



# 裕元工業(集團)有限公司

## Yue Yuen Industrial (Holdings) Limited

Incorporated in Bermuda with limited liability  
於百慕達註冊成立之有限公司

Stock Code 股份代號 : 551



**2020** Environmental,  
Social and  
Governance Report  
二零二零年環境、社會及管治報告



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## Chapter 1

## About This Report

### Introduction

Yue Yuen Industrial (Holdings) Limited (the “Company”) together with its subsidiaries (the “Group”) adheres to the core values of “Professionalism, Dedication, Innovation and Service”, and is committed to becoming the best sports and leisure goods manufacturer and retailer. The Group follows a sustainable development strategy and has formulated four major business strategies and objectives. OEM’s “economies of scale” business model will be transformed to “economies of value” business model with innovative services. By providing the most valuable solutions in the overall footwear industry supply chain, the customers will enjoy services of high value, thus enhancing the competitiveness of our customers, and achieving win-win outcomes and co-prosperity for both the Company and its customers.

The Group is moving towards sustainable development, by continuing to improve industrial intelligent production technology, maintaining harmonious and good labor relations and satisfying required environmental standards of production bases as well as following the international trend of sustainability. Meanwhile, the Group increases employees’ recognition and joint practice of its core values, enhances strategy planning and promotes the efficiency of implementation through various internal communication channels, providing the employees with safe and healthy working environment as well as talent training and development, promoting and implementing supply chain management policies, and administering a set of comprehensive policies, mechanisms and measures for environmental protection, and community involvement and participation, with the objective to carry through sustainable development and operation.

The sustainable development department established by the Group is responsible for the consolidation and provision of strategic studies, proposals and project management of corporate social responsibility issues of the sustainable production of the manufacturing plants in different regions. These include the codes of conduct of the brand customers for sustainable operation, the compliance with laws and regulations of local regulatory authorities, the management of labor relations, and responses to the audits and inspections of the Group’s factories conducted by non-governmental organizations. The sustainable development team also regularly reports to the management on the performance of the aforesaid affairs and provides recommendations.

The Group, as a responsible leader in the industry, is a member of the World Federation of the Sporting Goods Industry (WFSGI), and it has been supporting the principles of WFSGI’s Code of Conduct since 2016. The Pou Chen Group (comprising the Group’s parent company Pou Chen Corporation and the Group) also joined Fair Labor Association (FLA), a non-profit organization dedicated to protecting workers’ rights around the world, as its participating supplier since 2011, and the social compliance program of Pou Chen has been accredited by the FLA since 2018, making the Group the first and only FLA-accredited footwear supplier globally.

The board of directors (the “Board”) of the Company is responsible for evaluating and determining the Group’s environmental, social and governance risks, the formulation of the corresponding strategies, and ensuring that appropriate effective environmental, social and governance risk management and internal control systems are established and maintained. Through regular analysis and independent assessments by the internal audit function, the Board also determines whether the aforesaid systems are sufficient and effective.



## Chapter 1

## About This Report

The Board of the Company is pleased to submit the Group's 2020 Environmental, Social and Governance Report (the "Report") with respect to the policies and performances in the four main areas including environmental protection, employment and labor practices, operating practices and community participation during the period from January 1, 2020 to December 31, 2020.

### Report Compilation Basis

This Report is prepared with reference to the "Environmental, Social and Governance Reporting Guide" under Appendix 27 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). The information disclosed in this Report is derived from the results of internal statistics and analysis of the Group's internal management systems. The Company has complied with the "comply or explain" provisions set out in the "Environmental, Social and Governance Reporting Guide" under Appendix 27 of the Listing Rules for the reporting period of this Report as set out below.

### Scope of Reporting

The Group is engaged in two main businesses: (1) the footwear manufacturing business for international brand customers, and (2) the operation of an integrated sportswear retail network in the Greater China region as well as event management and sport services. For specific details of the above mentioned businesses, please refer to the Group's 2020 Annual Report. This Report only covers the relevant policies and performance of the footwear manufacturing business of the Group, and does not include the relevant information with regard to the retail and related businesses as mentioned in the aforesaid item (2). As for the relevant policies and performance of the retail and related businesses as mentioned in the aforesaid item (2), please refer to the Environmental, Social and Governance Report in the 2020 Annual Report of Pou Sheng International (Holdings) Limited, a listed subsidiary of the Company.

### Reporting Period

The information published in this Report covers the period from January 1, 2020 to December 31, 2020, which period is the same as the financial year as reported in the Group's 2020 Annual Report.

On behalf of the Board

**Tsai Pei Chun, Patty**

*Managing Director*

Hong Kong, March 23, 2021



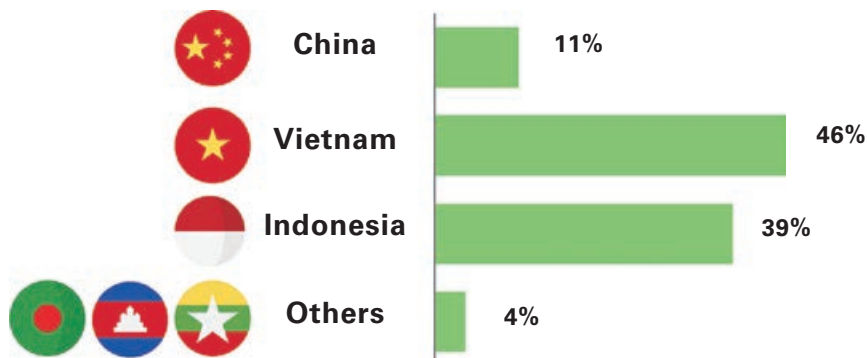
## Chapter 2

## 2020 Highlights

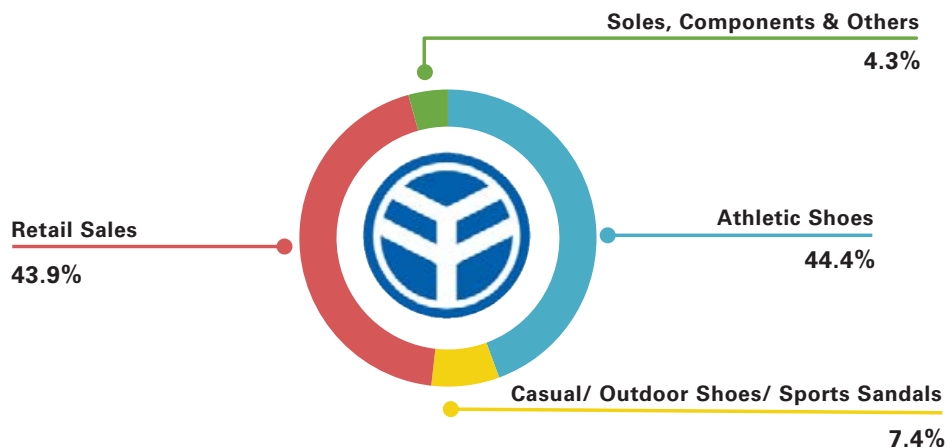
### Financial and Business Performance



### Production Allocation



### Revenue by Category



## Chapter 2

## 2020 Highlights

### External Organization Participation



#### Fair Labor Association

The social compliance program of Yue Yuen's parent company Pou Chen Group (comprising Pou Chen Corporation and the Group) received Fair Labor Association (FLA) accreditation since 2018, making the Group the first and only FLA-accredited footwear supplier globally.



#### World Federation of the Sporting Goods Industry

Yue Yuen joined the World Federation of the Sporting Goods Industry (WFSGI) in 2016 and became one of its manufacturer members supporting the principles of the WFSGI's Code of Conduct.

### Key Sustainability Ratings



#### FTSE Russell Ratings

Yue Yuen's ESG performance graded by FTSE Russell ESG Ratings continue to reflect an upward trend in past 3 years.

	2020	2019	2018
<b>Overall Scores</b>	2.8	2.1	1.9



#### MSCI ESG Ratings

Yue Yuen has obtained BB rating from MSCI ESG Research for seven consecutive years since 2014.

	2020	2019	2018
<b>Ratings</b>	BB	BB	BB

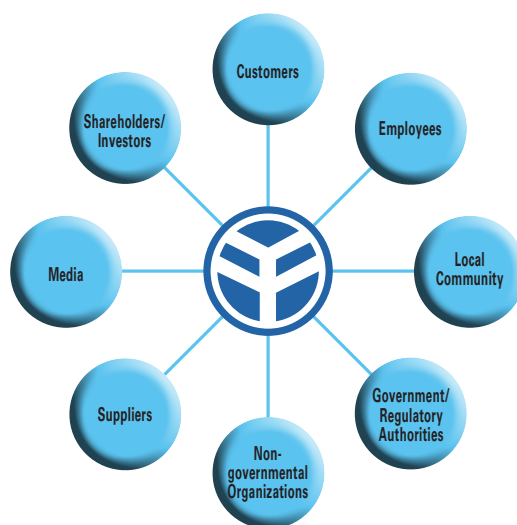


## Chapter 3

## Stakeholder Engagement

### Identification of Stakeholders

Based on (1) the feedback from customers as received by the relevant business executives, and (2) the records of enquiries and interactive communications between external organizations and internal staff, and according to such interaction frequency, with reference to the five principles of AA1000 Stakeholder Engagement Standard 2015, the Group consolidated eight different groups of stakeholders that are related to footwear manufacturing business. These include shareholders/investors, customers, employees, local community, government/regulatory authorities, suppliers, media, and non-governmental organizations.



### Communication with Stakeholders and Identification of Material Issues

Regarding issues that are of concerns to the stakeholders, the Group seeks stakeholders' opinions and suggestions through scheduled and ad hoc meetings with stakeholders and transparent and good interactive communications between relevant business contact windows. Internal meetings of the Group are conducted to report and discuss the information received from the stakeholders' feedback, which will then be used as important reference for the Group's sustainable development strategy. The administrative centers of the Group's major production bases have also established dedicated sustainable development units to coordinate and process the communications with, and information and feedbacks from, stakeholders in relation to the issues on environmental protection, human rights and social impacts.

Through various communication channels as set out in the table below, the issues in question will be sorted according to their categories and nature before sending to relevant departments to handle and respond. Letters received through relevant communication channels in 2020 included business cooperation proposals, shareholders/investors services, media affairs, requests for research and survey, and academic visits, etc. No complaint was received from stakeholders regarding social impacts and related issues.



## Chapter 3

## Stakeholder Engagement

The Group's core business, namely footwear manufacturing, is a labor-intensive industry that continues to attract the attention of international labor rights groups. The brand customers also regard labor rights and occupational safety and health management standards as important evaluation criteria for partnership. Regarding the issues which are of concerns to stakeholders, relevant internal department heads of the Group have filtered and selected material issues according to the "Four Principles for the Internal Assessment of Material Issues" as follows.

### Four Principles for the Internal Assessment of Material Issues



Stakeholders	Issues of Interest	Communication Channels and Methods	Frequency
Shareholders/ Investors	<ul style="list-style-type: none"> <li>Economic performance</li> <li>Corporate governance</li> <li>Market image</li> <li>Major event</li> </ul>	<ul style="list-style-type: none"> <li>Publish news on the Company/HKEx websites (such as announcements, circulars, quarterly results announcements, interim reports, annual reports, etc.)</li> <li>Convene shareholders' meetings</li> <li>Hold quarterly, interim and annual results presentation</li> <li>Press releases</li> <li>Roadshows</li> <li>One-on-one meetings, investors forums and teleconferences</li> </ul>	<ul style="list-style-type: none"> <li>Irregular intervals</li> <li>At least yearly</li> <li>Four times per year</li> <li>Irregular intervals</li> <li>Seven times per year</li> <li>Irregular intervals</li> </ul>
Customers	<ul style="list-style-type: none"> <li>Product quality</li> <li>Product security management</li> <li>Management of prohibited/restricted substances</li> <li>Compliance with code of conduct</li> <li>Transparency and reliability of information disclosure</li> <li>Handling of the novel coronavirus pneumonia (COVID-19) pandemic</li> </ul>	<ul style="list-style-type: none"> <li>Business visits/regular meetings</li> <li>Ad hoc communication meetings</li> <li>Audit feedback/self-management performance feedback</li> <li>Email and phone contact</li> <li>ESG Report</li> </ul>	<ul style="list-style-type: none"> <li>Monthly</li> <li>Irregular intervals</li> <li>Monthly</li> <li>Irregular intervals</li> <li>Yearly</li> </ul>





