharing the Group's learning resources. In the future, we will continue to optimize this platform and develop more digital courses and online platform tools to enable employees to have better learning resources.

Note: Total hours of training =  $\Sigma$  (hours of training per class\*number of participants per class); Average hours of training per employee = total hours of training of the program/total employees of the program in that year.



# Respect for Human Rights

Pou Chen complies with the local laws and regulations, recognize the Universal Declaration of Human Rights, and the FLA's Principles of Fair Labor & Responsible Production to formulate the "Pou Chen Group Code of Conduct" containing corresponding provisions (such as prohibition of employing child labor, non-harassment, nondiscrimination, non-forced labor, freedom of association, health and safety, compensation/work hours regulations, protection of women, etc.), committing to the principle of fairness and the implementation of human rights policies.

Pou Chen upholds the principle of equal opportunities and regards highly on contributions and development of diversified talents. We provide fair recruitment and employment opportunities to job-seekers and employees and does not discriminate on the basis of gender, race, religion, age, disability, sexual orientation, nationality, political opinion, social status, or ethnic origin. Relevant management principles are also realized in our employment, compensation, benefits, advancement, 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. Conclusion, amendment, dismissal or termination of a labor contract strictly adhere to relevant laws and policies.

## Discrimination Incident Intervention

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. In 2018, there were 7,089 cases of grievance and consultations on the Company's internal employee relationship management system, among which 1 case of discrimination occurred in the Company's Bangladesh compound. Due to language barriers, employees misunderstood that the management prohibited them from bearing a beard, which was a local symbol of faith. We communicated with employees and subsequently strengthened the training on local culture for the management. There were 53 cases involving harassment or abuse, 6 of which were related to sexual harassment, and the rest were verbal and physical disputes caused by production line leaders losing their temper. After the cases were registered, the staff of the employee relations unit investigated, clarified, and intervened in the cases, and violators concerned were disciplined or dismissed pursuant to the Company's regulations. 70.0% of the cases were closed within 15 days, and 96.0% of the cases were closed within 2 months. All cases of harassment and abuse in 2018 have been closed.

## Freedom of Associations and Collective Bargaining

Pou Chen upholds and respects employees' rights of freedom of association and collective bargaining. As stated in the "Pou Chen Group Code of Conduct," Pou Chen recognizes the legitimate labor unions voluntarily established by employees, supports employees to organize unions freely, respects their rights to negotiate with the management, and is proactive in communicating and interacting with the labor unions.

There are labor unions established and voluntarily joined by employees at Pou Chen's major operational sites including Taiwan, China, Indonesia, and Vietnam. The unions assist employees to communicate employment issues with the management, including signing Collective Bargaining Agreements, and reviewing employees' rights in the Employee Handbook to ensure the enforcement labor standards, and representing employees in employee-management 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.

During the internal audit, the Company found that the Collective Bargaining Agreement of the Mexico compound contained clauses that may affect the employees' rights of free association. Since such a Collective Bargaining Agreement was signed in the form of a standardized contract provided by the external labor union accredited by local authority, it contained a clause stipulated that the Company's employment shall be restricted to members of external labor unions; At present, the Company is negotiating with the local labor unions in Mexico to make amendments to the terms, and also plans to raise the awareness of free association among employees in the Mexico compound.

## Prohibition on Child Labor

We prohibit the employment of child labors in accordance with the "Pou Chen Group Code of Conduct," the International Labour Organization (ILO) Convention No. 138 and government regulations. Where there are minor workers (i.e. underage workers), we document them in files, report to local authority (depending on legal requirements), and develop relevant protection measures to ensure that their working hours and jobs comply with the laws and regulations.

The Company requires job applicants to provide valid personal identification document to confirm their actual age during interview. Once a case of misusing a 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 all operations in 2018..

## 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 or to terminate their employment with Pou Chen under reasonable notice. No incidents of forced or compulsory labor occurred in 2018.

Pou Chen production sites adopt diversified recruitment channels, and the HR Department will verify if job applicants' documents are accurate, and their age has reached the legal requirement or not, and if the applicant is willing to join the Company during the interview. Only those who meet the requirements will be hired. The Company will not withhold employee's personal identity or working permit.

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

## Acceptable Minimum Notice Period of Significant Operational Change

The Company strives to build a harmonious employment relationships, and the minimum notice period of significant operational change is given according to local labor laws. As there is no collective bargaining documents signed with labor unions in Taiwan, 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. Provisional clauses stipulate that those who wish to terminate employment contracts need to comply with the following notice period:

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

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

Collective Bargaining Agreements Cover Nearly 300,000 Employees Worldwide

At operating sites in Taiwan, China, Vietnam, Indonesia, and Mexico, employees may voluntarily join labor unions (or labor groups), and as many as 293,059 employees are protected by the Collective Bargaining Agreements signed, accounting for 92.6% of the footwear business. In addition, there are no labor unions in Myanmar and Bangladesh compounds, but employees are free to vote for employee representatives according to local laws and regulations. The Worker Coordination Committee (WCC) is set up in the Myanmar compound and the Worker Participation Committee (WPC) is also established in the Bangladesh compound.

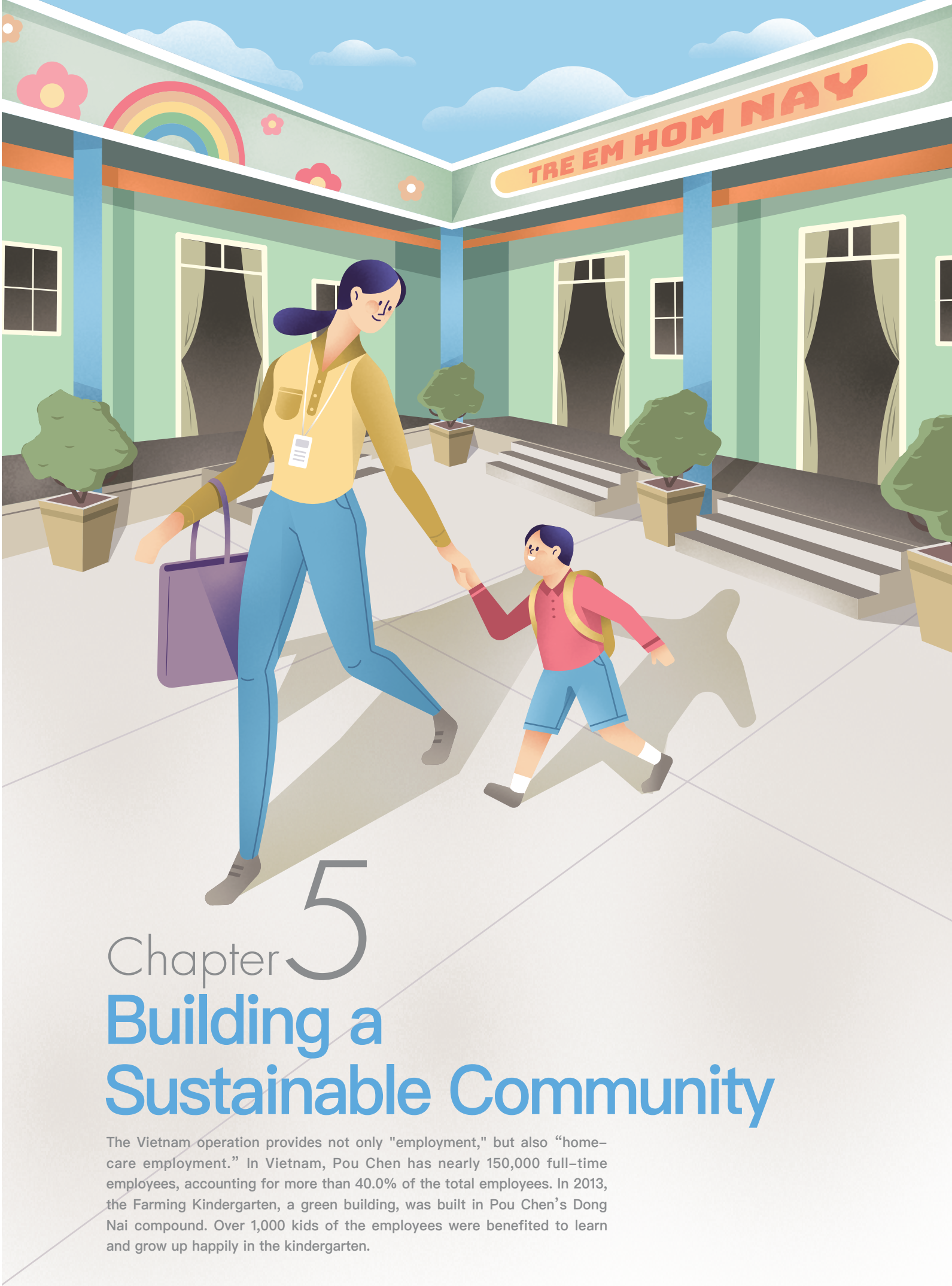
According to the Company's internal regulations, the factory side and the labor union should convene a meeting between the management and the labor union at least quarterly; and when it comes to issues regarding employee welfare and rights, the factory side should take the initiative to discuss with the labor union to obtain consensus and consent from the union.

Number of Employees Covered by Collective Bargaining Agreements at Major Operating Sites, and the Coverage Ratio (Average) Thereof

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	150,563	109,407	33,089
Ratio of employees protected by collective bargaining agreements	No collective bargaining agreement is signed	100.0% (Note 1)	100.0% (Note 1)	79.0% (Note 2)
Acceptable Minimum Notice Period of Material Changes in Operations	According to the 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 The rights and obligations of the collective bargaining agreements signed by employees from Vietnam and Indonesia compounds are binding on all employers and employees of all factories under the title of the legal entity.

Note 2 In China compound, only employees of the footwear business enter a labor union. The percentage of China compound was calculated by taking the total number of employees entering a labor union, divided by the total number of employees.



Chapter 5  
Building a Sustainable Community

The Vietnam operation provides not only "employment," but also "home-care employment." In Vietnam, Pou Chen has nearly 150,000 full-time employees, accounting for more than 40.0% of the total employees. In 2013, the Farming Kindergarten, a green building, was built in Pou Chen's Dong Nai compound. Over 1,000 kids of the employees were benefited to learn and grow up happily in the kindergarten.



# Promoting CSO Activities, Benefiting the Communities Where 350,000 Employees Reside



Founded nearly 50 years ago, the Company proactively works with local governments and organizations to ensure the localization of each production site and sustainable operation for its local factories. Each factory has been undertaking various activities to foster relations with local communities. In line with the expansion footprint of overseas production sites, we concern deeply about the local living environment and community needs, proactively invest corporate resources in community-friendly actions, improve local living standards and hence a harmonious relation that leads to mutual prosperity and reciprocity is built.

In 2016 and 2017, Pou Chen had an in-depth understanding of the Civil Society Organization (CSO) engagement in the various compounds. Adhering to one of its corporate core values, namely service, which denotes respect, care, and the hope to build a happiness enterprise, Pou Chen has formulated the dimensions and principles for its social engagement, in the hope of promoting sustainable CSO coordination.

To demonstrate the service spirit of the Company’s core values and to actively give back to employees, besides internal employee relation activities, the Company also engages in external community services and activities, mainly focusing on education, health and medical care and public relations. Upholding the inclusive service spirit, we have developed different focuses for different areas.

Since 2017, Pou Chen has conducted activities respecting local relation management, education, health and medical care, etc. which were further extended to all production sites in 2018. Pou Chen organized 29 education activities, with about 10,576 participants, 20 health and medical care activities, with about 10,698 participants, and 127 local public relations activities, with about 36,860 participants in the countries where our factories situated.

## Pou Chen’s Principles for Engaging Civil Society Organization (CSO)

Compliance Management	The Company management actively connects to local CSOs promoting labor and environmental law awareness, and studies local laws on labor and environment, and government policies, in the hope of responding timely with countermeasures and lowering the risk and impact 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 actively disseminate the knowledge about environmental hygiene and disease prevention to employees. Meanwhile, since the majority of our employees are females, it is particularly important to help the employees develop correct concepts of reproductive health and family planning. Therefore, factories of the Company shall cooperate with local CSOs who engage in relevant health education to obtain the necessary information and disseminate it to the employees to ensure their health.
Education	Due to the nature of this industry, the overseas production sites are located in countries where the economic status is relatively underdeveloped; people there are in a relatively disadvantaged condition, and education is less common. Factories pf Pou Chen, which has long been involved in local communities, shall cooperate with local CSOs to provide scholarships to encourage local disadvantaged children to attend schools, and train talents to lay the foundations for future talent cultivation.
Local Relations	To understand local people’s cultures and customs and to be integrated into local society, management of the production site, which employs a large number of local people, shall actively engage in dialogue with local authorities 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.