## Chapter 3

## Stakeholder Engagement

Stakeholders	Issues of Interest	Communication Channels and Methods	Frequency
Regulatory authorities	<ul style="list-style-type: none"> <li>Corporate governance</li> <li>Compliance with statutes</li> <li>Major labor disputes</li> </ul>	<ul style="list-style-type: none"> <li>Cooperate with the government on compliance inspections</li> <li>Regular submission of statements (monthly/quarterly)/documents</li> <li>ESG Report</li> <li>Proposal consultation visits</li> </ul>	<ul style="list-style-type: none"> <li>Irregular intervals</li> <li>Monthly/Quarterly</li> <li>Yearly</li> <li>Irregular intervals</li> </ul>
Employees/Labor union	<ul style="list-style-type: none"> <li>Job security</li> <li>Salaries and benefits</li> <li>Labor relations/labor rights/working hours management</li> <li>Workplace safety</li> <li>Rationality of rules and regulations</li> <li>Opinion communication channels</li> <li>Performance evaluation and promotion system</li> </ul>	<ul style="list-style-type: none"> <li>Company internal website/email/employee suggestion box/questionnaire</li> <li>Employee Welfare Committee/Occupational Safety and Health Committee/Labor union</li> <li>Committee for Complaints, Rewards and Penalties</li> <li>Internal staff publications</li> <li>Employee and manager forums</li> <li>Consultation services at life guidance and counseling offices of production plants</li> </ul>	<ul style="list-style-type: none"> <li>Irregular intervals</li> <li>Monthly</li> <li>Irregular intervals</li> <li>Monthly/Bimonthly</li> <li>Monthly/Quarterly</li> <li>Daily</li> </ul>
Suppliers	<ul style="list-style-type: none"> <li>Management of prohibited/restricted substances</li> <li>Fair competition/quality and price/supply criteria</li> <li>Supplier selection and management (quality/sustainability requirements)</li> </ul>	<ul style="list-style-type: none"> <li>Procurement contracts/Letters of undertaking</li> <li>Business communication/email and phone contacts</li> <li>Supplier assessment system</li> <li>Supplier meetings</li> </ul>	<ul style="list-style-type: none"> <li>Irregular intervals</li> <li>Irregular intervals</li> <li>Yearly</li> <li>Irregular intervals</li> </ul>
Media	<ul style="list-style-type: none"> <li>Operational status</li> <li>Major labor disputes</li> <li>Newsworthy events</li> </ul>	<ul style="list-style-type: none"> <li>Press releases</li> <li>Coordination of requests for visits by media and provision of information</li> </ul>	<ul style="list-style-type: none"> <li>Irregular intervals</li> <li>Irregular intervals</li> </ul>



## Chapter 3

## Stakeholder Engagement

Stakeholders	Issues of Interest	Communication Channels and Methods	Frequency
Non-Governmental Organizations (NGOs) (FLA/World Federation of the Sporting Goods Industry)	<ul style="list-style-type: none"> <li>• Labor relations/labor rights</li> <li>• Compliance with laws and regulations</li> <li>• Environmental issues</li> <li>• Communication channels and mechanism</li> </ul>	<ul style="list-style-type: none"> <li>• Sustainable Compliance Initiative of Fair Labor Association on-site audit and online platform</li> <li>• Cooperation with NGOs</li> <li>• Documents about their issues of interest</li> <li>• Communication meetings/ emails and phone contact</li> <li>• Annual ESG Report</li> </ul>	<ul style="list-style-type: none"> <li>• Yearly</li> <li>• Irregular intervals</li> <li>• Irregular intervals</li> <li>• Irregular intervals</li> <li>• Yearly</li> </ul>
Community	<ul style="list-style-type: none"> <li>• Environmental issues/ compliance with statutes</li> <li>• Commuting traffic</li> <li>• Career opportunities</li> <li>• Community welfare outreach activities</li> </ul>	<ul style="list-style-type: none"> <li>• Proactive visits</li> <li>• Communication channels for external feedback</li> <li>• Sponsor community charity events/community visits</li> <li>• The Company's website</li> </ul>	<ul style="list-style-type: none"> <li>• Irregular intervals</li> <li>• Irregular intervals</li> <li>• Irregular intervals/ Quarterly</li> <li>• Irregular intervals</li> </ul>



## Chapter 4

## Community Participation

The Group adheres to the belief of “taking from the society, and giving back to the society”. Apart from maintaining sound business development, the Group also actively demonstrates its corporate core value of service. The Group has internally established various employee relations channels, maintained continuous dialogues with the employees, and developed diversified employee activities according to local characteristics and the employees’ needs. Externally, it has been actively communicating with local governments and organizations, paying close attention to the local living conditions and communities’ needs and providing resources for community-friendly activities. In 2020, the community participation activities continuously focused on three main aspects: education, health and medical care and local public relations.

Apart from providing career opportunities to the locals and promoting the development of the community’s economy, since female employees account for majority of our workforce, the employee caring facilities of various production bases are specifically focused on female employees’ health services and child care. It also shows its care for the employees through actions including home visits, regular free medical consultations in remote rural areas, assistance in housing renovations, student sponsorships and caring the underprivileged in the local communities. These specific activities not only represent the Group’s care and giving back to the families of the local employees but also bring in more resources to the local community for social care and benefits, thus strengthening the relationship of interdependence and co-prosperity between the Group and the communities. Please refer to the summary of major activities below.

### Caring Activities for Employees

- **Employee Forums:** Actively collect feedbacks from the employees and facilitate smoother communication between the management and the employees. As of 2019, most of the factories could upkeep the holding of employee forum for at least once a month. As of 2020, in response to the COVID-19 pandemic, as well as to comply with standards from local governments regarding social meetings and large-scale assemblies, the total number of employee forums held recorded a 52% decline from last year. A total of 372 employee forums and manager forums have been held during the year with a total of 14,485 employees and management personnel participating.
- **Recognition Ceremony of Outstanding Employees:** Regular recognition of model employees, employees with outstanding performance in terms of the Group’s core values.
- **Home Visits to Employees:** The Group implements sustainable services and includes home visit as part of compliance management so as to provide an opportunity for the direct supervisors of the employees and the management of factories to care for the employees’ families and understand their culture and living conditions. As of 2020, on the premise of complying with various local COVID-19 pandemic prevention regulations, home visits to 307 employees’ households were conducted, including those of outstanding employees, poor employees and injured and sick employees, with a total visiting time of about 2,067 hours, 78% less than last year.
- **Health Caring Measures:** Providing health examinations and special health examinations, setting up clinics with ambulances in factory areas, establishing employees’ health management system, promotion of health knowledge, organizing health promotion activities (traditional Chinese medicine health care and diagnosis, cancer screening, weight loss management courses, health seminars, relaxation massage), and visits to injured and sick employees and emergency assistance, etc.



## Chapter 4

## Community Participation

- **Occupational Health Caring Activities for Female Employees:** Providing gynecological medical examinations and consultation, promotion of maternal knowledge and pregnancy tests, care for pregnant women at work, parenting knowledge consulting, health expos, etc.
- **Diversified Employee Activities:** Providing employee recreation centers and recreational instruments, organizing ball game competitions, social events, second skills learning programs (information technology, make up, cooking, etc.), singing competitions, dance competitions, tug of war competitions, carnival activities, employee travels, hiking activities, employee days, festival activities and gift-giving activities, etc. A total of 201 employee activities were organized in 2020.



China – E-Running with Pou Chen



Vietnam – Volleyball Competition



China – Mother's Day Activity



Vietnam: Women's Day Celebration



Myanmar – Ka Htain Festival Activity



Indonesia – Greetings to Epidemic Prevention Staff



Vietnam – Cooking Competition



Indonesia – Communication with Labor Union





## Chapter 4

## Community Participation

### Employee Families Caring Activities

- **Scholarship:** Providing scholarship for employees' children and infants caring (kindergartens), recognition of employees' outstanding children.
- **Charity House:** The Group has been implementing the Charity House Scheme in Vietnam since 2009. As of December 31, 2020, a total of 279 charity houses have been donated with a contribution of approximately US\$512,000, which helped poor employees establish comfortable homes so that they can be stable at work and feel at ease.



Vietnam – Donation of Charity House



Vietnam – Donation of Charity House



Vietnam – Donation of Charity House



Vietnam – Donation of Charity House



## Chapter 4

## Community Participation

### Respect for religion diversity

Most of the employees at our Myanmar factory are devout Buddhists, thus the Group places large Buddha statues in the factory for the staff to find spiritual sustenance in faith. Meanwhile, over approximately 90.0% of the employees at the Indonesia and Bangladesh factories believe in Islam. According to the Islamic scripture Koran, Muslims must worship five times a day in the direction of Mecca, Saudi Arabia, to show that they remember Allah every day. The Group respects the religious faith of its staff, therefore several prayer rooms, or mosques, have been built in the factories, which can be freely used by the employees. Small separate prayer rooms are also provided in the working area for the free use of employees. As of 2020, there are 116 religious building facilities within the Group.

Islam fasting requires Muslim not to eat or drink from dawn to sunset during Ramadan, and the Company is considerate towards the physical condition of employees. Should any employee feel unwell, there are ambulances in place in the factories and medical rooms have been set up to provide immediate care services for them. The annual Eid al-Fitr marks the end of Ramadan and is equivalent to the New Year, on which Muslim will joyfully wear festive clothes. Believers would wake up very early and eat after the morning prayer. They then will go to the mosque to listen to the cleric reciting the Quran and pray together in the direction of Mecca. Muslims will also visit relatives and friends, hug and greet each other and restore ties between friends and relatives.

The Group's factories in Indonesia and Bangladesh hold Eid feasts, while those in Indonesia also carry out fast-breaking ceremonies with the residential community at local orphanages. Free buses are arranged for employees while working hours are flexibly adjusted, such that employees can pack their luggage to return home in advance to enjoy the Indonesian New Year.



## Chapter 4

## Community Participation

### Participation in Local Community Charitable Activities

- Health and medical care:** Health and well-being are the foundations of life. The Group provides services such as promotions on health and medical issues and free medical consultations from time to time at its operating bases. It also takes actions to promote the prevention of region-specific or seasonal diseases and assist in the enhancement of health knowledge, including blood donation, free medical consultations and promotion of disease prevention. In 2020, 1 relevant activity was organized with a total of 240 participants. Meanwhile, the Group also invested in long-term local medical projects. Since 2017, the Group started a “Corporate and Medical Cooperation” project through a subsidiary in Vietnam. A BlueStar clinic which meets the standard of Marie Stopes International was built to continuously provide high-quality and necessary reproductive health and family planning services as well as education and promotion activities, in order to improve the reproductive health knowledge of female employees.
- Education:** In order to promote a globally inclusive society and increase the opportunity for impactful conversations, the Group uses education as a platform and focuses on the educational service initiatives in each region. The Group upholds the spirit of service and exerts continuous efforts in different regions based on the education and development needs of each region.
  - Mainland China: Summer camps have been organized for left-behind children in Mainland China since 2010. As at the end of 2019, there were a total of 4,310 participants. In 2020, the summer camp for employees’ children was suspended due to the COVID-19 pandemic.
  - Vietnam: A long-term “Seeds of Hope Scholarship” plan has been set up since 2012 to support the education of school-age children. As at the end of 2020, there were a total of 9,585 beneficiaries with a contribution of approximately US\$414,456.
  - Indonesia: A total of approximately US\$24,835.5 of scholarship has been granted to school-age children in Indonesia since 2016 with a total of 837 beneficiaries. The Group also makes donations for school construction every year, with a total contribution of approximately US\$1,933.8 in 2020.



Vietnam – Corporate and Medical Cooperation Project



Vietnam – Corporate and Medical Cooperation Project



Vietnam – Free Community Medical Consultation



Vietnam – Free Community Medical Consultation





## Chapter 4

## Community Participation

- **Local Public Relations:** A large number of local staff were employed at each production base. In order to deepen the connection with the local community and enhance interaction and cooperation, we actively communicate with local community-based organizations to build a sustainable harmonious community relationship through means such as aiding the construction and strengthening of local community hardware, holding festive activities along with service visits to local organizations. In 2020, a total of 13 relevant activities were held with a total of 550 participants.



Vietnam – Seeds of Hope Scholarship



Vietnam – Seeds of Hope Scholarship



Vietnam – Donation of Toilet Facilities to School



Vietnam – Donation for the Construction of School Bus Shelter





## Chapter 5

## Employment and Labor Practices

### Key Performance

#### FLA Certification

Pou Chen Group (comprising Pou Chen Corporation and the Group) has obtained FLA certification. It is the only sports footwear manufacturer in the world that is certified by the Fair Labor Association (FLA). A total of 9 independent and objective transnational labor supervision reports over 10 years demonstrate that Pou Chen provides working environment, salaries and benefits that meet the legal requirements, protecting the rights and interests of 260,000 employees worldwide.

#### 260,000 Employees

There are more than 260,000 regular employees worldwide in the shoemaking business segment of the Group.

#### 200,000 Female Employees

200,000 female staff were employed, which accounts for 77.2% of all employees, and committed to gender equality.

#### No Child Labor

In compliance with International Labour Organization (ILO) C138 — Minimum Age Convention, no child labor is employed.

#### 92.1%

The Collective Bargaining Agreement covers approximately 247,000 workers worldwide, accounting for 92.1% of the total number of employees in the shoemaking business segment.

#### Nearly 100% Rate of Conclusion

By collecting the Voice of the Employee (VOE), there were a total of 3,424 cases of complaint and consultation registered in the employee relationship management system, with the overall rate of conclusion up to 99.5%.

#### 4,310 Households Benefited

Since 2010, a 30-day summer camp for employees' children has been organized by the factories in Mainland China between July and August every year. Since its debut in 2010, a total of 4,310 households have been benefited. However, due to the impact of the COVID-19 pandemic, the summer camp for employees' children was suspended in 2020.

#### 99 Muslim Prayer Rooms

More than 100,000 employees at the Indonesia and Bangladesh factories believe in Islam, therefore 99 prayer rooms and 15 mosques have been built for them to worship.



## Chapter 5

## Employment and Labor Practices

The Group upholds the idea of “Focus on People, for the People”. The Group believes that employees are important assets, and has planned a holistic approach of recruitment, employment, training and retention of employees. Team events are organized to build the employees’ sense of belonging, as well as to increase the employees’ understanding of the Group and recognition of the Group’s core values of “Professionalism, Dedication, Innovation and Service”. The Group provides comprehensive training, competitive compensation and diversified communication channels with an aim to improve the employees’ professionalism and enthusiasm at work, as well as to attract talents. The performance management system has been introduced to effectively motivate the employees to engage in continuous development, to help the employees in career planning, and to achieve succession of talents and the Group’s objective of sustainable operation. The Group is also committed to providing the employees with an equal, safe and healthy work environment, complying with the local laws and regulations, as well as fostering labor harmony and building a high quality enterprise.





## Chapter 5 Employment and Labor Practices

The Group is generally in compliance with the applicable laws and regulations that have a significant impact on the Company regarding compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, prevention of child labor, prevention of forced labor, human trafficking and other benefits and welfare, including but not limited to:

- Mainland China: the Labor Law of the People's Republic of China (《中華人民共和國勞動法》), the Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》), the Labor Dispute Mediation and Arbitration Law of the People's Republic of China (《中華人民共和國勞動爭議調解仲裁法》), the Employment Promotion Law of the People's Republic of China (《中華人民共和國就業促進法》), the Social Insurance Law of the People's Republic of China (《中華人民共和國社會保險法》) and relevant labor regulations;
- Vietnam: the Labor Law (《勞動法》), the Social Insurance Law (《社會保險法》), the Medical Insurance Law (《醫療保險法》), the Syndical Law (《工團法》), the Employment Law (《就業法》), the Labor Safety and Health Law (《勞動安全衛生法》) and relevant labor regulations;
- Indonesia: the Labor Law (《勞動法》), the Social Insurance Law (《社會保險法》) and relevant labor regulations.

No complaints or notices were received from any government authorities due to any material breaches of these employment and labor practices.



## Chapter 5 Employment and Labor Practices

The Group is also committed to respecting human rights and complying with the human right standards and principles expressed in the “Universal Declaration of Human Rights” and in the International Labour Organization’s “Declaration on Fundamental Principles and Rights at Work”; and has formulated its code of conduct (“Group Code of Conduct”) by referring to the codes of conduct adopted by International Labour Organization, Fair Labor Association, and various brand customers. The Company has been a manufacturer member of the World Federation of the Sporting Goods Industry since 2016 and has always been complying with its code of conduct. In addition, Pou Chen Group (comprising Pou Chen Corporation and the Group) has joined Fair Labor Association as a participating supplier since 2011. Starting from 2012, Fair Labor Association visits various factories of the Group and carries out audit every year. The Group has obtained high recognition from Fair Labor Association with regard to the enormous resources it has continuously invested in the implementation of social corporate responsibility and its efforts demonstrated in improving factories, enhancing work environment and work quality. Pou Chen Group (comprising Pou Chen Corporation and the Group) has successfully obtained the accreditation from the board of directors of Fair Labor Association, and was the first accredited sports shoes manufacturer of Fair Labor Association. It carries out an annual audit according to Fair Labor Association (FLA) SCI to maintain its compliance standards on human rights and labor. Pou Chen Group (comprising Pou Chen Corporation and the Group) also signed the Commitment to Responsible Recruitment jointly developed by FLA and American Apparel & Footwear Association in November 2019 for the continued day-to-day promotion and advocacy of human rights, which sets out that:

1. No worker is required to pay agency fees.
2. Workers retain control of their travel documents and have full freedom of movement.
3. All workers are informed of the basic terms of their employment before leaving home.

Based on such principles, the Group includes responsible recruitment practices in its business operations in accordance with relevant commitments, and ensures that there is no forced labor through its internal audit system.



## Chapter 5

## Employment and Labor Practices

### **“Group Code of Conduct”**

Stemming from the commitment to corporate social responsibility, the Group always demonstrate rigorousness, openness and transparency in the compliance with the applicable laws and regulations of the countries of operation. If there is discrepancy or conflict between different standards, the higher one is adhered to. The Group:

- (1) is committed to respecting human rights and complying with the human right standards and principles expressed in the Universal Declaration of Human Rights and in the International Labour Organization’s Declaration on Fundamental Principles and Rights at Work;
- (2) develops its core standards for all employees performing duties by referring to the codes of conduct adopted by International Labour Organization, Fair Labor Association (FLA), and various brand customers from time to time;
- (3) dedicates itself to continuous improvements in work environment and risk control through the detection of potential problems by internal and external audits; and
- (4) strives to further foster labor harmony and to build a high quality enterprise.



## Chapter 5

# Employment and Labor Practices

**The Group implements the following “Code of Conduct”:**

### **Employment Relationship**

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

### **Anti-discrimination**

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

### **Harassment or Abuse**

Every employee shall be treated with respect. No employee shall be subject to physical, sexual, psychological or verbal harassment or abuse.

### **Forced Labor**

There shall be no use of forced labor, including prison labor, indentured labor, bonded labor or other forms of forced labor. The employment of any labor involved in any form of human trafficking, whether by way of force, fraud, coercion or any form of involuntary servitude or slavery, shall be prohibited.

### **Child Labor**

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

### **Freedom of Association and Collective Bargaining**

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

### **Health, Safety, and Environment**

The Group shall provide a safe and healthy workplace setting to prevent accidents and injury jeopardizing health when employees engage in work-related tasks or the operation of the Group’s facilities. The Group shall adopt responsible measures to mitigate negative impacts that the workplace has on the environment.

### **Hours of Work**

The Group shall not require employees to work more than the regular and overtime hours allowed by the law of the country where the employees are employed. Under normal circumstances, the regular work week shall not exceed 48 hours. The Group shall allow employees at least 24 consecutive hours of rest in every seven-day period. All overtime work shall be consensual. The Group shall not request overtime on a regular basis and shall compensate all overtime work at a premium rate as required by local laws or as agreed in the employment contract (whichever is higher). Other than in exceptional circumstances, the sum of regular and overtime hours in a week shall not exceed 60 hours.



## Chapter 5

## Employment and Labor Practices

### **Compensation**

Every employee has a right to compensation for regular work that is sufficient to meet the employees' basic needs and provide some discretionary income. The Group shall pay at least the minimum wage or the appropriate prevailing wage or the wage as agreed in the employment contract, whichever is the highest, comply with all legal requirements on wages as provided by local laws, and provide any fringe benefits required by laws or the employment contract. Where compensation does not meet employees' basic needs and provide some discretionary income, the Group shall take appropriate actions that seek to progressively realize a level of compensation that does.

### **Community Outreach and Partnership**

The Group dedicates itself to active participation in community charity activities, enhancement of the community development, and creation of a harmonious society.

### **Review and Amendment**

This Code of Conduct shall be subject to review and amendment by the Company from time to time.



## Chapter 5 Employment and Labor Practices

### 5.1 Proper Assignment of Roles and Responsibilities

#### Diversified Recruitment Channels

The Group actively recruits talents of different nationalities, genders, ages and religions in a fair and equitable manner through various channels including newspaper advertisements, internet advertisements, cooperation with local governments and lawful employment agencies, consultants, social networking websites, recruitment notices posted in areas around the factories, student internship programs, and internal staff referrals, etc.

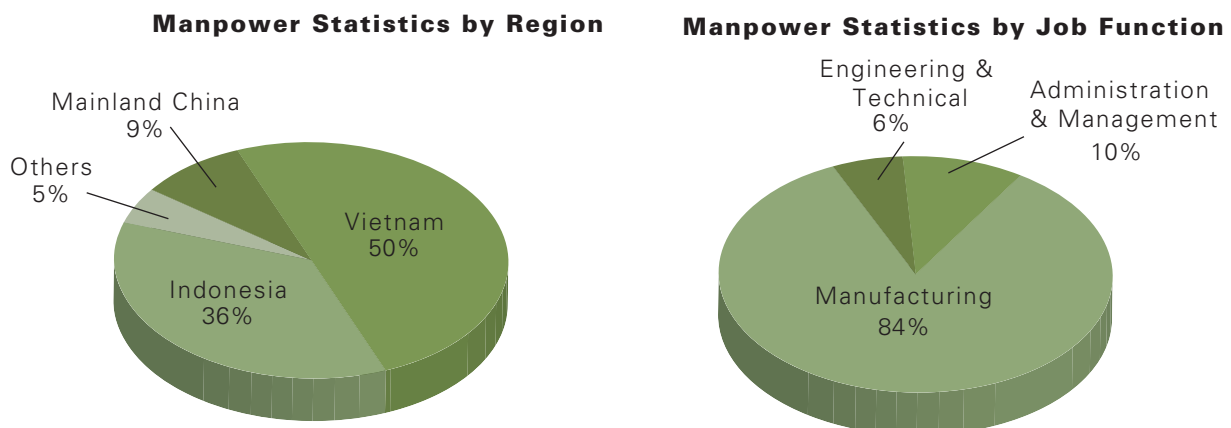
#### Bring Together Talents of Diverse Backgrounds

The Group has a number of operating bases across the globe, which include Mainland China, Indonesia, Vietnam, Hong Kong, Macau, Bangladesh, Cambodia, Myanmar and Taiwan, etc. As at December 31, 2020, the Group's formal staff in footwear manufacturing totaled approximately 265,000. The distribution of manpower according to the major operating bases was as follows: approximately 50% in Vietnam, approximately 36% in Indonesia, approximately 9% in Mainland China, and approximately 5% in other regions.

Professionals in different fields are our greatest assets. Categorized by job function, employees in manufacturing accounted for approximately 84% of the total number of employees; engineering and technical accounted for approximately 6%; administration and management accounted for approximately 10%. Categorized by employees' gender, female employees accounted for approximately 77% and male employees accounted for approximately 23%.

Categorized by employees' age, aged 29 and below accounted for approximately 34%, aged 30 to 49 accounted for approximately 62% and aged 50 and above accounted for approximately 4%.

#### 2020 Manpower Structure



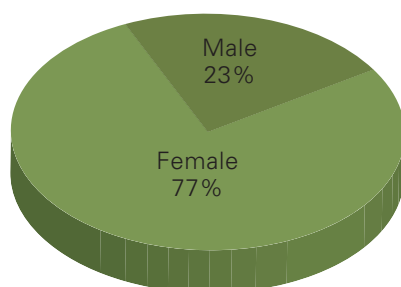




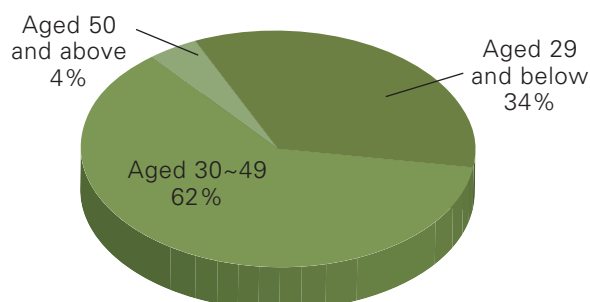
## Chapter 5 Employment and Labor Practices

### 2020 Manpower Structure (Continued)

**Manpower Statistics by Gender**



**Manpower Statistics by Age**



### 2020 Employees Turnover

The Group welcomes talents from the same industry to join our team to accumulate professional experiences, and also brings in new talents from different industries to stimulate innovative ideas.

#### Recruitment Rate (Approximate) – By Gender and Age

Region	Gender		Age		
	Female	Male	29 and below	30~49	50 and above
	15%	3%	2%	8%	8%
Vietnam	6%	3%	6%	3%	0%
Indonesia	6%	2%	8%	1%	0%
Other	35%	8%	34%	8%	0%

Note: Recruitment Rate = No. of New Recruits in the Respective Category in the Respective Region/No. of Employees in the Respective Region as at December 31, 2020

#### Attrition Rate (Approximate) – By Gender and Age

Region	Gender		Age		
	Female	Male	29 and below	30~49	50 and above
Mainland China	9%	4%	2%	10%	1%
Vietnam	10%	3%	6%	6%	0%
Indonesia	17%	2%	11%	9%	0%
Other	7%	2%	7%	2%	0%

Note: Attrition Rate = No. of Employee Turnover in the Respective Category in the Respective Region/No. of Employees in the Respective Region as at December 31, 2020



## Chapter 5 Employment and Labor Practices

### 5.2 Education, Training and Career Development

#### Group Education, Training and Development Policies and Objectives

Talents play a pivotal role in the sustainable development of a corporation. The Group is the best strategic partner to world-renowned brand customers and is committed to becoming the employer of choice for talents. We actively nurture core talents and adhere to the business philosophy of “continuous innovation”. Through systematic, diversified and comprehensive talent development mechanism, we broaden the talents’ international perspectives, deepen their professional knowledge, instill corporate culture and create competitive advantages, in order to lay a foundation for the Group’s sustainable development. The Group’s education, training and development policies and objectives are as follows:

- Align corporate mission, vision, business strategies and objectives, formulate talent development strategies, actively nurture leaders and professionals for the Group, and enhance our talent pool.
- Strengthen corporate vision and shape culture and values to create irreplaceable soft skills for the Group.
- Actively establish a talent pool of the Group, identify talents through systematic and professional evaluations, and according to personal and organizational needs, develop a comprehensive talent development plan and training blueprint.
- Continuously introduce innovations, new technologies, ideas or tools to improve personal growth and organizational learning, and help the Group and its employees meet their objectives.
- Value the employee’s self-development, provide diverse learning channels, and encourage self-initiated learning to bring out the employees’ potentials and realize individual achievement.

#### Group Education, Training and Development Planning

The Group achieves its goals of training and development through systematic frameworks and methods, constantly upgrades the quality of manpower and expertise, motivates employees’ job enthusiasm and encourages them to welcome challenges, thereby creating greater corporate value, achieving operational goals and planning for future development. To achieve the policies and goals of the Group’s training and development, it is necessary to consider not only the Group’s business vision and objectives but also the assessment of employees’ performance and achievements, capability deficiencies, as well as personal development plans. In line with the Group’s training systems, education and training structures are established to plan courses including new employees courses, core courses, management courses, professional courses, self-development courses, etc. Through physical or digital learning, the employees are offered all-round and comprehensive training and their professional expertise and management capabilities are continuously enhanced. Meanwhile, the employees can identify their own platforms for realization of their competencies, allowing them to grow with the Group.