## Provide Quality Education

Pou Chen responds to UN SDG 4 and provides inclusive and equitable quality education to enable learning opportunities for community students in major operation bases.

In Vietnam, Pou Chen has more than 150,000 full-time employees, accounting for 42.8% of the total employees. Since 2012, the “Seeds of Hope Scholarship” program has been implemented, the cumulative investment in which has reached US\$335,239.0 (VND/USD=23,270) to support children to attend school. Up to now, a total of 7,924 children have benefited from this program.

In Indonesia, we employ more than 100,000 full-time employees, accounting for 31.1% of the total employees. Since 2016, the "Schoolchildren Scholarships Plan" has been launched, the cumulative investment in which has reached a total of US\$14,021.6, benefiting 491 students. In 2018, we were actively assisting the construction of school dormitories, with an accumulated investment of about US\$12,625.0 (IDR/USD=14,100).

In the China compounds, there are nearly 80,000 full-time employees, accounting for 21.0% of the total employees. In 2018, we 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.

At the Taiwan Headquarters, Pou Chen and the Yue Yuen Education Foundation are actively involved in parent-child education. In 2018, we held 12 interaction activities respecting parent-child education. Those activities included Yue Yuen Reading Square, parent education lectures, parent-child art exhibitions, Yue Yuen Reading Camp, sports friendship contests, English summer camps, music competitions, sketch competitions, etc. Doing so allows children, accompanied by parents, to grow up happily.



We have sponsored US \$360,000 of education funds into Indonesia and Vietnam.







### Ensure Healthy Lives and Promote the Well-Being for All at All Ages

In response to UN SDG 3, at major operation bases, Pou Chen provides healthy lives for employees in their community and promotes the well-being for all in the community at all ages.

We employ more than 260,000 full-time employees in Indonesia, Vietnam, and Myanmar, accounting for 75.0% of the total employees. In view of the relatively scarce local medical care resources, we work with professional medical groups and regularly offer volunteer medical services and provide medical resources for remote communities, and irregularly disseminate health and medical information to raise the health awareness. In response to region-specific or seasonal diseases, preventive activities, including blood donation, volunteer clinics, disease prevention and control, etc., were held in 20 sessions, benefiting 10,698 people.

It is worth mentioning that Pou Chen launched the “Corporate and Medical Cooperation” project in Vietnam in 2017, in which a medical station that meets Marie Stopes international standards was established to provide quality and necessary services of reproduction, maternity and family planning, as well as health education promotion activities, so as to raise the awareness of female employees about reproductive and maternal health, to provide necessary services of reproduction, maternity and family planning, and to assist female employees in saving the time and expenses for outpatient visits.



Pou Chen donated money to help disabled children in Yilan San Goodman special education center.

At the Headquarters in Taiwan, we noticed that the firefighter station of the Guosing Township of Nantou County is located in a remote mountainous area and lacks medical rescue resources such as ambulances. The founder of Pou Chen donated NT\$2.8 million for purchase of a Volkswagen ambulance and on-board ambulance equipment to improve the quality of emergency medical care for local residents.

Also in Taiwan's Headquarters, we cooperated with China Medical University Hospital and Taiwan External Trade Development Council to initiate the international medical assistance project, namely “One Country, One Assistance.” Integrating the power of the medical institution, industry and charity organization, we put the project into practice; an eleven-year-old girl from Myanmar was sent to Taiwan to receive an eight-month facial reconstruction treatment conducted by a task force of doctors from different medical specialties, in the hope of helping the little girl to embrace a new life.

### Eliminate the Poverty of Vulnerable Groups

In response to the UN SDG 1, at communities where its major operation bases locate, Pou Chen is committed to eliminate poverty for the local community residents, especially the poor and vulnerable, to ensure that they have the equal rights to economic resources. We help the poor and vulnerable strengthen responses to live difficulties and reduce their exposure and vulnerability to climate-related extreme events and other economic, social and environmental shocks and disasters.

At the Vietnam compound, where the number of employees constitutes the largest proportion of all employees worldwide, Pou Chen listens to employees, and expanded the implementation scope of the “Employee Home Visit” project, from which we received information of needs for emergency aid from employee families. Since 2009, Pou Chen has officially launched the "Friendship House Construction" program for employees or local residents in Vietnam. So far, cumulative investment has reached US\$400,000 for construction and renovation of 218 houses.

Local community engagement in Indonesia is closely linked to community needs. In 2018, natural disasters hit Indonesia in a row. Upholding the spirit of giving back to local community, the Group took the lead to donate 10 billion IDR for the tsunami striking Palu and Donggala County and handed over the amount to Drs H. Muhammad Jusuf Kalla, the vice president of Indonesia and a concurrent chairman of the Red Cross. In addition to the Headquarters taking the lead to donate, the management and employees in the Indonesia compound continued to respond and independently initiated fundraising and donation of materials for victims in tsunamis hitting Palu & Donggala, and Sunda Strait.



Since 2009, Pou Chen has officially launched the "Friendship House Construction" program in Vietnam. So far, cumulative investment has reached US\$400,000 for construction and renovation of 218 houses.

### Total Natural Disaster Donation in Indonesia in 2018 (Unit: USD)

Palu Tsunami (September 2018)	726,785
Sunda Tsunami (December 2018)	745
Total	727,529





Since 1998,  
overseas operations have been promoting local community development.

### Vietnam

1988 ~ Community volunteer medical clinics  
2009 ~ Donation of "friendship houses"  
2012 ~ Seeds of Hope Scholarship" at Pou Chen's  
2013 Vietnam compound  
Construction of the Farming Kindergarten, a green building  
2017 "Corporate and Medical Cooperation" Project  
2018 Participation in the international medical plan

### Indonesia

1988 ~ Employee Adult High School  
Visited and donated to orphanages  
Community volunteer medical services  
Eid al-Adha donation  
2016 ~ School children's scholarship program

### China

1999 ~ Built the employee-only medical center  
Donated to Dongguan Gaobu Hospital  
Opened an Employee Adult High School  
Opened a factory kindergarten  
Visited and donated to local elderly care centers / child care centers  
2010 ~ The child care program for employees' left-behind children (Children's Summer Camp / Winter Camp)

### Taiwan

1999 ~ 329 units of prefabricated housing for the 921 earthquake victims in Nantou  
2001 ~ Modification of Lukang Lungshan Temple, a level-one ancient monument  
Modification of the entrance to Tataga Hiking Trail  
2013 ~ Regularly hold team building activities—invited colleagues to participate in community charitable events  
Participated in the "Bagua Mountain Butterfly Education Promotion and Conservation Campaign"  
2014 ~ Participated in the donation of "Taiwan Junior Soccer Joint Donation Campaign" to realize the soccer dream for children in remote townships  
2015 ~ Participated in the trans-ocean charity event of "STEP30 Old Shoes for Life—Central Region Winter Collection, Pou Chen Employees Spread Love to Africa"  
Protected agricultural land; held activities to thank the farmers; supported the cultivation of second professionalism for children in remote areas  
2016–2017 Conducted a mountain clean-up for a clean homeland; assisted in the reconstruction of the damaged ecological environment  
Maria Social Welfare Foundation—To keep disabled people company  
Participation in "One Country, One Assistance," an international medical assistance program  
2018 Actively promoted parent-child education activities


# Appendix

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# 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 2018**

**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 2018 (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 2018 and its presentation are the responsibility of the management of PCC. SGS has not been involved in the preparation of any of the material included in PCC's CSR Report of 2018.

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 Sustainability Reporting Standards (GRI Standards) 101: Foundation 2016 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 of the sustainability performance information based on the materiality determination 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 requirements of Global Reporting Initiative Sustainability Reporting Standards (100, 200, 300 and 400 series) claimed in the GRI content index as material and in accordance with.

The assurance comprised a combination of pre-assurance research, interviews with relevant employees, superintendents, CSR committee 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.

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and comprised auditors registered with ISO 26000, ISO 20121, ISO 50001, SA8000, RBA, 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 2018 verified is accurate, reliable and provides a fair and balanced representation of PCC sustainability activities in 01/01/2018 to 12/31/2018.

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 Standards in accordance with 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, media, governmental authorities, NGOs and communities are implemented to underpin the organization's understanding of stakeholder concerns. For future reporting, PCC may consider having more direct two-ways engagements with its stakeholders.

**Materiality**  
PCC has established 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.

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

**GLOBAL REPORTING INITIATIVE REPORTING STANDARDS CONCLUSIONS, FINDINGS AND RECOMMENDATIONS**

The report, PCC's CSR Report of 2018, is adequately in line with the GRI Standards in accordance with Core Option. The material topics 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 topics and boundaries, and stakeholder engagement, GRI 102-40 to GRI 102-47, are correctly located in content index and report. For future reporting, it is recommended to have more descriptions of PCC's involvement with the impacts for each material topic (103-1). Mid- and long-term goals are encouraged to be set as the basis for planning short-term ESG tasks. When reporting on goals and targets for each material topic, the expected results are suggested to be set, if applicable, with quantitative objectives.

Signed:  
For and on behalf of SGS Taiwan Ltd.



David Huang  
Senior Director  
Taipei, Taiwan  
24 May, 2019  
WWW.SGS.COM



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# Appendix B

## Reporting Standards

This report follows the Global Reporting Initiative Standards (hereinafter “GRI” standards”) issued by the Global Reporting Initiative (GRI) as the 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 1, 2018 to December 31, 2018. Some of the data is disclosed alongside historical data for reference. There is no restated information during the reporting period.

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, brand licensing, property development, and hotel business.

The economic performance mentioned in this report is consistent with Pou Chen's 2018 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 2018. For information on sporting goods retailing and brand licensing business, please refer to the "Environmental, Social and Governance Report" section in the 2018 Annual Report of Pou Sheng International (Holdings) Limited, a subsidiary of Pou Chen. Considering the difference in the attributes of the Company's business, the content of this report will focus on the Company's footwear business.

Unless otherwise specified, the sustainability indicators cover the performance of primary operating bases of Pou Chen's footwear business. Since the data has not yet been obtained, the performance of the environmental and occupational safety and health management indicators in 2018 does not cover the data of the Company's Mexico compound.

### Reporting Data and Assurance

The data disclosed in this 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 2018 consolidated financial statements. 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 this report is the actual measured number.

This report is assured by SGS Taiwan Ltd., a third party assurance institution, confirming that the report complies with the GRI Standards: Core option and the AA 1000AS (2008) Type II High Level Assurance.

### Report Management Procedure

The Sustainable Development Department prepares 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 topics, exchanging information with all factories, aggregating topics the stakeholders have raised as well as the annual performance for further discussion, discussing material topics, and aggregating a list of material topics and concerns raised through stakeholder engagement, so as to determine the content of this report, which will then go through the internal management and review mechanism for review, approval and documentation, and be disclosed on the Company's website and the Taiwan Stock Exchange (TWSE) Market Observation Post System (MOPS).

### Reporting Cycle

Pou Chen will issue a corporate social responsibility report for the previous year before the end of June each year.  
Publication Date for the Previous Version: June 2018.  
Publication Date for the Current Version: June 2019.

### 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/reports>).

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



Contact Information: Pou Chen Corporation  
Address: No. 600, Section 4, Taiwan Blvd., Xitun District, Taichung City, Taiwan R.O.C.  
Tel: 886-4-2461-5678 (extension 7369 Miss Chou)  
Communication Mailbox: [ir@pouchen.com](mailto:ir@pouchen.com)  
Website: [www.pouchen.com](http://www.pouchen.com)

# Appendix C

## Stakeholder Engagement



### Identification

Pou Chen aggregates the interaction information with brand customers and the records of interaction and consultation between internal employees and external groups at the major footwear production bases of the current year that have been collected by the accountable personnel of the various units of the Group into the stakeholder groups of the Company's footwear business and their concerns, which then go through the discussion made at the CSR Team meeting, be refereed to the five principles of the Stakeholder Engagement Standard, AA1000 SES 2015, namely dependency, responsibility, tension, influence and diverse perspectives and, based on their interaction frequency and operating significance, be identified into 8 categories of key stakeholders, namely shareholders/investors, customers, competent authorities, employees, suppliers, the media, communities and non-governmental organizations (NGO), with which we timely communicate. Individual consultation from the public will be reported in the annual CSR report and hence is not separately responded to.

### Stakeholder Interaction

Pou Chen communicates with stakeholders about their concerned topics 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, e-mails, meetings and conference calls for collecting stakeholder 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 (SD). This unit is responsible for coordinating the communication and feedback of stakeholders on environmental protection, human rights and community impact 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 2018 included business cooperation proposals,

shareholder/investor services, media-related matters and requests for research/investigation purposes. No complaints from stakeholders on social impact or environmental impact were received.