## Chapter 5

## Employment and Labor Practices

### Courses Offered by the Training System

To ensure the training courses meet the Group's strategy requirements, in addition to the report of annual training and development performance in business review meeting, the development focus and training requirements of different business units are collected and comprehended to serve as the basis for future development planning. Talents' competitive advantages are enhanced according to the Group's overall business strategies, and a comprehensive training system is established according to its mission. Our annual training plan not only follows the Group's business vision and targets, but also considers the employees' personal development plans, functional training system at various ranks and professional skill certification courses such as laws and regulations. We have also formulated "Education and Training Course Management Policies" to govern the implementation of training courses.

In order to enhance the employees' job skills at different positions and realize their vision of lifelong learning, in accordance with the core values of the Group and the functions of the employees, a series of training programs at different stages have been planned. From an employee's employment to his/her expected retirement, the Group provides continuous training for the skills necessary for his/her duties in order to strengthen the employee's continued employability. It is expected that the arrangement of staff education and training courses can bring the employees to common understanding and recognition of organizational values, in order to optimize operating performance for the Group.

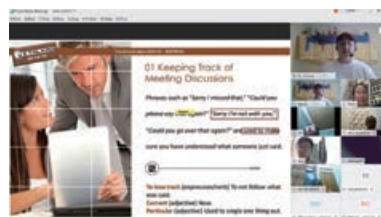
- (1) **General staff:** The Group organizes orientation training and motivation camp courses for new employees for them to understand the Group's profile and its core values, and communicates its core thinking through interactive learning courses, so as to establish a common language for its employees and build consensus among the team. At the same time, the Group also encourages diversified development of its employees by organizing a series of soft skills courses for them to increase the added value outside of work.
- (2) **Management system:** We design learning and development programs according to the core and management function development plan of the Group, in order to strengthen the knowledge and skills, role orientation and management competencies required of the Group's executives. In 2019 and 2020, a "leadership echelon management training" was specially conducted for senior and middle management personnel. In addition to enriching the talent pool of senior and middle management personnel, exploring key potential talents, enhancing their risk management and decision-making capability and strengthening their leadership capability, this training combined with a talent management system and performance appraisal system to examine the progress of talent development and track various management indicators, so as to strengthen the effectiveness and efficiency of talent development and succession plans.



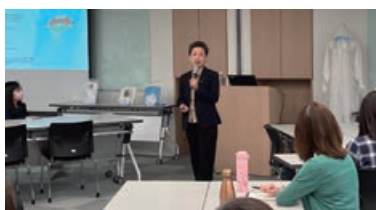
Management Course –  
Co- Learning Course



Management Course –  
Co- Learning Course



Self-Development Course –  
Online English Course



Epidemic Prevention  
Seminar



Epidemic Prevention  
Seminar



Professional Course –  
Technical Training Course



## Chapter 5 Employment and Labor Practices

- (3) **Professional system:** We develop and plan various learning and development projects covering different themes including R&D, quality control, engineering, manufacturing, business, purchasing, supplier management, and staff functions according to functional and professional requirements in order to strengthen employees' professional and technical capabilities.



Core Course – Accountability



Management Course –  
Systematic Thinking



TTUP – Comprehensive  
Talent Enhancement Programme



Management Course –  
Strategy Consensus

### An Overview of the Implementation of the Group's Education and Training

In 2020, the Group held a total of approximately 2,762,000 training hours, with total participation of approximately 1,250,000 trainees, and average training hours of approximately 10 hours per staff.

Total Training Hours (Approximate)	Total Participants (Approximate)	Average Training Hours per Staff (Approximate)
2,762,000	1,250,000	10

The analysis of the Group's training by gender and job level of the employees is shown as follows:

Region	Job Level	Gender	Participants (Approximate)	Total Training Hours (Approximate)
Group	Entry	Male	227,800	602,800
		Female	1,008,000	2,121,600
	Middle	Male	5,200	12,700
		Female	8,700	23,600
	Senior	Male	200	1,100
		Female	100	200



## Chapter 5 Employment and Labor Practices

### Performance Management System

The Group has implemented performance management system to achieve operational goals and enhance employees' capabilities. The target covers employees in major operating bases including Mainland China, Hong Kong, Macau, Indonesia, Vietnam, Myanmar and Cambodia and does not differ due to gender or age. During performance assessments, all employees who have worked for over three months participate in it. The entry level employees are assisted to improve their day-to-day work performance primarily through a monthly assessment mechanism, while the performance assessments of management personnel (mid-level and above) carried out in mid-year and year-end every year based on individual and organizational goal setting and implementation. Formal performance interviews are conducted to help the supervisors and employees understand the organizational goals and personal expectations on development, so that work directions of the organization and the individuals are clearer and aligned.

In addition, performance management training sessions are arranged for supervisors to enhance the effectiveness of performance interviews between supervisors and employees. The supervisors will join the internal instructor team and convey and share knowledge and practical experiences in relation to performance management in the internal instructor trainings. In training sessions, a number of experiential learning activities are included. Through observation, analysis as well as sharing of experience, the participating supervisors acquire knowledge and get inspiration.



The implementation of performance management is primarily used to measure employees' overall progress in the achievement of goals and performance, the final results of which are one of the basis for the employees' promotions, rewards, training and personal development plans. With a comprehensive performance management system, we create a performance-oriented corporate culture, incentivize employees' performance and functional results and further nurture and develop employees' personal capabilities.



Performance Management – Newcomer Training Session



Performance Management – General Studies Training Session





## Chapter 5

# Employment and Labor Practices

### 5.3 Comprehensive Remuneration and Benefits System

#### Competitive Remuneration Scheme

The Group recognizes its employees as its greatest assets. In order to attract, motivate and retain talents, we offer attractive and competitive remuneration packages. We uphold the principle of equal pay for the same position regardless of gender, race, religion, political affiliation, sexual orientation or marital status of the employees. The remuneration of an employee will be determined with reference to his/her educational background, experience, job duties, professional skills and technical capacities, the salary levels in the industry as well as market conditions. The basis of reward and promotion depends on an employee's work attitude, demonstration of professional ability and overall performance. The Group also reviews the remuneration policies regularly to make sure our salary standards are competitive. The performance management system is introduced to assess an individual employee's performance, the results of which will be used as the basis for salary adjustment and job promotion, thus helping the recruitment and retention of talents.

As an international enterprise, the Group will design remuneration systems compatible to the local conditions for its overseas operating bases with reference to the local government decree, the salary levels in the industry as well as market conditions, in order to encourage local employees to work long-term and grow together with the Group. In addition to monthly work performance bonuses based on performance, we take a certain percentage of profits according to the annual performance of the Group as year-end bonus to reward the employees' contributions and work enthusiasm, so that the employees can share the operating results of the Group.

#### Comprehensive Employee Benefits

##### *Balance Between Work and Family Life is Encouraged*

The vacation policy of the Group is established according to the relevant laws and regulations of different operating bases. Employees are allowed to arrange leaves on their needs according to the policy.



## Chapter 5 Employment and Labor Practices

### Comprehensive Insurance and Retirement Plans

For the interests of the employees, the Group provides tailor-made insurance plans in different regions to protect the employees' livelihood and reduce the employees' burden of medical expenses. A pension scheme with appropriate contributions helps in attracting talents and maintaining the stability of the staff team, thus playing a supportive role to the employer's long-term financial and strategy planning. The Group has also provided pension fund contributions and benefits for employees in compliance with the laws and regulations of its operating bases across the globe so as to safeguard employees' retirements.

Region	Insurance and Retirement Plans Applicable to Employees in Different Regions	
<b>Mainland China</b>	<ul style="list-style-type: none"> <li>• Unemployment insurance</li> <li>• Industrial injury insurance</li> <li>• Maternity insurance</li> </ul>	<ul style="list-style-type: none"> <li>• Medical insurance</li> <li>• Housing fund</li> <li>• Pension insurance</li> </ul>
<b>Indonesia</b>	<ul style="list-style-type: none"> <li>• Insurance for elderly</li> <li>• Retirement insurance</li> <li>• Industrial injury insurance</li> </ul>	<ul style="list-style-type: none"> <li>• Death insurance</li> <li>• Medical insurance</li> </ul>
<b>Vietnam</b>	<ul style="list-style-type: none"> <li>• Social insurance</li> <li>• 24-hour accident insurance</li> </ul>	<ul style="list-style-type: none"> <li>• Unemployment insurance</li> <li>• Medical insurance</li> </ul>
<b>Cambodia</b>	<ul style="list-style-type: none"> <li>• Industrial injury insurance</li> </ul>	<ul style="list-style-type: none"> <li>• Medical insurance</li> </ul>
<b>Bangladesh</b>	<ul style="list-style-type: none"> <li>• Industrial injury insurance</li> </ul>	
<b>Myanmar</b>	<ul style="list-style-type: none"> <li>• Medical insurance</li> <li>• Industrial injury insurance</li> </ul>	<ul style="list-style-type: none"> <li>• Maternity insurance</li> </ul>
<b>Taiwan</b>	<ul style="list-style-type: none"> <li>• Labor insurance</li> <li>• Health insurance</li> </ul>	<ul style="list-style-type: none"> <li>• Group insurance</li> <li>• Travel safety insurance</li> </ul>
<b>Hong Kong</b>	<ul style="list-style-type: none"> <li>• Medical insurance</li> <li>• Employees' compensation insurance</li> <li>• Personal accident insurance</li> </ul>	<ul style="list-style-type: none"> <li>• Mandatory provident fund</li> <li>• Life insurance</li> <li>• Critical illness insurance</li> </ul>
<b>Macau</b>	<ul style="list-style-type: none"> <li>• Medical insurance</li> <li>• Employees' compensation insurance</li> <li>• Personal accident insurance</li> </ul>	<ul style="list-style-type: none"> <li>• Life insurance</li> <li>• Critical illness insurance</li> </ul>



## Chapter 5

# Employment and Labor Practices

### **Diverse Employee Benefits**

The Group offers diverse and flexible employee benefits, and provides diversified and flexible welfare measures in accordance with the actual local situation to ensure the quality of life of employees and promote work-life balance. In addition, the Group also provides various benefits including: work performance and year-end bonuses; staff dormitories, staff canteens, convenience stores, shuttle bus services; employee reading rooms, free libraries; basketball courts, gyms, swimming pools, tennis courts, and other recreational centers; on-site kindergartens in the Group's production bases and clinics in certain areas.





## Chapter 5 Employment and Labor Practices

### 5.4 Respect for Labor Rights

The Group is committed to promoting the principle of fairness and human rights policies.

#### Respect for Human Rights

The Group actively builds a working environment that values human rights and free from discrimination or harassment. It values the decent work of all employees and does not allow any violation of the employees' dignity or human rights nor the practice of any form of discrimination. No employee shall be subject to discrimination in employment, including hiring, compensation, benefits, advancement, discipline, termination, retirement, etc., on the basis of gender, race, religion, age, disability, sexual orientation, nationality, political opinion, social status or ethnic origin. At the time of appointment for every new recruit, the employee is required to sign an employment contract which clearly defines the employer's and the employee's rights, responsibilities and obligations. All employees have the right to terminate the employment relationship with a related company of the Group. The conclusion, amendment, cancellation and termination (including employee dismissal) of the relevant employment contract is subject to the relevant local laws and regulations. During the reporting period of this Report, in relation to equal opportunity, rotation, promotion (advancement), recruitment (hiring), termination, severance, vacation, benefits and training, if there were suspected cases of discrimination or harassment, abuse and management attitudes, a committee would be established to investigate and settle the same through due channels.

#### Handling of Major Complaint

In 2020, the Group's internal employee relationship management system recorded a total of 3,424 cases of complaints and consultation, including one case involving discrimination. An employee diagnosed with and recovered from the COVID-19 pandemic in Indonesia complained about discrimination. After verification, disciplinary actions have been imposed in accordance with internal regulations, and anti-epidemic and anti-discrimination policies were promoted again in the factories for the relevant departments to prevent similar cases from occurring. There were three other issues involving sexual harassment. After verification, disciplinary actions have been imposed and work reassignments were made. The Group has also been providing care to the victims.



## Chapter 5

## Employment and Labor Practices

### Prohibition of Child Labor

No person shall be employed by the Group under the age of 15 or under the age for completion of compulsory education, whichever is higher. At the time of interview, the Human Resources Department will request the job applicants to produce valid identity document for the verification of actual age of the applicants. Where a mistakenly-employed case is discovered, the person in question will be suspended from work immediately and sent to the original residing address for the supervision by the parents or guardians, and the Group will be responsible for paying the necessary transportation and accommodation expenses, as well as the wages for the actual work period. There was no incident of child labor at the Group's major operating bases in 2020.

### No Practice of Forced Labors

The Group does not allow the use of forced labor, including prison labor, indentured labor, bonded labor or other forms of forced labor, and does not employ any labors who are involved in any form of human trafficking, whether by way of force, fraud, coercion or any form of involuntary labor or slavery. The Group does not require the employees' identity or work documents to be kept by the employer, nor does it require employees to reside in the factory quarters. The Group strictly abides by the relevant laws and regulations of the countries where its factories are located as well as the code of the Company and requirements under brand agreements. Any necessary arrangements of overtime must be agreed by the employees voluntarily. Overtime and overtime pays are in line with the local laws and regulations. To maintain the physical and mental balance of the employees, computerized attendance systems are put in place to effectively manage the working hours and resting dates of the employees. During working hours, employees are allowed to move freely within the factory areas except for certain controlled areas. The local religious requirements are well respected with the provision of prayer time. There was no incident of forced or compulsory labor in 2020.

### Freedom of Association and Collective Bargaining

The Group upholds respect for employees' right to freedom of association and collective bargaining. We recognize that employees can freely join labor unions according to their wishes, respect their right to negotiate with the management and actively communicate and interact with labor unions. The Group's factories in Mainland China, Indonesia, Vietnam and Cambodia have all set up labor unions of the employees' free will. In addition, factories in Bangladesh and Myanmar have also set up employee representative committees according to local laws and regulations. A communication mechanism between the management and labor unions/employee representative committees is also set up in each factory and discussions with labor unions/employee representative committees are held regularly in each quarter to discuss issues of concern to the employees, jointly resolve problems raised by them, improve communication with them and promote stable labor relations. Collective agreements have also been signed with labor unions/employee representative committees to protect the employees' rights and interests. The regional labor unions also organize related caring and service activities for the employees to enhance communication between the company and the employees as well as their identification with the company.

The employees at the operating bases of Mainland China, Vietnam and Indonesia are free to join the labor unions (or labor groups). There are 247,511 employees who have signed the collective protection agreement, accounting for 92.1% of the total number of workers in the shoemaking industry.



## Chapter 5

## Employment and Labor Practices

### 5.5 Employer – Employee Communication Mechanism

#### Strengthening the Employees' Suggestion and Complaint System

The Group encourages communication between the management and the employees. We have established various channels to collect the feedbacks of the employees. By consolidating the inputs from complaint channels of various regions, we periodically analyze, handle and resolve employees' problems. Through annual internal and external employee relationship activities, it is expected that internal cohesiveness and organizational identification can be gradually enhanced to ensure a harmonious employer-employee relationship and to help the Group advance its objective of becoming the best employer.

#### Multi-Channel Communication

Upholding the initial goal of increasing communication opportunities between management and employees, the Group has provided a variety of employee interaction channels since the 1990s, including telephones/hotlines, social media or mobile APPs, short message service (SMS), suggestion boxes, e-mail boxes, management and worker conversation meetings/heart bridge communication meetings/management communication meetings, internal and external referrals, direct communication/interviews and consultation/life guidance and counseling office. All employees and managers of the Group are allowed to use various communication channels for horizontal or vertical communication, such as suggestion boxes, emails, discussion forums and bulletin boards. The Group also stipulates that the receiving unit shall timely report the processing results to the complainants and relevant reporting units, in any event not exceeding 10 working days. If the case involves management misconduct or violation of work standards including a special sensitive issue such as sexual harassment, inappropriate language and discrimination, it may be delayed depending on the processing situation, but in any event not exceeding two months. Meanwhile, to ensure the quality of the resolution, the Group utilizes the tracking mechanism provided by the life counseling rooms or staff consultation rooms. In 2020, the issues of concerns to the employees were primarily related to topics of internal communication, social security and provident fund, and living environment. In 2020, the Company's employee relationship management system recorded a total of 3,424 cases of complaints and consultations, of which completed cases accounted for 99.5% of the total number of cases.

#### Handling Mechanism for Complaints of Employees

Since our Group operates globally, it is never easy to understand or communicate in different culture contexts. To ensure fair and impartial handling of cases at the operating sites, an internal document, "Discipline/Engagement Committee Measures", was duly passed in 2017, and the Discipline/Engagement Committee mechanism was launched in 2018. When a complaint case is received, a meeting convened by the Engagement Committee or Discipline Committee will be called according to the nature of the case, and an investigation team and a convening committee will be established for the case. The members of these two teams should not be duplicated unless it is necessary. In 2019, the management measures for the Engagement Committee were further revised, with special emphasis on the cultural perspectives of local employees and the perspective of the Group's local sustainable operation, proposing the appointment of local employees as chairmen. Meetings are conducted on a monthly basis, to discuss and decide on the complaint cases as well as to review the handling mechanism of internal complaint cases, with an aim of settling complaints in a fair and impartial manner. Meanwhile, the Company adheres to the anti-retaliation principle. Any acts of retaliation by any departments or individuals for whatever reasons will not be tolerated, and can be reflected and reported through various channels. During 2020, there was not any case of retaliation on complaint cases.



## Chapter 5 Employment and Labor Practices

### 5.6 Workplace Safety

#### Policy and Commitment

The Group's policy on occupational safety and health management according to the "Group Code of Conduct" is to "provide a safe and healthy workplace setting to prevent accidents and injury jeopardizing health when employees engage in work-related tasks or the operation of the Group's facilities". To fulfill the commitment of providing a safe and healthy working environment to the employees, the Group has gradually established a standardized safety and health management system with the establishment of organizations, horizontal cross-division cooperation and top-down execution. In the event that an employee suffers a major illness, the medical rescue mechanism and emergency rescue measures in the factory will be activated. The Group is generally in compliance with the applicable laws and regulations that have a significant impact on the Group in relation to workplace safety and occupational hazard prevention for employees, including but not limited to:

- Mainland China: the Prevention and Control of Occupational Diseases Law of the People's Republic of China (《中華人民共和國職業病防治法》), the Production Safety Law of the People's Republic of China (《中華人民共和國安全生產法》) and relevant regulations;
- Vietnam: the Labor Safety and Health Law (《勞動安全衛生法》), the Labor Law (《勞動法》);
- Indonesia: the Occupational Safety and Health Law (《職業安全衛生法》), the Labor Law (《勞動法》).

#### Occupational Safety and Health Management System

The main concern and policy of occupational safety and health is to reduce the occurrence of occupational hazards and diseases among employees, and to maintain a good and safe working environment together with employees. With respect to occupational safety and health management, in addition to compliance with the corresponding local laws and regulations in the region where the relevant factory is located and brand customers' requirements, the Group has also followed international standards of the occupational safety and health management system (ISO 45001 Occupational Health and Safety Management System and OHSAS 18001 Occupational Safety and Health Management System), and the "FLA Workplace Code of Conduct", and established a series of management directives for all departments to follow, so as to prevent hazards through systematic and effective management. In 2020, footwear production plants implemented the occupational safety and health management system, with 41% of the total number of plants passing the external inspections reached. The plant also continues to work on the ISO 45001 Occupational Health and Safety Management System conversion. The Occupational Health and Safety Management System covers office staff and workers in footwear production plants, with employees referring to regular staff and non-employees referring to contractors, dispatched staff, security and cleaning staff, etc.

Shoe manufacturing plants have established hazard identification and risk assessment and control procedures in adhering to customer specifications, OHSAS 18001 or ISO 45001 systems to effectively identify workplace hazards and reduce the possibility of employee health hazards and accidents. According to the Group's "Abnormal Incident Management Regulations", the management procedures of occupational hazard investigation are standardized and systematically managed with the "Abnormal Incident Management System" to ensure that incident reporting, tracking and confirmation are put into effect. In June 2020, we initiated the "Accident Investigation and Handling Mechanism" to formulate an investigation and handling system for moderate and serious occupational accidents in the Group. Through instant discussion meetings between the incident unit, the administration center, the business department and the safety and hygiene management personnel of the head office, we will consolidate the accident investigation and reporting mechanism, identify the incident causes, and clarify the segregation of powers and responsibilities between the incident units and the relevant units to enable them to perform their respective duties. Assistance is provided by safety and hygiene management personnel from various regions to confirm the effect and level of rectifications and to push forward the hardware improvement and software management measures in accordance with the hazard index analysis of respective regions.



## Chapter 5

## Employment and Labor Practices

Each of the factories and the administrative centers of the Group has set up an “Environmental, Energy, and Safety and Health Committee” and holds regular meetings. The members of the committee are appointed or selected from managers and general employees of each department, and are reappointed or re-selected at least once every two years, allowing each department to review relevant management issues related to safety and health in a fixed organizational structure. The Group has formulated safety and health management performance systems and various standards for the factories to implement and track the relevant results. The Group also establishes electronic surveillance system to monitor abnormal incidents, as well as the prevention mechanism by way of conducting data analysis to help focus on major risks.

### Safety and Health Indicators

The Group has established an internal information management system for occupational hazards to track and manage safety and health management performance indicators including the number of occupational injuries, ratio of days lost due to work-related injury, disabling injury frequency rate and disabling injury severity rate and so on. According to the 2020 statistics for occupational hazards management, the total number of occupational injuries was 261. Total days lost due to work-related injury were 9,226 calculated based on the days lost due to disabling injury (excluding traffic accidents). The Group has no death due to occupational hazards during this year, while the number of work-related fatality (excluding traffic accidents) in each of 2018 and 2019 was 1. Compared with the performance in 2019, the total number of occupational injuries decreases by 39% and the amount of losses due to occupational injuries dropped by 43.7% as well, which corresponds to the Group’s target in 2020: reducing the total number of occupational injuries by 30% and zero death due to occupational hazards, thus reaching and exceeding the set target. The Group will continue to create a safe and hygienic working place.

With a further view to the statistics, there were more cases of occupational hazards in Vietnam region, but in light of the overall and regional trends of the frequency and severity of disabling injuries, there was no obvious upwards trend, which is due to the difference in the population of each region as well as the frequency and severity of industrial injuries in each region. From the various management mechanisms, it is obvious that the management of occupational hazards is an indicator and issue of concern to the Group. In order to reduce the reoccurring occupational hazards, the Group will continue to strengthen its investigation and analysis of the cause of occupational hazards, improving from the root causes and implementing day-to-day safety and health management based on the Group’s policies.

The 2020 statistics for occupational hazards management are as follows (excluding traffic accidents).

Item	Number of occupational injuries			Ratio of days lost due to work-related injury (approximate)		Disabling injury frequency rate			Disabling injury severity rate		
	Total	Male	Female	Male	Female	Total	Male	Female	Total	Male	Female
Region/ Category											
Group	261	96	165	26%	74%	0.48	0.79	0.39	17	20	16
Mainland China	42	16	26	41%	59%	0.70	1.19	0.56	21	39	16
Indonesia	42	15	27	7%	93%	0.26	0.36	0.23	22	5	27
Vietnam	169	59	110	30%	70%	0.55	1.04	0.44	13	21	11
Cambodia	0	0	0	0%	0%	0.00	0.00	0.00	0	0	0
Bangladesh	4	3	1	94%	6%	0.94	1.02	0.76	84	115	15
Myanmar	2	1	1	27%	73%	0.16	0.58	0.10	9	17	7
Note	<ol style="list-style-type: none"> <li>The source of statistical data comes from the Group’s internal information “management system for abnormal incidents”, tallying occupational hazards with one or more days lost, and the total working hours is calculated by multiplying the working days and working hours with the number of staff for each unit.</li> <li>Disabling Injury Frequency Rate (Total) = Disabling frequency number (Region) x 1,000,000/Total working hours in the region  Disabling Injury Frequency Rate (Male) = Disabling frequency number (Male) x 1,000,000/Total working hours in the region (Male)  Disabling Injury Frequency Rate (Female) = Disabling frequency number (Female) x 1,000,000/Total working hours in the region (Female)</li> <li>Disabling Injury Severity Rate (Total) = Total number of days lost (Region) x 1,000,000/Total working hours in the region  Disabling Injury Severity Rate (Male) = Total number of days lost (Male) x 1,000,000/Total working hours in the region (Male)  Disabling Injury Severity Rate (Female) = Total number of days lost (Female) x 1,000,000/Total working hours in the region (Female)</li> </ol>										



## Chapter 5 Employment and Labor Practices

### Damage Prevention and Control Management

To ensure the safety of the workplace and the protection of the Group's properties, the Group actively strengthens the promotion of the concept and management of damage prevention and control. In view of the serious fire accidents that took place in the factory areas in the past, priorities in promoting measures for damage prevention and control management are given to two major directions of management, including the optimization of fire safety management and fire safety construction of buildings in the factories.

- (1) **Fire safety management:** The Group adopts multiple paths to actively promote fire safety work. We have invested improvement funds and implemented relevant management mechanism towards various aspects like fire prevention at the sources, containment of disasters, and emergency response and rescue, so as to reduce the risks of fire hazards.
- (2) **Improvement of fire-fighting equipment:** It is specified that factories should be equipped with fire-fighting equipment and plant safety design. A unified management mechanism has been established for the design, construction, inspection and acceptance, maintenance and repair of fire-fighting equipment.
- (3) **Enhancement of fire-fighting team's capability:** A total of 15 fire-fighting teams have been formed in major production bases across Vietnam, Indonesia, Mainland China, Myanmar, Cambodia, etc. A unified standard and day-to-day duties and training for fire-fighters have been established. The abilities of the fire-fighting teams are verified on an annual basis.
- (4) **Execution of fire safety inspections:** Fire safety self-inspections are carried out monthly by the factories. The administrative centers in various regions carry out regular inspections and audits quarterly. Inspections are carried out specifically on power management, power switches/sockets, motors, high-temperature machineries, fire-using procedures, fire compartment, fire-fighting equipment, dust collectors, etc. Controls and inspections of night time power management are specifically strengthened to avoid potential fire hazards.
- (5) **Strengthening of emergency response capability:** Standard specifications have been established and the emergency response teams are trained and drilled regularly. Joint fire prevention drills are also organized jointly with external governmental fire-fighting units from time to time to cultivate joint emergency rescue competencies.



## Chapter 5 Employment and Labor Practices

- (6) **Management of repair and maintenance vendors for fire-fighting equipment:** Develop a standard form of fire prevention equipment maintenance contract and inspection checklist, so as to verify the abilities of the repair and maintenance vendors, and to improve the quality of the maintenance work. Vendors of poor qualities are eliminated by audit and inspections which are carried out from time to time.
- (7) **Implementation of inspections by infra-red scanning:** A system in which electrical equipment are scanned regularly through infra-red thermal imaging devices has been set up. Most of the factories are equipped with infra-red thermal imaging instruments. Appropriate personnel are selected from professional electricians to attend professional training, and regular inspections by infra-red scanning of electric equipment are performed as required. The factories inspect on all electric equipment using infra-red thermal imaging scanning. Detected problems such as equipment overload, abnormal electric components, elevated temperature, short-circuits, unbalanced three-phases, etc. will be directed to the responsible department for discontinue of operation and maintenance of the equipment.
- (8) **Specifications for damage prevention and control:** To effectively reduce various operational risks in the factories, in future the Group will carry out comprehensive risks assessments on risks other than fire hazards, such as earthquakes, windstorms and floods. Appropriate improvements will be implemented for projects with material potential risks. Standards for damage prevention and control of factories have been established to ensure that there is effective assessment and prevention of various potential operational interruptions.