### Topics of Concern to Stakeholder Groups and Communication Approaches

Stakeholders	Materiality to Pou Chen	Topics of Concern	Communication Channels and Approaches	Communication Basis and Frequency	Interaction Record in 2018
Shareholders/Investors	High (one of the main sources of working capital of the Company)	<ul style="list-style-type: none"><li>•Economic performance (share price, revenue, profit)</li><li>•Corporate governance</li><li>•Market presence</li><li>•Critical concerns</li></ul>	<ul style="list-style-type: none"><li>•Market Observation Post System and the Company website</li><li>•Shareholders meetings</li><li>•Institutional investors' conferences</li><li>•Respond via the spokesperson</li></ul>	(Priority response) <ul style="list-style-type: none"><li>•Irregular interval</li><li>•At least once a year</li><li>•At least twice a year</li><li>•Irregular interval</li></ul>	<ul style="list-style-type: none"><li>•Data declaration and press release</li><li>•Date of the 2018 Annual Shareholders' Meeting: June 15, 2018</li><li>•Invited to participate in three institutional investors meeting held by securities brokers in 2018</li><li>•Telephone and e-mails</li></ul>
Customers	High (one of the main sources of revenue of the Company)	<ul style="list-style-type: none"><li>•Product quality</li><li>•Product information security management</li><li>•Prohibited substance management</li><li>•Code of Conduct compliance</li><li>•Information transparency and reliability</li><li>•Material labor disputes labor disputes</li></ul>	<ul style="list-style-type: none"><li>•Business visits / routine meetings</li><li>•Impromptu communication meetings</li><li>•Audit feedback / self-management performance feedback</li><li>•Telephone and e-mails</li><li>•CSR Report</li></ul>	(Priority response) <ul style="list-style-type: none"><li>•Monthly</li><li>•Irregular interval</li><li>•Monthly</li><li>•Irregular interval</li></ul>	<ul style="list-style-type: none"><li>•Impromptu meetings with customer resident managers</li><li>•Overseas compounds: Brand customer audit once a year</li><li>•Taiwan compound: Customer on-site audit:Two</li></ul>
Competent Authorities	High (One of the compliance sources of the Company's relevant operating regulations, rules, and procedures)	<ul style="list-style-type: none"><li>•Corporate governance</li><li>•Legal compliance</li><li>•Material labor disputes</li></ul>	<ul style="list-style-type: none"><li>•Cooperate with the government to perform various safety compliance checks</li><li>•Regular declaration form (monthly/quarterly) / official document</li><li>•CSR Report</li><li>•Consultation on the motion via visit</li></ul>	(Priority response) <ul style="list-style-type: none"><li>•Irregular interval</li><li>•Monthly / Quarterly</li><li>•Annually</li><li>•Irregular interval</li></ul>	<ul style="list-style-type: none"><li>•Taiwan compound: Twice third-party inspection</li><li>•Competent authorities audit and dissemination: 21 cases</li><li>•Other feedback: None</li><li>•Overseas compounds: Frequency of interaction varies, depending on the competent authorities of each district</li></ul>
Employees / Labor Unions	High (One of the main assets of the Company's operations, and also the support for sustainable operations)	<ul style="list-style-type: none"><li>•Work stability</li><li>•Salary and benefits</li><li>•Labor relations / labor rights / working hours management</li><li>•Occupational safety / regulatory rationality</li><li>•Opinion expression channels</li><li>•Performance evaluation and promotion system</li></ul>	<ul style="list-style-type: none"><li>•Company internal website / e-mail / 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-management meetings</li><li>•Consultation service from the Guidance and Counseling Office for employees in overseas compounds</li></ul>	(Priority response) <ul style="list-style-type: none"><li>•Irregular interval</li><li>•Monthly</li><li>•Irregular interval</li><li>•Monthly / Bimonthly publications</li><li>•Monthly / Quarterly</li><li>•Daily</li></ul>	<ul style="list-style-type: none"><li>•Taiwan compound: Twice third-party inspection</li><li>•Competent authorities audit and dissemination: 21 cases</li><li>•Other feedback: None</li><li>•Overseas compounds: Frequency of interaction varies, depending on the competent authorities of each district</li><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>•A management-union communication meeting is held quarterly</li><li>•For employee feedback and communication, please refer to the description in "Chapter 4. Decent Work—Employee Care"</li></ul>
Suppliers	High (Important support of materials, equipment and services for the humming of the Company's manufacture and operations)	<ul style="list-style-type: none"><li>•Prohibited substance management</li><li>•Fair competition / quality and price / supply conditions</li><li>•Supplier evaluation</li></ul>	<ul style="list-style-type: none"><li>•Procurement contracts</li><li>•Business communication / Contact via e-mails and phone</li><li>•Supplier assessment system</li><li>•Supplier meetings</li></ul>	(Response after assessment) <ul style="list-style-type: none"><li>•Irregular interval</li><li>•Irregular interval</li><li>•Annually</li><li>•Irregular interval</li></ul>	<ul style="list-style-type: none"><li>•Supplier assessment at least once a year</li><li>•Response made by the contact personnel accountable</li></ul>
Media	Medium (Diverse perspectives and opinions on improving the Company's ESG management performance)	<ul style="list-style-type: none"><li>•Operational status</li><li>•Material labor disputes</li><li>•Newsworthy events</li></ul>	<ul style="list-style-type: none"><li>•Press release</li><li>•Respond via the spokesperson</li></ul>	(Response after assessment) <ul style="list-style-type: none"><li>•Regular interval</li><li>•Irregular interval</li></ul>	<ul style="list-style-type: none"><li>•Monthly revenue and press release of quarterly operating results</li><li>•Documents about communication of topics of concern, telephone and e-mails</li></ul>
NGO (FLA)	Medium (Monitor and assist in improving the Company's ESG management performance)	<ul style="list-style-type: none"><li>•Labor relations / labor rights</li><li>•Legal/regulatory compliance</li><li>•Environmental issues</li><li>•Communication channels and mechanisms</li></ul>	<ul style="list-style-type: none"><li>•FLA SCI field audit and online platforms</li><li>•NGO cooperation plans</li><li>•Documents about communication of topics of concern</li><li>•Communication meetings / e-mails and phone contact</li><li>•Annual CSR Report</li></ul>	(Response after assessment) <ul style="list-style-type: none"><li>•Annually</li><li>•Irregular interval</li><li>•Irregular interval</li><li>•Irregular interval</li><li>•Annually</li></ul>	<ul style="list-style-type: none"><li>•FLA assessed and assured Pou Chen's implementation of the "Principles of Fair Labor &amp; Responsible Production" in June 2018</li><li>•Quarterly be informed of FLA board information and update the audit non-compliance remedy progress</li></ul>
Communities	Medium (One of the Company's employee sources, and also the support for sustainable operations of the Company)	<ul style="list-style-type: none"><li>•Environmental issues / legal compliance</li><li>•Transportation</li><li>•Employment opportunities</li><li>•Charitable giveback to communities</li></ul>	<ul style="list-style-type: none"><li>•Proactive visits</li><li>•Establishing communication channels for external feedback</li><li>•Sponsor community charity events / community visits</li><li>•Company website</li></ul>	(Response after assessment) <ul style="list-style-type: none"><li>•Irregular interval</li><li>•Irregular interval</li><li>•Irregular interval / quarterly</li><li>•Irregular interval</li></ul>	<ul style="list-style-type: none"><li>•Community interactions are handled and responded to on a case-by-case basis; see "Chapter 5. Building a sustainable community"</li></ul>

Material Topics of the Footwear Business

Topic Identification

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 we work 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. Pou Chen voluntarily inspects daily operations for issues that have potential impact while following up on specific concerns to other stakeholders, which are derived from the aggregation and analysis of the communication records with stakeholders made annually by the Company's competent units.

According to the aggregation results, stakeholders' concerns in the footwear industry have not changed much over the years. In terms of product standards 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 workplace. Regulatory compliance, pollutant treatment, energy conservation, resource conservation, and carbon reduction are the key focus areas in environmental sustainability management. In terms of corporate governance, operational performance, legal/regulatory compliance and corporate governance are the primary management issues; for the supply chain management section, the primary management issue is that suppliers must qualify for customers' supply chain certification.

Analysis of Material Topics

We assessed material topics based on four principles: (1) the need for regulations/policies, (2) significant financial impact/risk, (3) stakeholders' concerns/social trends, and (4) competitive advantage in the same industry. Considering the continuity of sustainable management and based on the material topics identified in the previous year, we reviewed the organizational structure, supply chain status, and internal and external sustainability management trends, and determined 14 material topics to serve as the backbone of this report.

Material Topics of Concern to the Stakeholders

Management Dimension	Material Topics of Concern to the Stakeholders	Corresponding GRI Standards
Company sustainable operation	Corporate governance	102 General Disclosure, 205 Anti-corruption
	Operating performance	201 Economic Performances
	Legal/regulatory compliance management	307 Environmental Compliance, 419 Socioeconomic Compliance
Product standards and information security management	Raw material selection management	204 Procurement Practice, 301 Materials, 308 Supplier Environmental Assessment
	MRSL management	301 Materials, 403 Occupational Health and Safety, 416 Customer Health and Safety
	Product safety control	417 Marketing and Labeling, 418 Customer Privacy
	Supplier management	308 Supplier Environmental Assessment
Workplace occupational safety and health management	Occupational safety and health management Fire safety management	403 Occupational Health and Safety
Employee relations management	Employment relations management	201 Economic Performance, 202 Market Presence, 401 Employment, 402 Labor/Management Relations, 404 Training and Education, 405 Diversity and Equal Opportunity
	Management of human rights issues	406 Non-discrimination, 407 Freedom of Association and Collective Bargaining, 408 Child Labor, 409 Forced and Compulsory Labour, 412 Human Rights Assessment
Environmental sustainability	Legal/regulatory compliance management	306 Effluents and Waste, 307 Environmental Compliance
	Pollutant discharge treatment, zero discharge of hazardous chemicals	305 Emissions, 306 Effluents and Waste
	Energy and resource consumption	302 Energy, 303 Water
	Energy/Resource conservation and carbon reduction project	302 Energy, 305 Emissions
Community relations	Community engagement and communication	413 Local Communities

Material Topics and Boundaries

Material Topics	Reason for Materiality	Impact Boundary					Corresponding UN Sustainable Development Goals (SDGs)	Corresponding Chapters and Pages of This Report
		Footwear business	Retail business (Note)	Suppliers	Customers	Communities		
Corporate governance	The necessary foundation of the Company's sustainable operation, and one of the stakeholders concerns.	●	●				 	12
Operating performance	The necessary foundation of the Company's sustainable operation, and one of the investors' concerns.	●	●		⊙		 	9
Legal/regulatory compliance management	Legal/regulatory compliance is a requirement for sustainable operations management.	●	●	⊙	⊙			17/37
Selection of raw materials	Significant impact on product manufacturing, product quality and cost control The adoption of Procurement Practices has a significant impact on the supply of raw materials, compliance with customer standards, cost control, and carbon footprint reduction.	●	● (Packaging material)	⊙	⊙			26
MRSL management	As required by customers Being a management measure to reducing the risk of product and services on environmental sustainability	●		⊙	⊙			26–27
Product standards and information security management	Producing quality products that meet customer quality standards and sustainability standards and maintaining customer trade secrets and business secrets are all necessary management issues for the Company's operations.	●	●	⊙	⊙	⊙		26–27
Supplier management	Collaborating with suppliers accredited by customers, as well as a supply chain capable of supplying materials and services in a stable and speedy manner, are competitive niches for sustainable operations.	●	●	⊙	⊙			40–41
Employment relations management	Maintaining a good employment relation and a competitive welfare system will facilitate the smooth operation of a factory's production operations, and enhance the recognition and cohesion among employees and local communities towards the Company.	●	●	⊙		⊙	  	49–53
Management of human rights issues (including grievance mechanism)	Maintaining good labor relations and communication based on mutual trust has a significant positive impact on the factories' operations.	●	●	⊙	⊙	⊙		76–77
Workplace occupational safety and health management	Providing a safe and healthy work environment to protect the safety and health of employees at work is a necessary matter for sustainable operations management and a niche for improving employee productivity.	●	●	⊙				67–70
Pollutant discharge and treatment	The monitoring and reduction of pollutant emissions is an important aspect of legal compliance and environmental sustainability management.	●	●	⊙		⊙		37
Energy and resource use	In response to climate change adaptation measures, effective energy use and clean energy use are essential matters for environmental sustainability management.	●	●	⊙	⊙	⊙	 	28
Energy/Resource conservation and carbon reduction project	In response to climate change adaptation measures, effective energy use and carbon emissions inventory and reduction are important management matters for sustainable operations.	●	●	⊙	⊙		 	30
Local community engagement and communication	Good interaction with local communities and service engagement therein can raise the recognition and productivity of local employees for the Company.	●	●			⊙	   	79–84

註： “●”： indicates a direct impact; the footwear business is disclosed in this report; the material topics of the retail business are disclosed in the “Environmental, Social and Governance Report” section of the 2018 Annual Report of Pou Sheng International (Holdings) Limited, a subsidiary of Pou Chen.  
“⊙”： Indicates an indirect impact; due to that the information is not easy to obtain, it is not included in this report.