## Chapter 6

## Environmental Protection

### Key Performance

**68.0%**

68.0% of our footwear production bases have implemented the ISO 14001:2015 management system

**Pou Sung Vietnam**

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

**MRSL, ZDHC**

Implemented the standard requirements of Manufacturing Restricted Substance List and Zero Discharge of Hazardous Chemicals

**31,550,716 MJ**  
**Energy saving achievements**

The Group's footwear manufacturing business does not involve major environmental contamination risk. The Group is generally in compliance with the applicable laws and regulations that have a significant impact on the Group relating to environmental protection (including air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste, etc.), including but not limited to:

- Mainland China: the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》), the Environmental Protection Tax Law of the People's Republic of China (《中華人民共和國環境保護稅法》), the Law on the Prevention and Control of Atmospheric Pollution of the People's Republic of China (《中華人民共和國大氣污染防治法》), the Law on the Prevention and Control of Water Pollution of the People's Republic of China (《中華人民共和國水污染防治法》), the Law on Appraising of Environment Impacts of the People's Republic of China (《中華人民共和國環境影響評價法》), the Law on the Prevention and Control of Environmental Pollution by Solid Wastes of the People's Republic of China (《中華人民共和國固體廢物污染環境防治法》), the Law on the Prevention and Control of Pollution from Environmental Noise of the People's Republic of China (《中華人民共和國環境噪聲污染防治法》) and other relevant emission standards, implementation plans, management regulations, technical guidelines, etc.;
- Vietnam: the Environmental Protection Law (《環保法》), the Water Resources Law (《水資源法》) and other relevant guidelines;
- Indonesia: the Environmental Protection and Management Law (《環境保護與管理法》) and other relevant action plans, etc.





## Chapter 6

## Environmental Protection

The Group has established a set of management policies, mechanisms and measures on environmental protection and natural resources conservation to help ensure the sustainable development and operation of the Group. The Group strives to enhance the efficiency in the usage of energy, water and materials, to reduce the use of natural resources and to comply with international standards, which include conducting greenhouse gas inventory, proper treatment of effluent and air emissions, reduction, classification and recycling of wastes, and consultations on energy conservation, carbon reduction in factories with high energy consumption levels and other measures.

Since 2016, the Group's Pou Sung factory in Vietnam has been recognized as one of Vietnam's Top 100 Sustainable Enterprises for five consecutive years. This award was granted after a nationwide selection in Vietnam and the organizer has carefully selected 100 enterprises to present the awards covering 127 indicators in the three major areas of economy, society and environment (including personnel, environment, finance, etc.) with reference to the United Nations' Sustainable Development Goals.

### 6.1 Effective Use of Resources

#### **Use and Procurement of Raw Materials and Packaging Materials for Footwear Manufacturing**

The raw materials used in the footwear manufacturing industry can be largely categorized into upper materials and sole materials. The upper materials primarily include fabrics (woven fabrics/non-woven fabrics), synthetic leather, natural leather, foam and accessories. Sole materials are primarily ethylene/vinyl acetate copolymer (EVA resin), polyurethane (PU resin), rubber and thermoplastic polyurethane (TPU resin). The Group should conform to the relevant international product specifications and the prohibited and restricted substance standards required by brand customers in selection of raw materials, and at the same time actively adopts materials that conform to the requirements of brand customers for environmentally sustainable materials.

For the procurement management of raw materials, the Group not only requires material suppliers to provide relevant material inspection reports and commitment documents for zero use of prohibited and restricted substances, but also conducts sample tests for specific materials to ensure that the quality meets the requirements. With respect to material procurement, we rely on the respective local suppliers to supply the materials in order to reduce the risk of supply interruption as well as carbon emissions in transportation. The suppliers are located in Vietnam at 26%, Taiwan at 25%, Mainland China at 23%, Indonesia at 9% and others at 17%. Among them, there are around 1,304 material suppliers with which the Group has entered into procurement transactions for three consecutive years (2018 – 2020).

The main packaging materials used by the Group for manufacturing of footwear products are shoe boxes, including inner and outer boxes. A total of approximately 230,000,000 units were used in 2020, weighing a total of approximately 61,483 tons. A box for each pair of shoes weighs an average of 0.00018 ton.



## Chapter 6

## Environmental Protection

### Usage of Energy

The Group's key strategies on energy consumption management are as follows:

- (1) Achieve no waste of energy, high operating efficiency, short recovery period, low energy cost and small environmental impact.
- (2) In accordance with the Group's energy policies, formulate the "Guidelines on Energy Management" and set up a dedicated unit for energy management to hold regular meetings for track and review of energy usage, and strengthen the promotion of the concept of energy saving based on the principles of the reasonable use of energy resources and gradual improvement of energy usage efficiency.
- (3) Gradually phase out fossil fuels which are of high pollutants/high carbon emission, and replace with electrical power or clean fuel.
- (4) Carry out energy usage examination and monitoring, improve the efficiency of energy usage, formulate annual new energy saving measures, actively implement energy conservation actions, and enhance the efficiency of energy usage.
- (5) Carry out leakage improvement for the pneumatic and steam system to avoid energy wastage.
- (6) Introduce ventilation and cooling building design into the bases in hot Southeast Asia region to reduce energy consumption design-wise and allow the operation staff to work under an environment of comfortable temperature.
- (7) Gradually promote the relevant verification of energy management based on the needs of customers.

### Energy Audit

Energy management was included in the Group's internal environment, safety and health (ESH) management performance evaluation. An on-site audit was conducted in the factories in Vietnam, Mainland China, Indonesia, Cambodia, Bangladesh, 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 in order to progressively carry out energy inventory and effective management.



## Chapter 6

## Environmental Protection

The types of energy consumed in the Group's footwear factories in 2020 included: electricity, fossil fuels, biofuels, natural gas and liquefied petroleum gas. The use of biofuels involves mostly the fuel for steam thermal energy supplied by external vendors. In 2020, factories in the supplier category have been excluded from the data of footwear manufacturing business. The total energy consumption of the Group in 2020 was 4,778.09 megajoules, while the proportion of electricity used was 81.15%. The Group has already phased out the purchased steam from coal fuel, and replaced them with electricity or solid biofuels. In order to achieve sustainable development and operation of the Group, the year 2016 is taken as the baseline, the first stage of an overall energy conservation plan was formulated, with an overall management goal of reducing the energy intensity in 2020 by 8% as compared to which in 2016. The second stage of five-year management goal (2021-2025) was set with the year 2019 being the baseline year, with the expectation of reaching the goal of 0% growth in carbon dioxide emission in 2025 by continuously promoting energy conservation and expanding the use of green energy. According to the target, an overall energy conservation plan with annual goals and corresponding measures has been formulated. Energy-saving budgets are drawn up year by year and energy conservation organizations and systems have been established in each factory with regular meetings to review and constantly track the results. At the same time, energy platforms have been established to exchange energy conservation related technologies and promote measures related to energy conservation and carbon reduction.

The consumption of different types of energy and the average energy consumption per pair of shoes in 2020 are shown in the following table:

Energy Type	Electricity		Fossil Fuel		Biofuels		Natural Gas		Liquefied Petroleum Gas		Fuel Coal	
	Consumption	Average Energy Consumption per Pair of Shoes	Consumption	Average Energy Consumption per Pair of Shoes	Consumption	Average Energy Consumption per Pair of Shoes	Consumption	Average Energy Consumption per Pair of Shoes	Consumption	Average Energy Consumption per Pair of Shoes	Consumption	Average Energy Consumption per Pair of Shoes
2020	1,076,884.41 MWh	4.41 Kwh	3,967.13 thousand L	0.016 L	159,200 metric tons	0.65 kg	0.00 thousand M <sup>3</sup>	0.000 M <sup>3</sup>	34.21 metric tons	0.00014 kg	0 thousand metric tons	0 kg
2019	1,084,065.56 MWh	3.62 KWh	6,199.1 thousand L	0.021 L	255,700 metric tons	0.83 kg	1,801.9 thousand M <sup>3</sup>	0.006 M <sup>3</sup>	94.55 metric tons	0.00030 kg	0 thousand metric tons	0 kg
2018	1,033,367.13 MWh	3.1690 KWh	5,980.01 thousand L	0.0183 L	88,800 metric tons	0.2722 kg	3,646.1 thousand M <sup>3</sup>	0.0112 M <sup>3</sup>	94.13 metric tons	0.0003 kg	0 thousand metric tons	0 kg
2017	1,031,532.11 MWh	3.1780 KWh	5,271.20 thousand L	0.0162 L	98,000 metric tons	0.2797 kg	895.0 thousand M <sup>3</sup>	0.0028 M <sup>3</sup>	229.32 metric tons	0.0007 kg	0 thousand metric tons	0 kg

The Group continued to actively promote energy saving and carbon reduction projects. For certain key production bases, energy saving projects for high energy consumption facilities and improvement of energy saving of the production bases were continuously implemented in 2020. The main implementation measures include: energy management was continuously included as one of the audit items in the annual environment, safety and health audit; the establishment of the energy saving and management organization and the implementation of its management system; improvements on injection machines; leakage inspection and operation optimization for air pressure and steam systems; installation of frequency converters for motors and water pumps; rerouting cooling water pipelines and so on. Meanwhile, the procurement specifications for equipment of high-energy consumption have been formulated continuously, and the design specifications for ventilation, cooling and energy saving of new plants have been optimized so as to satisfy energy conservation requirements from the time when a new machine is acquired or when a new plant is built.

The energy saving efficiency in 2020 was 31,550,716 megajoules.



## Chapter 6

## Environmental Protection

### Water Resources Management

#### *Water Resource Risk Assessment*

Risk category	Assessment factor	Possible risk	Response
<b>Immediate loss</b>	<ul style="list-style-type: none"><li>• The frequency of disasters caused by drastic climate change.</li><li>• Financial damage and recovery costs.</li></ul>	<ul style="list-style-type: none"><li>• Increasing intensity and frequency of (typhoon, heavy rain, snowstorm, flood, etc.) may result in employee being unable to work, damage to plant facilities and disruption of energy resources and materials supply.</li><li>• The water source is subject to variation due to deteriorating environmental conditions.</li></ul>	<ul style="list-style-type: none"><li>• An emergency response plan, “Contingency plan for natural disasters”, has been set up.</li><li>• The treatment capacity of the water treatment plants has been improved, and advanced treatment technology units are planned to be added when necessary.</li></ul>
<b>Long term risk</b>	Risk probability	The increase in average temperature and sea level may result in risks of damage to plant facilities, water resource shortage and poor water quality.	Continue to pay attention to international water resources risks and regional early warning information.

### Water Resources Utilization

Footwear manufacturing process does not involve high water consumption. As such, most of the water resources used in various production bases are for the daily use of employees, and only a small part is used for the soles manufacturing process. In response to the stakeholders’ concerns for the safety and sanitation management of drinking water for the employees and the concerns of the international sustainable trend about water resources, the Group’s water resource management policy aims at gradually increasing the reuse rate of water resources in the factories and avoiding excessive consumption of natural water resources in the medium and long term, in addition to ensuring that water provided meets the specified water quality standards, and that processing of discharged water is in compliance with the local discharge regulations.



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## Environmental Protection

Currently the water resources supply at the production bases of the Group comes primarily from local municipal water supply, rivers and lakes. We did not encounter any problem in sourcing suitable water supply. In 2020, the total volume of water used in all production bases was approximately 16,609.9 million litres (ML) and the water consumption density was approximately 67.95 litres per pair of shoes. The Group's water supply source and water usage are within the local government's permitted range, thus have minimal impact on the water supply, and is not considered as an area with water resources stress risk.

In order to manage the safe use of water resources in each production base, large-scale water purification plants and reverse osmosis water purification system equipment have been set up in all production bases. Relevant operation criteria for the treatment of fresh water and effluent as well as requirements for access control management have also been formulated. The laboratory at the administrative center of the industrial park performs sample testing of water quality every month, and releases the results to all production bases. External parties are also engaged in water quality tests on a regular basis as required by laws to ensure the water in all production bases is safe and clean.



## Chapter 6

## Environmental Protection

### Sewage Discharge and Recycle of Effluent

The Group has formulated the “Guidelines on Sewage Pollution Control Measures”, which focuses firstly on the reducing usage at the source and preventing generation of waste water, and secondly on sewage being recycled and reused, and properly handled in accordance with the regulatory requirements. In addition to compliance with local discharge regulations in practical management, the medium and long-term management goals aim at improving the reuse rate of water resources, while the short-term management goals mainly concern with the collecting and managing the consumption and discharge volume data of water resources and gradually reducing the discharge volumes.

The dyeing and processing procedures of the woven fabrics, a source for the upper materials, has greater impact towards water resources for having high water consumption and being high in pollutants. Most of the sewage of the production bases comes from water used by employees for domestic use, and small amount of sewage comes from the cleaning, painting and spraying operations of the soles manufacturing process. Chemical coagulation pre-treatment equipment has been set up especially for the collection and treatment of industrial sewage. Industrial sewage with a high pollution concentration is first treated to reach the discharge standard as stipulated before it is channeled to a large scale sewage treatment work of the production bases for secondary biodegradation treatment.

There is a dedicated water quality laboratory in every sewage treatment work to perform the testing and monitoring of water quality. We also regularly entrust inspection agency approved by competent local authority to conduct water sampling and testing of the effluent according to laws. The sewage is properly discharged through legally permitted means. Effluent from stand-alone factories are discharged to the receiving water bodies designated by the local authorities according to laws and regulations, while those from factories located in industrial development parks are discharged to municipal sewage treatment works or the sewage treatment works in the industrial areas according to laws and regulations. There is no direct discharge into nearby water bodies. Some factories are also equipped with detention ponds to receive the treated water from sewage treatment works as a water supply source for subsequent reuse in the factories as well as in the parks where employees can relax after work.

The collection of data on the discharge volumes of treated sewage was carried out for collection of the data on discharge volumes in 2019. The total amount of effluent of factories under the Group was 5,506.2 million litres (ML) in 2020, and the recycling rate of treated water was 19% on average.



**Biological sedimentation tank**



**Membrane bioreactor (MBR)**



**Biological treatment tank and grit filter**



## Chapter 6

## Environmental Protection

### Project on Sustainable Operation and Management of Groundwater Resources

The Group's production base in Cambodia has established a plant in Kampot to coordinate with the economic development policy of the Cambodian government. The manufacturing process and operation of the Kampot plant requires approximately 4,000 tons of water every day. As there is no local water supply and the construction for long-distance cross-region water diversion is not an environment-friendly solution, the advanced Aquifer Storage and Recovery (ASR) technology in Europe and the USA was adopted when planning the large-scale artificial lakes as permitted by the original investment plan. Surface water is collected using the ASR technology and naturally infiltrates into the aquifer, which is considered as the "groundwater reservoir". When needed, the water in such aquifer is extracted, and the underground aquifer will be recharged by natural infiltration from the artificial lakes, so as to achieve conservation of natural resources and sustainable operation. The overall development plan has been approved by the Central Government of Cambodia with multi-ministry environmental assessment and review. Currently, the plant has completed the construction of civil engineering facilities for the large-scale artificial lake, and has launched the measures to implement sustainable management and protection of groundwater resources. This project is the first case of a mid-to-large water resources management plan utilizing ASR by non-governmental organizations in Cambodia region, Vietnam region, Taiwan region and Mainland China region, etc.

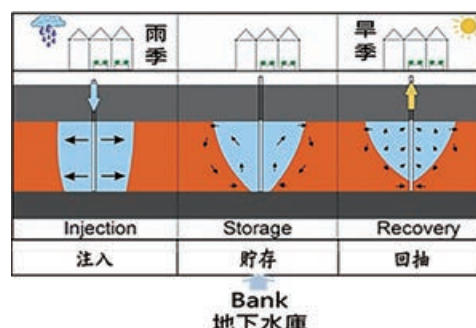
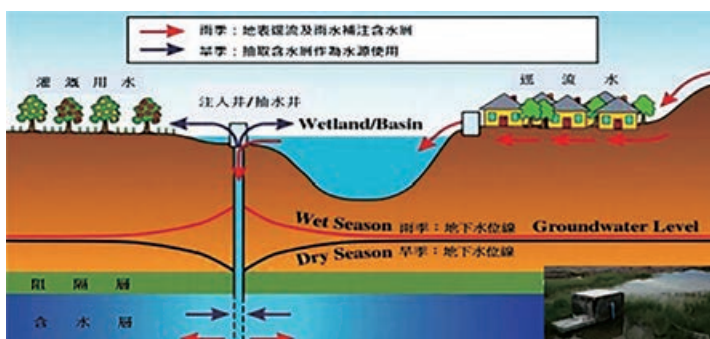
### Performance and Benefits

The 2019 ASR technical feasibility assessment confirmed that the ASR technology was applicable due to the hydrogeological characteristics of the Kampot factory area. In 2020, based on on-site surveys and results verification, experiment pit were created in the prospective area of the large artificial lake for a simulation of artificial replenishment of the underground aquifer by natural infiltration, and the actual recharge coefficient was estimated to be approximately  $2.05 \sim 3.95 \times 10^{-4} \text{cm/sec}$ , accordingly the natural recharge was inferred to be in good condition.



## Chapter 6

## Environmental Protection



### 6.2 Greenhouse Gas and Carbon Emission

The Group pays constant attention to the international community's trend of sustainable development. It responds to the call of the Paris Climate Accord, which has a goal to keep the increase of global temperature within 2°C and to pursue efforts to limit the increase to 1.5°C. It also responds to the United Nations 2030 Sustainable Development Agenda – Sustainable Development Goals, which states that measures must be taken to cope with global climate change and its impacts, as well as the expected demand for international green manufacturing. Greenhouse gas inventory and carbon reduction management have become the essential management issues for the Group's production and manufacturing operations. In addition to compliance with relevant laws and regulations at the production bases in various regions, results have also been achieved by the Group through energy-saving projects initiated by individual factories and gradual replacement of high pollutant/high carbon emission fossil fuel to help achieve energy-saving and carbon emission reduction at the production bases.

The Group conducts greenhouse gas inventory in factory areas in the production bases according to the ISO 14064-1 standard. The volume of greenhouse gas emission was calculated according to emission factors, and calculated as:

Scope 1 Scope 2	Carbon emission equivalent (CO <sub>2</sub> e) = activity data x emission factor x global warming potential (GWP), in metric ton/year.
Scope 3	<p>The total greenhouse gas emission (ton CO<sub>2</sub>e) of the air travel of the Group headquarter in 2020 is calculated using Distance-Based method: the total greenhouse gas emission of the air travel = aerial navigation distance (passenger-km) x emission factors of aerial navigation (kgCO<sub>2</sub>e/passenger-km).</p> <p>The total greenhouse gas emission (ton CO<sub>2</sub>e) of the downstream transportation of the Group's finished shoes is calculated using Distance-Based method: the total greenhouse gas emission of the downstream transportation of the Group's finished shoes = cargo gross weight (tonnes) × cargo transportation distance (km) × emission factors of transportation vehicle types (kg CO<sub>2</sub>e/tonne-km).</p>



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The activity data for different kinds of greenhouse gas emission varies according to their sources of generation. The sources are recorded, and the emission in weight or volume are measured in units of kilograms, kiloliters or liters. Emission factors for different emission sources are mainly based on the emission factors published by the Intergovernmental Panel on Climate Change (IPCC) in 2006. According to the published emission factors and calorific values for different fuels, the emission factors for different emission sources are calculated. The emission factors for electricity are calculated according to the emission factors released by different areas, or the emission factors published by the International Energy Agency (IEA) in 2013. The GWP for different greenhouse gases are all based on IPCC's Fourth Assessment Report (2007).

The greenhouse gas emission generated by footwear manufacturing, such as carbon dioxide, methane and nitrous oxide, are produced mainly by the use of electricity and burning of fossil fuels. Methane and nitro oxide come from septic tanks. As for hydrofluorocarbons, perfluorocarbons and sulfur hexafluoride (SF<sub>6</sub>), currently only a small amount of SF<sub>6</sub> is used as the insulation filling gas in high voltage power distribution equipment. According to suppliers' data, the probability of daily usage leakage is very low, and as such the carbon emission caused by dissipation is calculated only when the equipment is refilled.

<b>Year</b>	<b>Total Carbon Emission of Greenhouse Gas (Approximate) Thousand metric tons of CO<sub>2</sub><sup>e</sup></b>	<b>Scope 1 Thousand metric tons of CO<sub>2</sub><sup>e</sup></b>	<b>Scope 2 Thousand metric tons of CO<sub>2</sub><sup>e</sup></b>	<b>Range of Average Carbon Emission per Pair of Shoes in Production Bases of Respective Regions (kg CO<sub>2</sub><sup>e</sup>/pair)</b>
2020	682.8	55.1	627.7	between 0.98~5.05
2019	801.4	73.0	728.4	between 1.06~4.47
2018	786.0	48.6	737.4	between 1.09~4.69
2017	850.4	63.3	787.1	between 1.86~4.85

Note: Expressed in range as different production processes were used in production bases in various regions and there are differences in the carbon emission factors in different regions.

In 2020, the management of greenhouse gas inventory was included into the internal annual environment, safety and health audit as a management item, and the Group will continuously enhance the credibility and completeness of the inventory data of its production bases year by year.



## Chapter 6

## Environmental Protection

### 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, the Group deeply understands 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. The Company's green energy policy will continue pushing for the solar power generation plan.

In addition to continuing the existing energy conservation measures and performance in 2020, the following matters was gradually strengthened:

1. Conduct inspection, repair, maintenance, and management and carry out education and 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 the efficiency of air compressors and gradually replace the equipment with low operating efficiency to avoid energy wastage.
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 energy usage with high environmental impact.



## Chapter 6

## Environmental Protection

### 6.3 Pollution Prevention and Control

#### Environmental Management Policy

By adhering to the principle of maintaining a balance between environmental protection and production, the Group is committed to the following environmental protection measures:

- (1) Adopt effective environmental management system, implement environmental pollution prevention and impact management, and continue to improve so as to promote sustainability of environmental resources.
- (2) Comply with relevant environmental laws and regulations and other requirements, and develop and implement relevant standard operating procedures.
- (3) Optimize production processes, promote clean production, reduce pollutants emission, implement pollution control and management, and perform regular tests and inspections.
- (4) Reduce the use of hazardous substances, promote industrial waste reduction, recycle resources, save energy and reduce carbon emission in order to enhance the Group's environmental protection performance.
- (5) Strengthen education and training and enhance staff awareness of environmental protection so as to thoroughly carry out environmental protection responsibility.

In the practical operation management, the Group has established guidelines relating to environmental protection as implementation standards for all production bases. According to ISO 14001 environmental management system and local environmental protection regulations, we have established the self-management system for the factories. The management goal for the medium and long term is to endeavor to accomplish clean production and to reduce the emission amount of environmental pollutants. In 2020, 68.0% of our footwear production bases have implemented the ISO 14001: 2015 management system.

During the year 2020, there was no incident of serious environmental pollution caused by accidents such as oil leakage or fuel leakage in the Company's production and operation plants. The disposal of wastes was in full compliance with the relevant storage and transportation standards, with no incident of leakage. In respect of environmental compliance, in 2020, there was one case of improvement request for management failure and one case of environmental protection disciplinary record according to the Company's exception reporting system. The latter was due to excessive boiler exhaust. The relevant subcontractors have been requested to improve, the annual contract was re-negotiated, and the day-to-day inspection and communication with subcontractors were strengthened.



## Chapter 6

## Environmental Protection

### **Air Pollution Source Management**

Currently, the main sources of air pollution produced by production bases are volatile organic compounds, fuel boiler gas, and gas emitted from the electricity generation room and kitchen. With respect to the prevention of air pollution, the Group has formulated the “Guidelines on Air Pollution Control Management”. The first guiding principle is to keep the emission in line with the local emission standards. The next guiding principle is the introduction of pollution assessment on production processes with the aim of proper handling of the pollution in accordance with the regulatory requirements. Prevention and control facilitates have been set up and air pollution emission testing has been carried out to ensure that the emission meets the emission standards stipulated by local laws and regulations to reduce the impact on the environment.

In recent years, the awareness of sustainable development has been gradually strengthened, and the environmental protection laws of every country are becoming more stringent. The Group has also actively responded to the international sustainable development goals. We have strengthened our environmental protection management by conducting compliance checks and continuous improvement for the environmental impact on the Group’s factories, and conducting improvement for the pollution control constructions for volatile organic gases in accordance with the requirements of environmental impact assessments. For some of the production bases in Mainland China, the Group has further enhanced the efficiency for treating organic solvents and volatile gases. As planned, facilities for the prevention and control of pollution will be gradually installed to reach the government’s standards for comprehensive treatment, so as to assume the corporate responsibility of improving air quality in the local areas.

The Company has biomass fuel boilers in Vietnam, Indonesia and Mainland China, which are equipped with pollution control equipment to reduce their impacts on the environment.



## Chapter 6

## Environmental Protection

### Waste Management

Waste management strategy of the Group's production bases focuses on the legal clearance, removal and disposal, and reduction and reuse of wastes. The clearance, removal and disposal of all the wastes must be carried out by government-certified service providers according to local laws and regulations. Recyclable wastes are collected according to classifications specified by brand customers. The developments of production bases were carried out in line with the Manufacturing Excellence program (automatic laser cutting machines, outsole rubber granulator machines, and process flow reviews and adjustments) to reduce the amount of wastes generated in the manufacturing process.

Wastes in the factories are mainly classified into four categories, including: general wastes (household wastes), general industrial wastes (industrial wastes), statutory hazardous wastes (hazardous wastes), and recyclable wastes (reusable wastes). A local qualified disposal service provider is engaged for household wastes and industrial wastes disposal. Hazardous wastes and reusable wastes are centralized in the recycling material control center within the factory area, where classification, measurement and reporting are performed. As for the hazardous wastes, the Group follows local laws and regulations of the operation to identify and classify the hazardous wastes, establish dedicated temporary storage area and appoint dedicated staff to manage. Local recycling companies that have hazardous waste disposal operation licenses are engaged to handle subsequent delivery and processing. We do not carry out any waste disposals which involve transnational transportation. Vendors are identified to help with the handling of reusable wastes for recycling or reuse as appropriate.