# Appendix D

## Management Approach for Material Topics

### Material Topic: Legal/regulatory Compliance Management

Description of General Requirements for Management Approach	
Sustainability Dimension	Governance
Material Topic	307 Environmental Compliance 419 Socioeconomic Compliance
Reason for Materiality	Key for company sustainability, and a policy requirement by the competent authority Substantial impact dimension: operating risks, business competitiveness
Topic Boundary (Impact Scope)	All operation bases of the Company
Description of Magnitude of Impact	Non-compliance with legal requirements will result in substantial fines and impairment of the corporate image and goodwill.
Management Approach—Management Purpose	Through a systemized management mechanism, we regularly and irregularly audit the compliance of operational measures with related regulatory requirements, so that production and operation comply with legal and regulatory requirements, averting the Company having a financial loss or goodwill impairment.
Management Approach	(Policy) Adhere to the principles of professionalism and ethical management; value corporate social responsibility; implement corporate governance, compliance with laws and regulations, and various operational risk management (Management Commitments and Goals and Targets) 1. Implement corporate governance 2. Establish an internal control mechanism to serve as a reference for execution of business.
Management Approach—Allocated Resource / Specific Action Plan	1. The Board of Directors is the Company's highest governance body and the center for making business decisions. The Board, through the formulation of the "Ethical Corporate Management Best Practice Principles" and promotion of related education and training curriculum, has effectively prevented bribery and corruption. 2. An internal audit system has been set up to perform internal self-assessment on a regular and irregular basis to ensure the effectiveness of the operating procedures. 3. In order to ensure compliance with the legal requirements of the place of operation, legal departments responsible for coordinating legal consultation, legal compliance, and legal risk management are established.
Measures Implemented in 2018 and Their Performance	The results of the 2018 risk assessment were used to draw up an annual audit plan with 42 audit items, which included the mandatory monthly, quarterly and annually audit items and other material operation items as defined in the Regulations Governing Establishment of Internal Control Systems by Public Companies. Having conducted a sample audit and verification of the internal control self-assessment procedures and audit results of the various units in 2018, we found no material abnormalities. In 2018, the Company did not incur any heavy fines and administrative penalties imposed due to material violations; there were no cases involving commercial monopoly, anti-competitive, and anti-trust violations. There are 3 cases of environmental non-compliance, which are explained in Chapter 3.
Description of Key Measures to be Implemented in the Following Year:	1. Continue to strengthen corporate governance and promote education and training courses 2. Continue to improve the awareness of environmental laws and regulations, as well as the implementation thereof.
Management Approach—Evaluation Mechanism (Effectiveness)	1. Board meetings 2. Semi-annual meetings for operational management reports and review 3. Annual Corporate Governance Evaluation 4. Internal audit system
Management Approach—Grievance Mechanism	1. Board meetings 2. Semi-annual meetings for operational management reports and review 3. Grievance channel: HQ@pouchen.com
Performance Evaluation of Management Results and Consequent Adjustments	To improve the management of environmental non-compliance, we will strengthen the audit of the implementation and awareness communication of environmental laws and regulations, and monitor and manage the progress via the monthly EHS meeting. Based on internal and external audits or evaluation results, specific action plans for the items required to be remedied will be developed and reported to the management.

### Material Topic: Anti-corruption

Description of General Requirements for Management Approach	
Sustainability Dimension	Governance
Material Topic	205 Anti-corruption
Reason for Materiality	Key for company sustainability, and a policy requirement by the competent authority
Topic Boundary (Impact Scope)	Employees within the organization, as well as stakeholders such as shareholders/investors, customers, suppliers, and communities outside the organization.
Description of Magnitude of Impact	The business principles of ethical trading and ethical management have a direct impact on the company's value, concern the competent authority and the Company's shareholders/investors, and have an impact to some extent on stakeholders in the value chain such as employees, customers, suppliers and communities.
Management Approach—Management Purpose	Employ a continually effective management process to ensure that operating effectiveness and efficiency, such as profits, performance and asset protection, is achieved, and that reporting is reliable, timeliness, transparent and compliant with all regulatory and legal requirements.
Management Approach	(Policy) Implement the provisions of Article 8 of the Company's "Code of Ethical Conduct" and Article 23 of the Company's "Ethical Corporate Management Best Practice Principles". (Management Commitments and Goals) 1. Demand that employees follow work-related code of conducts and sign the "Code of Ethics and Integrity Pledge" and the "Non-disclosure Agreement". 2. Major suppliers should follow the Company's ethical trading system and sign the "Ethical Trading Agreement" provided by the Company, or provide documents such as its ethical statement or ethical system. 3. Expand the scope of publicity and education and training regarding ethical management.
Management Approach—Allocated Resource / Specific Action Plan	1. Having formulated the "Corporate Governance Best Practice Principles", "Codes of Ethical Conduct", "Ethical Corporate Management Best Practice Principles", "Procedures for Ethical Management and Guidelines for Conduct", "Regulations Governing the Reporting of Illegal and Unethical Conduct" and other management regulations to serve as guidance for implementation. 2. Having set up internal and external company websites to serve as a contact point and a reporting channel for stakeholders of the various units. 3. Having established an Ethical Management Promotion Team, which is responsible for the promotion of ethical management policies and precautions programs, and which reports to the Board of Directors at least once a year.
Management Approach—Grievance Mechanism	Internal and external grievance and reporting channels.
Performance Evaluation of Management Results and Consequent Adjustments	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.

Material Topic: Economic Performance

Description of General Requirements for Management Approach	
Sustainability Dimension	Governance
Material Topics	201 Economic Performance
Reason for Materiality	The basis for the Company's sustainable development
Topic Boundary (Impact Scope)	Employees within the organization, as well as stakeholders such as shareholders/investors, customers, suppliers, and communities outside the organization
Description of Magnitude of Impact	Operating performance has a direct impact on the Company's value, which most concerns the Company's shareholders/investors, and has an impact to some extent on stakeholders in the value chain such as employees, customers, suppliers, and communities.
Management Approach—Management Purpose	Continuously and steadily create value for the Company's shareholders/investors and other stakeholders
Management Approach	(Policy) Continuously upgrade its manufacturing mode and improve the effectiveness of the retail business Deepen the cooperation relationship with brands and seek breakthroughs and opportunities in the industry chain (Management Commitments and Goals) Continuously provide quality products, services, and comprehensive solutions; build a highest value diverse platform oriented by intelligent manufacturing and innovative services (Management Target) Pursuit of operational growth in terms of both quality and volume
Management Approach—Evaluation Mechanism (Effectiveness)	Internal evaluation mechanism: It is implemented by each business unit and staff unit, and is supervised and reviewed by the Shareholders' Meeting, the Board of Directors, and the Audit Committee. External audit: Pou Chen's 2018 Consolidated Financial Report has been audited and certified by Deloitte & Touche.
Management Approach—Grievance Mechanism	Shareholders' Meeting, institutional investor meetings, the spokesperson mechanism (ir@pouchen.com)
Performance Evaluation of Management Results and Consequent Adjustments	Based on the annual budget set by each business unit/subsidiary, we measure whether they meet the financial indicators (mainly including operating income, gross profit, net operating profit, pre-tax profit and net profit after tax) on a monthly and quarterly basis.

Material Topic: Greenhouse Gas Emissions— Greenhouse Gas Inventory Principles

Inventory Principles	ISO 14064–1: Specification with guidance at the organization level for quantification and reporting of greenhouse gas emissions and removals
Inventory Scope	All footwear manufacturing compounds of Pou Chen in Taiwan, China, Indonesia, Vietnam, Cambodia, Bangladesh, Myanmar, and Mexico
Greenhouse Gases	Carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, and sulfur hexafluoride
Inventory Items	Scope 1: Energy direct greenhouse gas emissions Scope 2: Energy indirect greenhouse gas emissions Scope 3: The total amount of greenhouse gas emissions from the downstream transportation of the Group's finished footwear, which is calculated using the Distance-Based method, is the product of total cargo weight (tonnes) x cargo transportation distance (km) x emission factor of different transport vehicles (kg CO2e/tonne-km ). The total amount of greenhouse gas emissions from the business flight travel of the Group's headquarters in 2018 is calculated by using the Distance-Based method, that is flight distance (passenger-km) x flight emission factor (kgCO2e / passenger-km) = total greenhouse gas emissions from business flight travel (ton CO2e)
Calculation Benchmark	The calculation of greenhouse gas emissions is mainly based on the emission factor method, and the calculation method is: activity data x emission factor x global warming potential (GWP) = CO2e in metric tons per year.
Activity Data	Direct measurement
Factor	Factors for different sources of emission were calculated by applying the calorific value by type of fuel to the emission factors by type of fuel, which was mainly based on the "Intergovernmental Panel on Climate Change" (IPCC) announcement in 2006. Some factors were calculated by using another auxiliary tool, namely the "Greenhouse Gas Emission Factor Management Table 6.0.3" of the Taiwan Environmental Protection Agency, from which we took the sources of various emissions and applied them to the "Industrial Bureau Greenhouse Gas Inventory Tool (4.1 version)". The emission factor for electricity is based on the published local emission factors or the factor value published in the announcement (2013) of the International Energy Agency (IEA). The global warming potential (GWP) for all GHGs are based on the 4th IPCC announcement (2007).

Material Topic: Product Standards and Information Security Management

Description of General Requirements for Management Approach	
Sustainability Dimension	Social
Material Topics	416 Customer Health and Safety, 417 Marketing and Labeling, 418 Customer Privacy
Reason for Materiality	Substantial impact dimension: <input type="checkbox"/> Cost <input type="checkbox"/> Revenue <input checked="" type="checkbox"/> Operational Risk <input type="checkbox"/> Business <input type="checkbox"/> Competitiveness
Topic Boundary (Impact Scope)	Within the organization: <input checked="" type="checkbox"/> Taiwan <input checked="" type="checkbox"/> China <input checked="" type="checkbox"/> Indonesia <input checked="" type="checkbox"/> Vietnam <input checked="" type="checkbox"/> Cambodia <input checked="" type="checkbox"/> Bangladesh <input checked="" type="checkbox"/> Myanmar <input checked="" type="checkbox"/> and Mexico Outside the organization: <input checked="" type="checkbox"/> Material suppliers
Description of Magnitude of Impact	Compliant products manufacturing and maintenance of customer business secrecy is a necessary management matter for production and operation, and will directly affect customer orders.
Management Approach—Management Purpose	That all footwear going onto the production line must meet the safety, health and material standards of customer's R&D center, and that all packaging must meet customers' labeling requirements, are all necessary services; enhancing the protection of trade secrets of brand customers will not only maintain their business competitiveness, but also build their trust in Pou Chen.
Management Approach	Policy) Provide customers with product manufacturing services that are of quality and meet safety and health requirements (Management Commitments and Goals) 1. Continuously refine the production process, and research, develop and introduce automation equipment to specific phases of the footwear production process 2. Promulgate and implement the Company's Product Safety Management Guidelines 3. Strictly follow brand customers' material requirements standards
Management Approach—Allocated Resource / Specific Action Plan	1. Implement the dissemination of product safety information in the compounds 2. Execute the audit of the implementation of product safety management measures in the compounds
Management Approach—Grievance Mechanism	Internal and external grievance and reporting channels
Performance Evaluation of Management Results and Consequent Adjustments	In case there are any incidents of non-compliance concerning breach of clients and customers' rights and interests, the Company will take necessary legal actions, depending on the circumstances and on a case-by-case basis, so as to ensure the rights and interests of all parties concerned.

Material Topic: Material Procurement Management and Supplier Management

Description of General Requirements for Management Approach	
Sustainability Dimension	Environmental
Material Topics	204 Procurement Practice, 308 Supplier Environmental Assessment
Reason for Materiality	Substantial impact dimension☑Cost☑Revenue☑Operational☑risk☑Business competitiveness We aim to provide customers with swift response services, continuously improve manufacturing processes, increase flexible production capacity, and build a swift–response and close–to–market material supply system.
Topic Boundary (Impact Scope)	Within the organization:☑Taiwan☑China☑Indonesia☑Vietnam☑Cambodia☑Bangladesh☑Myanmar☑and Mexico Outside the organization:☑Material suppliers and service contractors
Management Approach—Management Purpose	Sustainable service manufacturing; creating a new business model by exploiting Group resources and Group transformation and upgrade Through the integration of supply chain and advance in its management, the Company has focused on localized and flexible supply in the hope of shortening the lead time and responding to market demand quickly, thereby enhancing brand customers’ satisfaction.
Description of Magnitude of Impact	Supply stability and speed, while in the meantime advancing the Company's overall supply chain sustainability management
Management Approach	(Policy) • Service Manufacturing • Procurement Process Management • Wholly–Owned / Joint Venture Management • Support Retail (Management Commitments and Goals) • Supply Chain Management • Excellent Manufacturing • Innovative R&D (Management Targets) Goals in 2018: • Service manufacturing: (1) Enhancing supplier management efficiency (2) Procurement resource integration (3) Innovation application / sustainable operation • Procurement process management: (1) Optimization of the Company's procurement process (2) Integrated management of raw materials code (3)) Idle machine allocation and waste / inactive inventory activation • Wholly–owned / joint venture management: (1) Enhancing the performance of the wholly–owned and joint ventures (2) Building a management system for joint ventures (3) Plasticization technology platform • Support retail: (1) L4L (localized production) (2) E2E (production and retail connection) (3) Flexible production (short lead–time / fast replenishment / small–volume large–variety)
Management Approach—Allocated Resource / Specific Action Plan	1. Follow the principles of localized procurement and localized supply, and actively cooperate with local suppliers 2. Screen suppliers in accordance with brand customers’ management requirements for suppliers 3. Conduct supplier evaluation so as to manage evaluation of suppliers using a rating–based approach 4. Regularly hold supplier product exhibitions to increase the opportunity to exchange information about innovative technology and products between the industry and suppliers

Material Topic: Occupational Safety and Health Risk Management

Description of General Requirements for Management Approach	
Sustainability Dimension	Social
Material Topics	403 Occupational Safety and Health
Reason for Materiality	Substantial impact dimension: Operational risk—labor environment audit; other: Manpower deployment
Topic Boundary (Impact Scope)	Within the organization:☑Taiwan☑China☑Indonesia☑Vietnam☑Cambodia☑Bangladesh☑Myanmar☑and Mexico Outside the organization:☑Engineering contractors and service contractors
Description of Magnitude of Impact	The occupational safety and health risks affect the health and attendance of employees, and indirectly affect manpower deployment of the production line.
Management Approach—Management Purpose	Conduct occupational safety and health training for employees; strengthen protective measures and operational controls for potential hazards to ensure a sound operation (in order to avoid or mitigate negative impacts)
Management Approach	Policy) 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. (Management Commitments and Goals) 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. (Management Targets) Gradually standardize the management system throughout all operations, from organizational structure, inter–departmental collaborations, to the top–down approach. In case of major employee illness or incident, we will initiate the facility medical rescue mechanism and emergency relief procedures.
Management Approach—Allocated Resource / Specific Action Plan	1. Formulate safety and health management regulations for all units to follow, so as to implement management and avoid hazards 2. Establish the Environmental, Energy, and Safety and Health Committee at each facility and administration center of Pou Chen and convene regularly with each unit reviewing the safety and health related management matters at the meeting 3. Establish a safety and health management performance system to implement and track management performance, and establish an online abnormality management system to pay attention to major risk prevention mechanisms
Measures Implemented in 2018 and Their Performance	The SD–KPI (ESH Management Performance Assessment) system comprehensively assessed and grasped the internal ESH–related risk issues by using the four major indicators, namely, safety and health, fire safety, environmental management, and energy management, and grading criteria were set for each unit to assess their ESH performance. In 2018, the ESH assessment of 48 factories was completed as scheduled, and ranked based on their EHS performance in accordance with the internal auditing procedures. The Company has also established a systematic follow–up procedures to facilitate the timely reply of non–compliance remedial measures and follow–up from the various factories. In 2018, the ESH staff of the factories were graded, of which the grading results will be taken for differentiated training to be held in 2019, from preliminary ESH professional curriculum training to advanced ESH professional curriculum training, so as to improve the daily execution of ESH and manage the implementation status. Promotion of workplace improvement proposal: We encouraged our rank–and–file employees to spot problems on the workplace, provide creative and feasible suggestions, and be brave in making improvement and problem–solving. Through a selection system based on feasibility and performance, we selected the annual excellent and creative proposals and gave them proper rewards and praise. The total number of proposals for 2018 was 2,126, an increase of 196% from 2017.
Description of Key Measures to be Implemented in the Following Year	According to the results of the 2018 annual assessment, the daily maintenance and operation of machinery is the main issue concerning occupational safety and health. Therefore, in 2019, we plan to launch a certification system for high–risk machine operation and labeling, attending to the machine safety issue from the perspectives of both the hardware and the software. On the other hand, we will gradually deepen software management. The first–line ESH personnel in the factory will be continuously trained on a hierarchy of training basis and through a diversion of training mechanism, so as to facilitate the gradual and continuous improvement in ESH daily implementation through the hierarchy of training. In the dimension of the management of mechanical equipment, we will continue to increase the machinery under safety control and enhance the operation training system. We hope to improve through the use of hardware and software, and continue to reduce the incidence and severity of occupational diseases.
Management Approach—Evaluation Mechanism (Effectiveness)	Annually employ the quantitative evaluation method of SD–KPI for each unit at each location of operation, and set higher standards for further improvement In 2019, we will set a hierarchy of proportion goals to push the factory upward. This evaluation mechanism will continue and effectively track and improve the management of the ESH at each factory.
Management Approach—Grievance Mechanism	Utilize the ESH committee and keep an eye on relevant topics and track them
Performance Evaluation of Management Results and Consequent Adjustments	In response to organizational changes, we will adopt an adjustable adjustment to manage the trend of each BU’s brand customers and regional specific issues, that is, setting different indicators for a specific party under specific circumstances in order to meet the adjustable quantification criteria.



Material Topic: Employment Management—Talent Attraction, Motivation and Retention

Description of General Requirements for Management Approach	
Sustainability Dimension	Social
Material Topic	201–3 Defined Benefit Plan Obligations and Other Retirement Plans, 202 Market Presence, 401 Employment, 402 Labor/Management Relations, 405 Diversity and Equal Opportunity
Reason for Materiality	Substantial impact dimension <input checked="" type="checkbox"/> Business competitiveness Maintaining a good employment relation and a competitive welfare system will facilitate the smooth operation of a factory's production operations, and enhance the recognition and cohesion among employees and local communities towards the Company.
Topic Boundary (Impact Scope)	Within the organization <input checked="" type="checkbox"/> Taiwan <input checked="" type="checkbox"/> China <input checked="" type="checkbox"/> Indonesia <input checked="" type="checkbox"/> Vietnam <input checked="" type="checkbox"/> Cambodia <input checked="" type="checkbox"/> Bangladesh <input checked="" type="checkbox"/> Myanmar and <input checked="" type="checkbox"/> Mexico
Description of Magnitude of Impact	The progress of manpower recruitment, which in turn affects operation and production
Management Approach—Management Purpose	Regularly review the Company’s remuneration policy to ensure a competitive advantage in our compensation standards, and tie performance management with differences in rewards and bonuses to recruit and retain high-performing talent (in order to increase the positive impact)
Management Approach	(Policy) Remuneration systems are designed to meet local requirements in terms of legal regulations, industry standards, and job market conditions for its overseas operations in order 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. (Management Commitments and Goals) 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 100 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. (Management Target) Undertake the principle of adhering to local laws and regulations at each location of operation globally (Resources Allocated / Specific Action Plan) This has been routinely conducted on a long-term basis, and thus no specific project was taken.
Management Approach—Evaluation Mechanism (Effectiveness)	a. Method for evaluating mechanism effectiveness: Stakeholder feedback b. Time for evaluation: Once a year

Material Topic: Training and Education—Enrich the Talent Pool

Description of General Requirements for Management Approach	
Sustainability Dimension	Social
Material Topic	404 Training and Education
Reason for Materiality	Substantial impact dimension: <input checked="" type="checkbox"/> Business competitiveness <input checked="" type="checkbox"/> Other: Talent quality The establishment of key talent and successor echelon are the basis for the sustainable development and competitiveness of enterprises. Providing the necessary education and training for employees can enhance the knowledge and skills of employees and create the operational efficiency and value for the Company.
Topic Boundary (Impact Scope)	Within the organization <input checked="" type="checkbox"/> Taiwan <input checked="" type="checkbox"/> China <input checked="" type="checkbox"/> Indonesia <input checked="" type="checkbox"/> Vietnam <input checked="" type="checkbox"/> Cambodia <input checked="" type="checkbox"/> Bangladesh <input checked="" type="checkbox"/> Myanmar, and <input checked="" type="checkbox"/> Mexico
Description of Magnitude of Impact	Talent gap
Management Approach—Management Purpose	Enrich the Group’s key talent pool and deepen the succession plan of a leadership echelon (in order to increase the positive impact)
Management Approach	(Policy) Help our talent build global perspective and enhance their professional competencies through systematic, diverse, and comprehensive talent cultivation mechanism; build the foundation of our sustainable growth by enhancing our corporate culture and creating competitive advantages through our talent (Management Commitments and Goals) Deepen the talent pool and improve the cultivation and succession of key positions (Management Targets) This year, we held the “Leadership Echelon Managerial Skills Training” for middle-level and top management. In addition to deepening the talent pool of medium-level and top management, exploring key potential talents, improving risk management and decision-making power, and strengthening the leadership of middle-level and top management, we have also developed a plan to continuously and consistently cultivate a leadership echelon.
Management Approach—Allocated Resource / Specific Action Plan	Action plan title: Leadership Echelon Managerial Skills Training Description of allocated resources: Financially, NT\$3,000,000; manpower: 4 persons; time: 192 hours Description of implementation method: Courses, celebrity lectures, corporate visits, team activities, and case studies
Measures Implemented in 2018 and Their Performance	1. Overall satisfaction of 4.8 points (total score of 5.0 points) 2. Establish a friendship among batch mates 3. Consolidate internal consensus 4. Pass on internal experience 5. Learn from external experience 6. Sharing resources across units
Description of Key Measures to be Implemented in the Following Year	Leadership Echelon Managerial Skills Training Plan (Local talents)
Management Approach—Evaluation Mechanism (Effectiveness)	1. Feedback from after-class questionnaires; optimizing the curriculum planning 2. Plan P Social Media Group: After-class online and offline activities are fully launched, including management knowledge sharing, current issues, and online study groups concerning, etc., which are related to innovation and leadership, as well as physical activity exchanges, group lecture invitations, affection cultivation activities and other arrangements.
Management Approach—Grievance Mechanism	Students can present their own needs and suggestions via communication channels, such as letters, telephone calls, and LINE.
Performance Evaluation of Management Results and Consequent Adjustments	Together with the use of talent management system and performance evaluation system, we review the progress of talent development and track various management indicators, and strengthen the effectiveness and efficiency of talent development and successor plans.

Material Topic: Management of Human Rights Topics

Description of General Requirements for Management Approach	
Sustainability Dimension	Social
Material Topics	406 Non–discrimination, 407 Freedom of Association and Collective Bargaining, 408 Child Labor, 409 Forced or Compulsory Labor, 412 Human Rights Assessment
Reason for Materiality	Operational risk: Labor topics of concern to stakeholders
Topic Boundary (Impact Scope)	Within the organization: <input checked="" type="checkbox"/> Taiwan <input checked="" type="checkbox"/> China <input checked="" type="checkbox"/> Indonesia <input checked="" type="checkbox"/> Vietnam <input checked="" type="checkbox"/> Cambodia <input checked="" type="checkbox"/> Bangladesh <input checked="" type="checkbox"/> Myanmar, and <input checked="" type="checkbox"/> Mexico Outside the organization: <input checked="" type="checkbox"/> Material suppliers, <input checked="" type="checkbox"/> service contractors, and <input checked="" type="checkbox"/> local communities
Description of Magnitude of Impact	Production and operation efficiency could slow down, and management costs could increase.
Management Approach—Management Purpose	Reduce the risks in work for labors and protect labor rights
Management Approach	(Policy) The Corporate Code of Conduct is conducted; all factories and administrative centers within the Group should manage their internal labor affairs in accordance with such a code of conduct formulated by the headquarters. The Corporate Code of Conduct includes: employment, non–discrimination, harassment or abuse, forced labor, child labor, freedom of association and collective bargaining, health, safety and the environment, working hours, remuneration, and community links. (Management Commitments and Goals) The current version of the Group's Corporate Code of Conduct was announced in 2015. The Group is committed to promoting labor standards and responsible production, advocating for improving factory and workplace quality, and satisfying the social responsibility expectations from external third parties and major brands on the footwear industry. (Expected Managerial Goals) Adhere to the Group's Corporate Code of Conduct and local laws and regulations, implement legal/ regulatory compliance in daily operations, and receive the inspection and certification made by external third parties in order to align with international trends
Management Approach—Allocated Resource / Specific Action Plan	1. An annual internal audit (HR/SD–KPI) is conducted on all wholly–owned footwear factories within the Group, and check the workplace as to whether it complies with thee Group's Corporate Code of Conduct and local regulations and regulations. Its assessment of the audit covers three dimensions: HRM, Labor and ESH, including recruitment, education and training, personnel development and promotion, termination/ discontinuation of contracts, working hours, remuneration and benefits, rewards and punishments for workplace behavior, grievance mechanisms, non–harassment and non–discrimination, internal communication, special employee control, safety and health, fire safety, energy management and environmental protection. 2. Implement the international responsibility as an FLA member and execute the FLA's Principles of Fair Labor & Responsible Production
Measures Implemented in 2018 and Their Performance	1. The 2018 HR/SD–KPI audit included the footwear factories of the Group in China, Indonesia, Vietnam, Cambodia, Bangladesh, Myanmar and Mexico. According to the human rights dimension of the audit results, the wholly–owned footwear factories have implemented the zero child labor policy, announced the declaration of non–discrimination, prohibition of forced labor, and freedom of association, and provided related training and education. However, the content of collective bargaining contract at the Mexico compound was signed in a standardized contract format provided by external unions. Such a contract raised concerns about employees' rights of freedom of association, and is still undergoing a negotiation with local unions for modification. 2. In order to achieve fair labor and risk management, we have built a trustworthy and well–functioning management mechanism by participating in the FLA certification process, during which we improved the internal audit mechanism, strengthened the Company's connection with the union/NGO, developed the factory improvement plan, and trained the professionals. In June 2018, the Company obtained FLA certification, the first ever sports shoes manufacturer in the world to have obtained such a certification.
Management Approach—Evaluation Mechanism (Effectiveness)	According to the internal HR/SD–KPI audit mechanism, the Company's wholly–owned footwear factories are subject to an annual internal evaluation, of which the results are taken to form a hierarchy of legal/regulatory compliance; the HR/SD–KPI audit mechanism is also adjusted annually in line with international standards and brand requirements, and then reported to the highest governance body for review and discussion, so as to develop a legally compliant audit mechanism that meets industry trends and management needs.
Management Approach—Grievance Mechanism	The Company has provided a variety of employee interaction channels, including the telephone/ hotline, social media or the mobile, the short message service (SMS), suggestion boxes, Management and Worker Conversation Meetings, internal referrals, direct communication / interview, and the Life Guidance and Counseling Office, through which employees may reflect their problems encountered at the workplace and file their grievance.

Material Topic: Energy Use and Greenhouse Gas Emissions Management

Description of General Requirements for Management Approach	
Sustainability Dimension	Environment
Material Topic	302–1 Energy Consumption within the Organization 302–3 Energy Intensity 302–4 Reduction of Energy Consumption 305–1 Direct (Scope 1) GHG Emissions 305–2 Indirect (Scope 2) GHG Emissions 305–3 Other Indirect (Scope 3) GHG Emissions 305–4 GHG Emission Intensity
Reason for Materiality	Substantial impact dimension: Cost, revenue, operational risk, business competitiveness Management and effective use of energy impacts operating costs. The risk of climate change caused by energy consumption as a result of GHG emissions also inherits a potential risk of business interruption and property losses.
Topic Boundary	(Impact Scope) Within the organization: The Group's wholly–owned footwear factories and their related factories, excluding the retail business, in the eight countries: Taiwan, China, Indonesia, Vietnam, Cambodia, Bangladesh, Myanmar, and Mexico. Outside the organization: Engineering contractors
Description of Magnitude of Impact	The Company's manufacturing process mainly consumes one type of energy: electricity. Therefore, effectively improving energy efficiency and reducing waste can effectively reduce electricity consumption, save energy, and simultaneously reduce GHG emissions.
Management Approach—Management Purpose	Respond to the UN SDG 13 “Climate Action” of the 17 SDGs and take countermeasures against the risk and impact arising from global climate anomalies
Management Approach	(Policy) Zero energy waste, high energy efficiency, short recycling periods, low energy costs, and low environmental impact (Commitments and Goals) 1. Take 2016 as the starting point and conduct a comprehensive inventory of GHG of the whole group 2. Formulate a four–year overall energy conservation plan, in which annual goals and corresponding actions are specified; prepare an energy conservation (carbon reduction) budget year on year; formulate energy conservation systems and goals for each factory and hold meetings from time to time to track and review the performance, exchange energy conservation technologies among production bases, and regularly report to the highest governance body (Management Targets) Taking 2016 as the baseline, the target for the Group's factories is to reduce energy intensity ratio by 8% in 2020 compared to the base year. The medium–term goal of GHG emission reduction will be mainly to reduce Scope 2 emissions.
Management Approach—Allocated Resource / Specific Action Plan	* Source procurement of energy–saving equipment * Improvement Proposal Competition * Promoting the operation of the energy–conservation organization of factories and gradually establishing an energy–conservation culture within factories * Each factory independently saves energy, replaces old equipment and updates IE3 motor and servo motor. * Setting a group–level target for air compressor leakage management * Conducting factory energy audits and on–site audits of factories for the purpose of effective energy inventory and management * Establishing a group–level de–steaming strategy and gradually launch projects to replace steam with electricity * Improving factory ventilation and cooling design * Planning the Group's energy online monitoring system and gradually establish an energy management mechanism
Management Approach—Evaluation Mechanism	Internal SD KPI (ESH management performance indicators) audit (to evaluate the extend to which energy management and goals are achieved)
Performance Evaluation of Management Results and Consequent Adjustments	Hold regular meetings to report to the highest governance body about the review of goal achievement rates and adjustments to implementation measures



Material Topic: Water resource management

Description of General Requirements for Management Approach	
Sustainability Dimension	Environmental
Material Topic	303 Water, 306 Effluents and Waste
Reason for Materiality	The provision of clean water resources is not only necessary requirement for the labor force for production, but also is recognized as a basic human right by the United Nations. Water discharges that have the quality satisfying local legal requirements and have lower impact on the local environment are a must compliance in daily operation, as well as a goal of the UN SDGs regarding water resources management. Substantial impact dimension☑Operating risks
Topic Boundary (Impact Scope)	Within the organization ☑Taiwan ☑China ☑Indonesia ☑Vietnam ☑Cambodia ☑Bangladesh ☑Myanmar☑and ☑Mexico Outside the organization: ☑Local communities
Description of Magnitude of Impact	Water resources are shared with local communities. Therefore, the source of water and the volume of water withdrawn in the compounds must be approved by the local competent authorities. The supply of water resources in the compounds is mostly domestic water used by workers. The footwear manufacturing process is a stage that consumes little water resources in the value chain. Only a small amount of clean water is needed in the sole process section. The quality of discharged water will be monitored by local competent authorities, who will impose a fine or even ordered a factory shut-down if the quality of water discharges does not comply with legal/regulatory requirements.
Management Approach—Management Purpose	Provide water supply that meets specific water standards and discharge water that meets the discharge standards by means of an effective treatment, management and monitoring measure, in order to lower the negative impact on the environment.
Management Approach—Policy	Make great effort to effectively use resources under the principle of cherishing natural resources and sustainable operation, and continue to improve the performance of ecological environmental protection
Management Approach	Management Commitment: Comply with environmental, safety and health laws, regulations and other requirements, by which standard operating procedures are formulated and implemented accordingly Long-term Goals: Improve the efficiency of water consumption and gradual lower the withdrawn volume of clean water by means of paying attention to the UN SDGs regarding water resources management trends, and integrating and introducing technological resources Medium-term Goals: 1. Establish a reasonable water consumption assessment mechanism and a reasonable water consumption target 2. Look for opportunities to conserve water or reclaim water Short-term Goals: Obtain clear information on water volume and water quality at each production base, and effectively manage to continuously comply with local laws and regulations
Management Approach—Management Targets	Goals for 2018: Clarify categories of water resources and establish a mechanism to collect and review water data, so as to gradually collect water data. Short-term Management Targets: 1. Complete water statistics for all boundary compounds in 2020 2. Conduct an effective management to continuously comply with local laws and regulations Medium-term Management Target: By 2023, complete the water balance maps of all compounds and the analysis of the difference in the reasonable water consumption of the compounds.
Management Approach—Allocated Resource / Specific Action Plan	Management Plan: 1. Promote monthly reporting and review of water resources data of each factory 2. Develop a sample template of the water balance map of compounds, which is then to be gradually introduced to compounds
Measures Implemented in 2018 and Their Performance	In 2018, the focus was on the functional adjustment of the Company's internal reporting system and dissemination of information at each compound, so that the personnel at compounds can clearly understand relevant data reporting rules and report it on a monthly basis.
Description of Key Measures to be Implemented in the Following Year	1. Monthly verification of water resources data to ensure that annual water resources data are available for each compound 2. Select 2 compounds to conduct the preparation work for promoting water balance maps at each compound
Management Approach—Evaluation Mechanism (Effectiveness)	Water management performance will be assessed and adjusted or improved through the following mechanisms: 1. Notice to review and verify water resources monthly data and water quality testing reports 2. Semi-annual meetings for operational management report and review 3. Audit notice issued by competent authorities at an irregular interval
Management Approach—Grievance Mechanism	1. Semi-annual meetings for operational management report and review 2. Monthly meetings held by the Environmental, Energy, Safety and Health Committee
Performance Evaluation of Management Results and Consequent Adjustments	In 2018, the management measures have been drafted and promoted, and the collection and confirmation of water resources data at each compound has been gradually launched. It is expected that the complete information on water resources data will be disclosed in the CSR report for 2019.

Material Topic: Air Pollutant Emission Management

Description of General Requirements for Management Approach	
Sustainability Dimension	Environmental
Material Topic	305 Emissions (305–7 Nitrogen Oxides (NOX), Sulfur Oxides (SOX), and Other Significant Air Emissions)
Reason for Materiality	Substantial impact dimension: ☑Operating risks Based on the principle of legal and regulatory compliance, compliance with local air pollution regulations is a must.
Topic Boundary (Impact Scope)	Within the organization: ☑Taiwan ☑China ☑Indonesia ☑Vietnam ☑Cambodia ☑Bangladesh ☑Myanmar, and ☑Mexico Outside the organization: ☑Local communities
Description of Magnitude of Impact	The air pollution sources are mainly volatile organic compounds (VOCs), fuel boiler flue gas, and generator exhaust. The feed boiler flue gas and the exhaust gas of the generator have a channel for discharge and are regularly tested, all of which meet the emission standards. However, most of the volatile organic compounds (VOCs) are currently subjected to fugitive treatment in response to national regulations, likely to result in an environmental impact.
Management Approach—Management Purpose	Set up control equipment and conduct air pollutant emission testing in accordance with local laws and regulations in order to ensure that emissions are compliant with local emission standards and air pollutant emissions have a reduced environmental impact
Management Approach	(Policy) The prevention and control of air pollutants give priority to emissions that meet the local emission standards, so as to reduce the impact of industrial activities on the employees and the residents around the compounds, and to reduce the impact of air pollutant emissions on the environment. (Management Commitment) Comply with environmental, safety and health laws, regulations and other requirements, by which standard operating procedures are formulated and implemented accordingly (Management Goals) Set up control equipment and conduct air pollutant emission testing in accordance with local laws and regulations in order to ensure that emissions are compliant with local emission standards and air pollutant emissions have a reduced environmental impact
Management Approach—Management Targets	In response to the rigorous environmental protection regulations of various countries, the pollution prevention equipment must achieve the effectiveness of prevention. Therefore, we will set up a source control mechanism for the equipment to ensure the efficiency of the equipment. For equipment that has been set up, we will verify the equipment type and operation parameters to obtain information for the purpose of operational optimization to ensure equipment performance. 2018: Review of pollution prevention equipment design 2019: Pollution prevention equipment design control and operation optimization; planning and evaluating pollutant disclosure
Management Approach—Allocated Resource / Specific Action Plan	In 2018, about 50 pieces of equipment designs have been reviewed; the reviewed content includes equipment structure, equipment processing parameter, etc. Equipment is installed only when they comply with local regulations and have prevention effectiveness. In 2019, operation and management personnel will be trained on equipment operation optimization to improve their basic know-how and hands-on skills. Management Plan: 2018: Review of pollution prevention equipment design 2019: Pollution prevention equipment design control and operation optimization; planning and evaluating pollutant disclosure
Measures Implemented in 2018 and Their Performance	In 2018, we focused on the review of pollution prevention equipment design to ensure that the equipment installed at the factory met local emission standards and in turn lowered the environmental impact of air pollutants emission. Data of specific air pollutant emissions have been reported in Chapter 3.
Description of key measures to be launched the following year:	In addition to continuing to maintain the design review of pollution prevention equipment in 2019, we will ensure that the air pollution prevention equipment installed at the factories meet the local emission standards. The operation optimization mechanism of the air pollution equipment will be established to maintain effective pollutant removal efficiency. In addition, the pollutant disclosure plan will be carried out and evaluated.
Management Approach—Evaluation Mechanism (Effectiveness)	Internal Annual Audit (SD-KPI)
Management Approach—Grievance Mechanism	Internal issues are reflected and communicated through the following meetings 1. Semi-annual meetings for operational management report and review 2. Monthly meetings held by the Environmental, Energy, Safety and Health Committee
Performance Evaluation of Management Results and Consequent Adjustments	In 2018, the review mechanism on pollution prevention equipment design was accomplished via different management measures, and the mechanism to optimize the operation of air pollutants prevention equipment was also established; in 2019, we will plan and evaluate the pollutants disclosures.

Material Topic: Waste Management

Description of General Requirements for Management Approach	
Sustainability Dimension	Environmental
Material Topic	306 Effluents and Waste (305–2 Waste by Type and Disposal Method)
Reason for Materiality	Substantial impact dimension☑Operating risks Based on the principle of legal and regulatory compliance, compliance with local waste management regulations is a must.
Topic Boundary (Impact Scope)	Within the organization: ☑Taiwan☑China☑Indonesia☑Vietnam☑Cambodia☑Bangladesh ☑Myanmar, and ☑Mexico Outside the organization: ☑Local communities
Description of Magnitude of Impact	The process output waste is divided into hazardous waste and general waste. The hazardous waste, if not treated through qualified treatment, will cause pollution to the surrounding environment and cause waste storage and disposal. The waste is subject to legal requirements made by local competent authorities and shall be classified, stored, cleaned, and disposed of in accordance with local regulations under the monitoring of local competent authorities in order to be legally compliant.
Management Approach— Management Purpose	Commission contractors certified by the government to clean and dispose of waste in accordance with local legal regulations, so as to reduce the impact of industrial activities on the employees and the residents around the compounds, and to reduce the impact of waste on the environment.
Management Approach	(Policy) The waste management strategy focuses on the legal clearing and disposal and waste reduction and reuse. Waste that can be recycled is sorted for recycling according to the categories set by brand customers. (Management Commitment) Comply with environmental, safety and health laws, regulations and other requirements, by which standard operating procedures are formulated and implemented accordingly (Management Goals) Establish a mechanism for waste management, clearing, reduction and reuse in accordance with local regulations to reduce the impact of waste on the environment
Management Approach— Management Targets	2018: Waste basic information survey planning 2019–2020: Waste category integration and quantitative statistics From 2021 onwards: Evaluating the promotion of waste reduction
Management Approach—Allocated Resource / Specific Action Plan	Collect and analyze waste output information 1. Establish a regular waste declaration system to manage waste output information 2. Verify the qualification of waste handling contractors through the annual audit
Measures Implemented in 2018 and Their Performance	We have planned to establish waste baseline data and reporting mechanism. Through a publicity conference, we communicated the reporting and input of baseline data with the reporting end to verify their implementation of filling out the reporting forms.
Description of Key Measures to be Implemented in the Following Year:	1. Employ the waste baseline data and reporting mechanism, as well as the monthly review mechanism to ensure that the content of the reporting is valid 2. Verify the regulatory qualification of waste handling contractors through the annual audit
Management Approach—Evaluation Mechanism (Effectiveness)	Internal annual audit (SD–KPI) and monthly waste reporting review
Management Approach—Grievance Mechanism	1. Semi–annual meetings for operational management report and review 2. Monthly meetings held by the Environmental, Energy, Safety and Health Committee
Performance Evaluation of Management Results and Consequent Adjustments	In 2018, we have accomplished the management measure of planning of waste basic information survey, and gradually collect and verify the waste–related data at each compound. Related data are expected to be gradually disclosed in the 2019 CSR report. In case the progress is less than expected, the reporting form will be adjusted in accordance with the review status so as to reflect on the actual output of each compound.

Material Topic: Local Community

Description of General Requirements for Management Approach	
Sustainability Dimension	Social
Material Topic	412 Community Engagement
Reason for Materiality	Substantial impact dimension: ☑Operational risk ☑Business competitiveness Pou Chen is a global cross–regional operation and production enterprise; it is a critical niche for smooth operation that it exerts the core value of service and constructs a good local relationship with local communities.
Topic Boundary (Impact Scope)	Within the organization: ☑Taiwan☑China☑Indonesia☑Vietnam☑Cambodia☑Bangladesh ☑Myanmar, and ☑Mexico Outside the organization: ☑Local communities
Management Approach—Management Purpose	Entrench local operation and employees’ recognition for the Company, which will in turn bring about overall improvement and good development for local communities.
Management Approach	(Policy) Adhere to the philosophy of “Take from society, give back to society,” the Company always seeks to be an integral part of local communities and establish a link between itself, local governments, and topic–specific groups. (Management Commitments and Goals) Improve the sustainability development of the society by adopting a strategy that is employee–oriented, pursues the philosophy of whole person, covers individuals, communities and society, and mainly focuses on the areas of education, medical care and health, and local relations (Management Targets) In line with the compliance of regulations of the Group, each operation base actively conducts home visits, understands local cultures and needs, deepens communication, focuses on issues such as education, health care, and local relations, integrates resources in the local community, and pushes for group globalization and local business sustainability by jointly respecting local cultures and needs.
Management Approach—Allocated Resource /	“Education” In order to promote a globally inclusive society and increase opportunities for an influential dialogue, education is used as a platform, which in practice comprises award–winning scholarships, school hardware optimization in various districts, summer camps and English classes for employees' children. “Local Relations” In order to deepen the connection with the localities, enhance the interaction and coordination, and develop an inclusive and sustainable relationship, the specific practices include sports contests, local festivals, strengthening local hardware facilities, and interviews with local people. “Health Care” Health, peace, and happiness are the foundation of people. The Company irregularly provides dissemination of information about health care, as well as voluntary medical clinics, so as to raise the awareness of health.
Measures Implemented in 2018 and Their Performance	Since 2017, the Company has carried out activities respecting local relation management, education, health and medical care, which were further extended into 2018 to all of the Group’s production sites. The Company organized 29 education activities, with about 10,576 participants, 20 health and medical care activities, with about 10,698 participants, and 127 local public relations activities, with about 36,860 participants.
Projects to be Launched in the Following Year	We will focus on the education dimension, which comprises scholarships, school hardware optimization in various districts, summer camps and English classes for employees' children.
Management Approach—Evaluation Mechanism (Effectiveness)	Numbers of participants, times of holding, and participants' feedback



# Appendix E

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206 Anti-competitive Behavior	206-1 Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	17	
Operating Performance			
103 Management Approach	103-1 Explanation of the material topic and its Boundary 103-2 The management approach and its components 103-3 Evaluation of the management approach	96	
201 Economic Performance	201-1 Direct economic value generated and distributed	9-11	
Product Standards and Information Security Management			
103 Management Approach	103-1 Explanation of the material topic and its Boundary 103-2 The management approach and its components 103-3 Evaluation of the management approach	97	
416 Customer Health and Safety	416-1 Assessment of the health and safety impacts of product and service categories	23-24	
	416-2 Incidents of non-compliance concerning the health and safety impacts of products and services		
417 Marketing and Labeling	417-1 Requirements for product and service information and labeling	24	
	417-2 Incidents of non-compliance concerning product and service information and labeling		
418 Customer Privacy	418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data	23	
Raw material selection management			
103 Management Approach	103-1 Explanation of the material topic and its Boundary 103-2 The management approach and its components 103-3 Evaluation of the management approach	98	
204 Procurement Practices	204-1 Proportion of spending on local suppliers	39	
301 Materials	301-1 Materials used by weight or volume	26	

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Material Topics			
Supplier Management			
103 Management Approach	103–1 Explanation of the material topic and its Boundary 103–2 The management approach and its components 103–3 Evaluation of the management approach	98	
308 Supplier Environmental Assessment	308–1 New suppliers that were screened using environmental criteria 308–2 Negative environmental impacts in the supply chain and actions taken	40	
Occupational Safety and Health Risk Management			
103 Management Approach	103–1 Explanation of the material topic and its Boundary 103–2 The management approach and its components 103–3 Evaluation of the management approach	99	
403 Occupational Health and Safety	403–1 Workers representation in formal joint management—worker health and safety committees	67	Since it was unable to obtain the total hours of work of contractors and agency workers, the data was not included in the occupational injury indicators presented in this report.
	403–2 Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	69	
	403–3 Workers with high incidence or high risk of diseases related to their occupation	70	
Employment Management			
103 Management Approach	103–1 Explanation of the material topic and its Boundary 103–2 The management approach and its components 103–3 Evaluation of the management approach	100	
202 Market Presence	202–1 Ratios of standard entry level wage by gender compared to local minimum wage	51	
	202–2 Proportion of senior management hired from the local community	48	
401 Employment	401–1 New employee hires and employee turnover	49	
	401–2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	52	
	401–3 Parental leave	50	
402 Labor / Management Relations	402–1 Minimum notice periods regarding operational changes	77	
405 Diversity and Equal Opportunity	405–1 Diversity of governance bodies and employees	16/112	
Training and Education			
103 Management Approach	103–1 Explanation of the material topic and its Boundary 103–2 The management approach and its components 103–3 Evaluation of the management approach	101	
404 Training and Education	404–1 Average hours of training per year per employee	74/113	
Management of human rights issues			
103 Management Approach	103–1 Explanation of the material topic and its Boundary 103–2 The management approach and its components 103–3 Evaluation of the management approach	102	
406 Non-discrimination	406–1 Incidents of discrimination and corrective actions taken	76	
407 Freedom of Association and Collective Bargaining	407–1 Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	76	
408 Child Labor	408–1 Operations and suppliers at significant risk for incidents of child labor	77	
409 Forced or Compulsory Labor	409–1 Operations and suppliers at significant risk for incidents of forced or compulsory labor	77	
412 Human Rights Assessment	412–1 Operations that have been subject to human rights reviews or impact assessments	64/76	

GRI Standards	Disclosure	Page / URL	Note
Material Topics			
Energy Management			
103 Management Approach	103–1 Explanation of the material topic and its Boundary 103–2 The management approach and its components 103–3 Evaluation of the management approach	103	
302 Energy	302–1 Energy consumption within the organization	28	
	302–3 Energy intensity	28	
	302–4 Reduction of energy consumption	29	
Water Resource Management			
103 Management Approach	103–1 Explanation of the material topic and its Boundary 103–2 The management approach and its components 103–3 Evaluation of the management approach	104	
303 Water	303–1 Water withdrawal by source	33	
306 Effluents and Waste	306–3 Significant spills	37	
Emissions			
103 Management Approach	103–1 Explanation of the material topic and its Boundary 103–2 The management approach and its components 103–3 Evaluation of the management approach	105	
305 Emissions	305–1 Direct (Scope 1) GHG emissions	31/ 97	
	305–2 Energy indirect (Scope 2) GHG emissions		
	305–3 Other indirect (Scope 3) GHG emissions		
Air Pollutant Emission Management			
103 Management Approach	103–1 Explanation of the material topic and its Boundary 103–2 The management approach and its components 103–3 Evaluation of the management approach	105	
305 Emissions	305–7 Nitrogen oxides (NOx), sulfur oxides (SOx), and other significant air emissions	31/97	
Waste Management			
103 Management Approach	103–1 Explanation of the material topic and its Boundary 103–2 The management approach and its components 103–3 Evaluation of the management approach	106	
306 Effluents and Waste	306–2 Waste by type and disposal method	35	
Community Relations Management			
103 Management Approach	103–1 Explanation of the material topic and its Boundary 103–2 The management approach and its components 103–3 Evaluation of the management approach	107	
413 Local Communities	413–1 Operations with local community engagement, impact assessments, and development programs	80	



# Appendix F

## Employee Diversity Indicators and Education and Training Data

Pou Chen 2018 Employee Diversity Indicators

Area	Gender	Aged 29 or Less	Aged 30–49	Aged 50 or More
Total	Male	9.6%	12.0%	0.8%
	Female	30.5%	45.7%	1.4%
Taiwan	Male	6.5%	29.8%	6.3%
	Female	11.5%	39.0%	6.9%
China	Male	8.1%	14.2%	1.6%
	Female	18.3%	56.3%	1.5%
Vietnam	Male	8.3%	10.4%	0.5%
	Female	28.0%	50.8%	2.0%
Indonesia	Male	10.6%	12.5%	0.4%
	Female	41.4%	34.9%	0.2%
Cambodia	Male	12.1%	4.6%	0.1%
	Female	51.3%	31.6%	0.3%
Bangladesh	Male	51.7%	15.3%	0.2%
	Female	24.1%	8.5%	0.2%
Myanmar	Male	9.2%	2.7%	0.1%
	Female	60.1%	27.6%	0.3%
US / Mexico	Male	20.2%	14.8%	7.7%
	Female	18.9%	24.4%	14.0%
Others	Male	16.7%	50.0%	14.3%
	Female	9.5%	7.1%	2.4%

Explanatory Note: Number of employees by gender and age / total number of in-service employees in the area

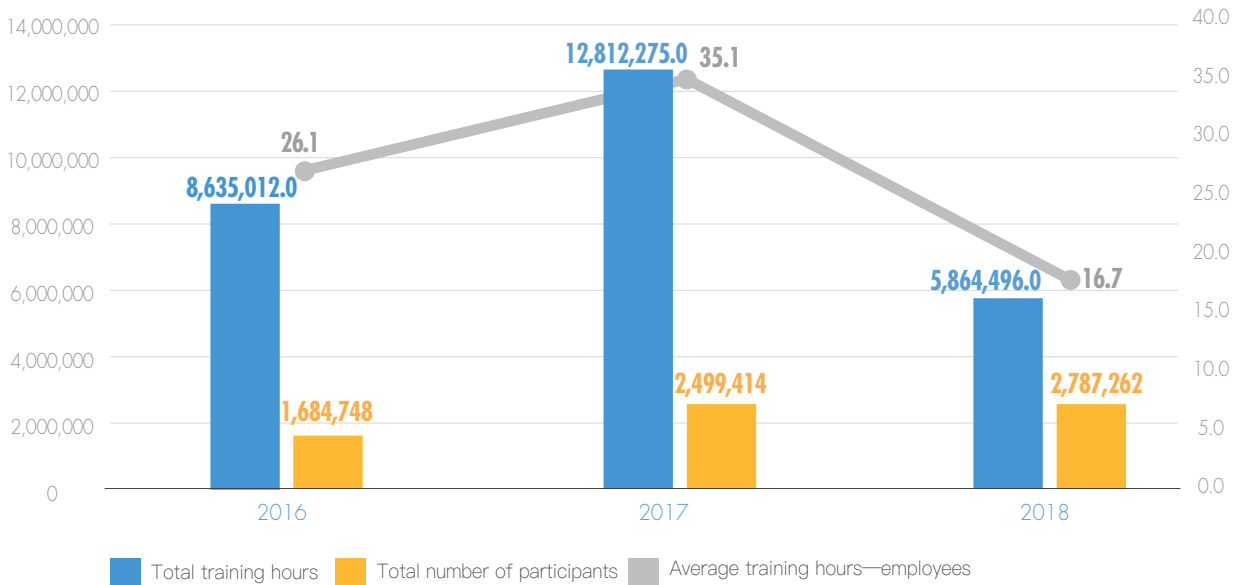
Total number of hours of training for Pou Chen’s employees in 2018 by gender, employee rank, and significant locations of operation

Area	Rank	Gender	Number of participants	Total training hours
Total	Rank-and-file	Female	2,203,400	4,694,450.5
		Male	508,347	1,023,709.8
	Mid-level	Female	33,848	59,663.9
		Male	31,208	63,329.7
	Senior	Female	2,717	8,066.7
		Male	7,742	15,275.5
Vietnam	Rank-and-file	Female	889,964	1,302,605.9
		Male	230,027	341,114.5
	Mid-level	Female	3,638	9,241.5
		Male	3,178	9,362.7
	Senior	Female	46	303.2
		Male	196	1,066.7
Indonesia	Rank-and-file	Female	738,860	2,554,431.7
		Male	130,887	430,547.2
	Mid-level	Female	1,900	5,381.9
		Male	1,414	4,874.2
	Senior	Female	1,367	2,283.5
		Male	1,997	3,456.0
China	Rank-and-file	Female	503,256	774,065.2
		Male	115,547	206,639.0
	Mid-level	Female	19,233	28,271.7
		Male	13,235	20,803.8
	Senior	Female	968	3,847.8
		Male	1,095	5,020.9
Myanmar	Rank-and-file	Female	1,729	533.4
		Male	1,739	560.1
	Mid-level	Female	3	4.3
		Male	891	405.1
	Senior	Female	0	0
		Male	5	19.7
Taiwan	Rank-and-file	Female	67,858	51,833.3
		Male	27,968	29,761.7
	Mid-level	Female	8,351	11,494.5
		Male	11,028	16,897.7
	Senior	Female	276	1,302.9
		Male	4,364	4,883.2
Bangladesh	Rank-and-file	Female	1,235	7,941.1
		Male	1,849	13,465.5
	Mid-level	Female	505	3,414.5
		Male	1,298	9,177.4
	Senior	Female	6	30.5
		Male	16	100.0

Total number of hours of training for Pou Chen’s employees in 2018 by gender, employee rank, and significant locations of operation

Area	Rank	Gender	Number of participants	Total training hours
Cambodia	Rank-and-file	Female	56	67.1
		Male	101	171.6
	Mid-level	Female	15	15.0
		Male	45	57.7
	Senior	Female	0	–
		Male	0	–
US / Mexico	Rank-and-file	Female	362	2,678.2
		Male	212	1,430.7
	Mid-level	Female	127	1,667.1
		Male	99	1,725.5
	Senior	Female	5	65.5
		Male	34	563.8
Others	Rank-and-file	Female	80	294.6
		Male	17	19.5
	Mid-level	Female	76	173.4
		Male	20	25.6
	Senior	Female	49	233.3
		Male	35	165.2

Pou Chen Education and Training Achievements for 2016–2018



Average Employee Training Hours in 2018

Category	Total training hours (hours)	Number of participants	Average training hours per employee (hours)
Group	5,864,496.0	2,787,262	16.7
Group—Female	4,762,181.0	2,239,965	17.4
Group—Male	1,102,315.0	547,297	14.0
Group—Rank and file	5,718,160.0	2,711,747	16.5
Group—Mid-level	122,994.0	65,056	21.1
Group—Top management	23,342.0	10,459	74.1
Taiwan	116,173.0	119,845	28.1
China	1,038,648.0	653,334	14.0
Vietnam	1,663,695.0	1,127,049	11.0
Indonesia	3,000,975.0	876,425	27.4
Bangladesh	34,129.0	4,909	8.9
Cambodia	311.0	217	0.1
Myanmar	1,522.0	4,367	0.3
US / Mexico	8,131.0	839	5.0
Others	912.0	277	21.7

Note: Total hours of training = Σ (hours of training per class\*number of participants per class); Average hours of training per employee = total hours of training of the program / total employees of the program in that year

# Appendix G

## ISO 14001 Environmental Management System

### Third-Party Certification

Corporate factory	China						
	B0MF Factory	808M Factory	B0JK Factory	221M Factory	216M Factory	229M Factory	218M Factory
ISO 14001 Environmental Management System (certificate validity period)	ISO 14001 : 2015 ( 2018.09.13 ~ 2019.07.18 )	ISO 14001 : 2004 (2017.06.12 ~ 2020.06.11)	ISO 14001 : 2015 ( 2018.05.09 ~ 2020.04.19 )	ISO 14001 : 2015 ( 2018.05.09 ~ 2020.04.19 )	ISO 14001 : 2015 ( 2018.05.09 ~ 2020.04.19 )	ISO 14001 : 2015 ( 2018.05.09 ~ 2020.04.19 )	ISO 14001 : 2015 (2018.08.23 ~ 2020.08.09)
	Verifier:TUV	Verifier: CQC(China)	Verifier:TUV	Verifier:TUV	Verifier:TUV	Verifier:TUV	Verifier: : TUV

Corporate factory	China					Myanmar
	308 Factory	238 Factory	72E Factory	724 Factory	111G Factory	B0VQ Factory
ISO 14001 Environmental Management System (certificate validity period)	ISO 14001 : 2015 ( 2018.09.13 ~ 2019.07.18 )	ISO 14001 : 2015 ( 2018.08.23 ~ 2020.08.09 )	ISO 14001 : 2015 ( 2018.08.23 ~ 2020.08.09 )	ISO 14001 : 2015 ( 2017.02.27 ~ 2020.03.10 )	ISO 14001 : 2004 ( 2016.11.01 ~ 2018.09.14 )	ISO 14001 : 2015 ( 2018.06.14 ~ 2020.06.29 )
	Verifier:TUV	Verifier:TUV	Verifier:TUV	Verifier: CQC(China)	Verifier: CTI (China)	Verifier:TUV

Corporate factory	Vietnam					
	65M Factory	A201 Factory	376 Factory	B0PW Factory	281 Factory	172 Factory
ISO 14001 Environmental Management System (certificate validity period)	ISO 14001: 2015 ( 2019.02.13 ~ 2020.01.06 )	ISO 14001: 2015 ( 2018.08.17 ~ 2021.08.17 )	ISO 14001: 2015 ( 2018.09.13 ~ 2019.07.18 )	ISO 14001 : 2004 ( 2016.01.20 ~ 2018.09.14 )	ISO 14001 : 2015 ( 2018.02.19 ~ 2021.02.18 )	ISO 14001 : 2015 ( 2018.08.27 ~ 2020.03.20 )
	Verifier:TQCSI	Verifier:SGS	Verifier:TUV	Verifier:TUV	Verifier:TUV	Verifier:TUV

Corporate factory	Vietnam						
	175 Factory	282 Factory	B02R Factory	171 Factory	B0K8 Factory	B0SX Factory	B0OL Factory
ISO 14001 Environmental Management System (certificate validity period)	ISO 14001 : 2015 ( 2016.09.30 ~ 2019.09.30 )	ISO 14001 : 2015 ( 2016.09.30 ~ 2019.09.30 )	ISO 14001 : 2015 ( 2018.08.27 ~ 2020.03.20 )	ISO 14001 : 2015 ( 2018.08.27 ~ 2020.03.20 )	ISO 14001 : 2004 ( 2016.07.19 ~ 2018.09.14 )	ISO 14001 : 2004 ( 2016.01.20 ~ 2018.09.14 )	ISO 14001 : 2015 ( 2018.09.03 ~ 2021.09.03 )
	Verifier: SGS	Verifier:TUV	Verifier:TUV	Verifier:TUV	Verifier:SGS	Verifier:SGS	Verifier:SGS

Corporate factory	Vietnam			
	B098 Factory	B0GJ Factory	B0SG Factory	B0KI Factory
ISO 14001 Environmental Management System (certificate validity period)	ISO 14001 : 2015 ( 2016.10.14 ~ 2019.10.14 )	ISO 14001 : 2015 ( 2016.10.28 ~ 2019.10.01 )	ISO 14001 : 2015 ( 2018.08.27 ~ 2020.03.20 )	ISO 14001 : 2015 ( 2018.08.26 ~ 2021.08.26 )
	Verifier: SGS	Verifier: SGS	Verifier: TUV	Verifier: SGS

Corporate factory	Indonesia						
	B08G Factory	B0CV Factory	B0EM Factory	A206 Factory	A209 Factory	256 Factory	B038 Factory
ISO 14001 Environmental Management System (certificate validity period)	ISO 14001 : 2015 ( 2018.09.13 ~ 2019.11.27 )	ISO 14001 : 2015 ( 2018.07.31 ~ 2020.09.03 )	ISO 14001 : 2015 ( 2018.07.31 ~ 2020.09.03 )	ISO 14001 : 2015 ( 2018.08.25 ~ 2021.08.24 )		ISO 14001 : 2015 ( 2018.07.31 ~ 2020.09.03 )	ISO 14001 : 2015 ( 2018.09.13 ~ 2019.07.18 )
	Verifier: TUV	Verifier: TUV	Verifier: TUV	Verifier: TUV		Verifier: TUV	Verifier: TUV





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