In view of the fact that input errors or omissions are likely to occur during the process of data entry for weight compilation at the time of waste storage, in order to effectively improve the accuracy of the data, certain factories of the Group have introduced and promoted an electronic waste management system in which electronic scales are connected to the system's database directly. Weighing of wastes can be directly carried out and barcode labels with relevant information can be generated directly when the wastes are transported out of the operation workshops, which are then affixed to the waste packaging bags. From the production bases to the storage center and the final clearance, removal and disposal of the wastes, barcode scanning is used to control the management of wastes at all stages to avoid manual input errors and to enhance the connection between the waste data and the production bases, and to effectively manage and track the types and information of the generated wastes. The electronic management system will also be gradually extended to the online production information board in the future to display the real-time status of waste generation in the factories. As a data management tool for waste reduction, such electronic management system will also facilitate waste reduction and recycling assessments and studies for different types of shoes through the use of the data for different types of wastes. At the same time, the following effective waste reduction measures have also been implemented in the factories to reduce the impact of wastes on the environment:

- (1) Improving foaming moulds, strengthening the maintenance and repairing of existing moulds so as to reduce EVA scrap;
- (2) Adjusting the layouts of insoles, improving the width and quality of adhesive materials so as to reduce insole scraps;
- (3) Improving the efficiency of key cutting so as to reduce cloth scrap;
- (4) Recycling and reusing grinded rubber waste.



## Chapter 6

## Environmental Protection

In 2020, the total volumes of wastes handled by the Group were: 23,314.4 metric tons in the region of Indonesia, 58,355.6 metric tons in the region of Vietnam, 8,678.5 metric tons in the region of China, 159.4 metric tons in the Cambodia factory, 1,039.4 metric tons in the Myanmar factory and 391 metric tons in the Bangladesh factory. The cleaning and handling of wastes in all countries were carried out in accordance with the local government's handling regulations, and assigned to local compliant service providers with periodic confirmation of handling process to ensure that the wastes were properly handled.

Total weight (metric tons)	Hazardous wastes		Industrial wastes		Recyclable wastes		Household wastes		Total	
	Year									
Region	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020
Mainland China	878.7	428.0	3,614.9	6,307.5	1,429.0	1,077.1	7,965.6	865.9	13,888.3	8,678.5
Vietnam	2,138.0	3,435.8	15,353.2	22,624.1	3,088.8	27,771.8	10,376.1	4,524.0	30,956.0	58,355.6
Indonesia	2,621.2	1,753.8	27,713.2	14,843.9	3,162.8	635.5	22,726.7	6,081.2	56,223.9	23,314.4
Cambodia	20.0	19.4	9.4	0.0	0.0	0.0	133.9	140.0	163.3	159.4
Bangladesh	14.4	32.8	332.5	193.8	156.8	153.3	18.1	11.2	521.8	391.0
Myanmar	114.0	154.2	363.6	241.8	0.0	0.0	585.0	643.4	1,062.6	1,039.4
Total	5,786.3	5,823.8	47,386.8	44,211.1	7,837.4	29,637.7	41,805.4	12,265.7	102,815.9	91,938.3



**Waste Storage Areas**





## Chapter 6

## Environmental Protection

### 6.4 Green Office

The Group continuously implements green office with the following measures:

- Office Power Saving: Policy to turn off lights when not in use, partitioned control of office lighting circuit, infra-red monitoring device to control office lighting, air-conditioning temperature control, printer and computer hibernation management, shut down of computers during lunch break, increase the temperature of water chillers, and automatic ventilation control with carbon dioxide concentration detection, etc.
- Paper Saving: Implement paperless office, use email and online signature system for document review, signing and communication where possible, reduce the frequency of printing and/or copying, and reduce the use of office paper.
- Reduce the Use of Bottled Water: Provide reverse osmosis drinking water supply equipment at all production bases for the use by factory employees, meetings and visitors. Employees are encouraged to bring along their own reusable cups to reduce the use of bottles.



## Chapter 7

## Operating Practices

### 7.1 Customer Service and Product Management

#### Customer Service

The Group has established long-term cooperation relations with multiple international eminent brands. It provides fast and innovative services to brand customers with professionalism and dedication and offers design and production services to customers according to their needs. Dedicated technical research and development centers are set up for customers, with strictly separated production areas and zoned processing operation areas so that the brand customers' privacy and trade secrets are protected. As such, we are able to become the best skilled production partner for the brand customers, and establish deep trusts between the brand customers and the Group.

As for employees, they are obliged to protect the confidential information and intellectual property rights through the implementation of the Group's "Ethical Corporate Management Best Practice Principles", the signing of the "Confidentiality Undertaking" by the employees and regular educational trainings on trade secrets, information security, competition prohibitions and so on. The Group also requires the suppliers to sign confidentiality agreements or confidentiality terms and the appended product safety undertakings, and strictly abide by the confidentiality provisions and provisions of the undertakings. The Group also conducts educational trainings for suppliers on issues such as trade secret protection and information security. The Group conducts assessments on the suppliers from time to time and assessment results are one of the bases of the Group in evaluating suppliers. In the event of any breach discovered in the protection of trade secrets, privacy or intellectual property rights, the Group will immediately stop the breach, review the mechanism and take improvement measures. In 2020, the Group did not receive any complaint cases of customer privacy infringement.

The Group respects the intellectual property rights of brand customers. The brand customers' intellectual property rights (such as trade marks) are only applied to products according to the scopes authorized by the brand customers. Meanwhile, the Group will continue to enhance the production optimization capabilities in various regions and continue to enhance the maximum flexibility in production configuration in line with the requirements of orders from brand customers and changes in the industry environment. In recent years, the Group has continuously invested in automation, technology innovation, process improvement and shoe materials development, and cultivated professionals in key technologies and processes. By establishing modular production lines, it has continuously improved the stability, speed and flexibility of production with a view to shorten turnaround time and to keep abreast of the market and quickly respond to brand customers, thereby enhancing the Group's competitiveness and long-term value.



## Chapter 7

## Operating Practices

In view of the increasing uncertainties in the global economy, as an original equipment manufacturer of footwear products, the Group continues to promote the effective integration and optimization of supply chain resources, and gradually improves the sustainable supply chain system in line with the industry development trend and brand marketing strategies, in addition to prudent cost control and implementation of lean management to continuously increase production efficiency, with the objectives of improving material quality, rapid response to the market and green management. Meanwhile, with innovative thinking, the Group continues to seek and explore new opportunities in the industry chain through the shoe materials selection system so as to create more added values.

The Group continually improves its service quality and responds immediately to brand customers' needs in terms of delivery lead time, quality and price, so to strengthen the relationship with the brand customers and their reliance on the Group's product development capability and quality service.

### Product Management and Service

#### *Product Service Policy*

The Group is committed to providing customers with products of high quality and safety and places high importance on any customer demand for product quality. The Group will continue to improve its five core competitive advantages of "innovation, speed, flexibility, quality, sustainability", as well as continue to develop cutting-edge technologies and modularize its existing production lines, so that it can provide customers with more flexible and diversified customized products in small quantities. From product development to production, the Group follows international legal requirements and complies with the brand customers' lists of prohibited and restricted substances and the ZDHC Foundation's standards in the selection of raw materials, which can only be put into production after the formulation of standardized production process, through a comprehensive process and quality control strategy, continues to provide customers with stable and consistently high-quality products that are consistent with the principles of eco-friendliness and human health.

### Product Quality and Safety Management

All footwear products on the production lines at the stage of design development, including material selection, manufacturing process execution, use of adhesive and packaging materials, etc, will only be scheduled for formal production on the production lines after they have undergone health and safety hazard assessment and confirmation.

In mass production process, all materials must go through sampling tests before warehousing to prevent inappropriate materials from being used in footwear production. All finished shoes must, before packaging, go through scanning and inspection by specialists or metal detection devices to ensure there is no metal scrap or sharp objects remaining. The packaging for all qualified finished shoes is carried out under the supervision of trained staff with the employment of seals to record shipments so as to prevent any placing of dangerous items into the packages during delivery.



## Chapter 7

## Operating Practices

In order to meet our brand customers' requirements, our overall production processes (including production, packaging, labeling, etc.) are subject to their monitoring and auditing. Immediate actions are taken and results are reverted to brand customers when they raise any suggestions for improvements.

### Product Service

As the products manufactured and supplied by the Group are not directly sold to consumers, the Group has no direct access to consumer information. As such, in respect of product recycling, there is no mechanism in place for the return of defective products or the recycling of packaging materials. Nevertheless, the Group has kept close business relationship with our brand customers and will work with the brand customers to carry out the return of products if required. All of our products need to pass high standard quality testing by the customers, and we follow the customers' requirements and the exporting countries' laws and regulations to provide a reasonable packaging and detailed product information labeling which includes product size, material, ingredients, instructions, etc. As such, not only can the consumers obtain related product information and service through the brand customers, but they can also identify the production plant through the factory code on the product information label, and contact the relevant production plant to inquire about product related issues. In 2020, there were no incidents of non-compliance of product standards in the footwear products manufactured by the Group, and no complaints or fines were received due to safety and health hazards posed to consumers. Since the Group does not sell products to consumers directly, there is no need for the Group to promote the products by advertising. The advertising of products is conducted by brand customers according to their operating strategies and applicable laws.

### Lean Production and Manufacturing Enhancement

The Group continues to carry out streamlining of operation process and apply various kinds of electronic systems and management tools, in order to enhance the production optimization capabilities of the production bases in various regions. The Group has also improved its product development capability, and strengthened its factory automation and production efficiency, through research and development of customized digital tools, process improvements, integration of hardware and software systems and the establishment of a shoe manufacturing knowledge database. At the same time, we have continued to introduce new production models and new manufacturing technologies, improve the automated production process and extend further in the application of industry 4.0. Through the integration of the Internet of Things, all production facilities of production bases in various regions are incorporated into the Internet of Things early warning system for maintenance, to ensure the facilities can deliver the highest production capacity with consistent product qualities. The objective is to achieve continuous operation of the production line and full digitalization, with the ultimate goal being the establishment of intelligent production plants with smart, flexible production, distributed manufacturing and quick response, and the production of products which are in line with not only the manufacturer's philosophy but also the consumers' needs.



## Chapter 7

## Operating Practices

### Product Responsibility

The Group is generally in compliance with relevant laws and regulations that have a significant impact on the Company relating to health and safety, labelling and privacy matters of the products and services, including but not limited to:

- Mainland China: the Constitution of the People's Republic of China (《中華人民共和國憲法》), the Tort Law of the People's Republic of China (《中華人民共和國侵權責任法》), the Public Security Administration Punishments Law of the People's Republic of China (《中華人民共和國治安管理處罰法》), the Criminal Law of the People's Republic of China (《中華人民共和國刑法》), the Product Quality Law of the People's Republic of China (《中華人民共和國產品質量法》), the Law on the Safety of Special Equipment of the People's Republic of China (《中華人民共和國特種設備安全法》) and other laws and regulations and standards relating to product safety and quality;
- Vietnam: the Intellectual Property Law (《智慧財產權法》), the Cyber Information Security Law (《網絡信息安全法》).

### 7.2 Supply Chain Management

Through integration of industry resources and cooperation in know-how and technology, the Group connects the upper, middle and lower streams of the footwear manufacturing industry, covering relevant areas in machineries, chemical engineering, materials as well as in moulds to form a complete supply chain system of the Group. By focusing on local and flexible supply, we expect to shorten our delivery time and respond quickly to the market demand, thereby enhancing brand reputation and customer satisfaction. On the other hand, we also work together with our brand customers and partners on the issues of application of innovative materials and environmental sustainability.

The suppliers of the Group largely comprise four categories: raw material suppliers, mechanical equipment suppliers, engineering contractors and service contractors. In 2020, there were no significant changes in the location of our suppliers of materials/shoe equipment and work contractors, supply chain structure and supplier relationships as compared to the previous year, while service contractors were subject to necessary adjustments or changes depending on their contract terms.





## Chapter 7







## Operating Practices

### Policy on Suppliers Management

(Pou Chen Group (including Pou Chen Corporation and the Group))

## Supplier Management Policy and Measures

Pou Chen Group (hereinafter referred to as “PCG”) regards integrity and compliance as the cornerstone of cooperation with its suppliers. All suppliers must abide by local laws and contract commitments, as well as taking labor rights, health and safety, and environmental compliance as one of primary considerations. Through the supplier audit and selection mechanism, partner suppliers are selected and the overall performance will be evaluated, counseled, and tracked regularly to boost the supply chain efficiency. Excellent partners and competitive products will be promoted in the business platform, Vendor Fair, to create opportunities that benefit mutually.

 <b>Contract and Commitment</b> <ul style="list-style-type: none"><li>• Non-Disclosure Agreement</li><li>• Product Security Undertakings</li><li>• Undertaking of Ethics and Integrity</li><li>• Undertaking under the Supplier Customs Compliance Regulations</li><li>• Statement and Undertaking of Non-Infringement</li><li>• Undertaking for Green Supply Chain Requirements</li></ul>	 <b>Audit Mechanism</b> <ul style="list-style-type: none"><li>• Passing the audit is a mandatory condition before becoming a partner supplier.</li><li>• In accordance with ISO9001, Supplier Quality Management is driven by 11 audit criteria.</li><li>• In accordance with ISO14001, Supplier Sustainable Development Management is driven by 12 audit criteria in 3 categories.</li></ul>	 <b>Selection Mechanism</b> <ul style="list-style-type: none"><li>• Nominate and approve qualified suppliers or weed out disqualified suppliers through the decision-making mechanism of the committee.</li></ul>
 <b>Performance Assessment</b> <ul style="list-style-type: none"><li>• Periodically evaluate and grade supplier's performance with the matrix of quality, cost, delivery, service, innovation, and sustainability.</li></ul>	 <b>Counseling and Communication</b> <ul style="list-style-type: none"><li>• Provide guidance and support suppliers on Quality Management system such as MUNSELL FM100 application, RSL, and ISO9001 certification, etc.</li><li>• Provide guidance and support suppliers on issues such as environmental protection, healthy and safety, and fire safety to comply with local laws. Roll out energy saving and waste reduction programs.</li><li>• Communicate PCG's policies to suppliers.</li></ul>	 <b>Supplier Development</b> <ul style="list-style-type: none"><li>• Host Vendor Fair</li><li>• Introduce competitive products from suppliers to brand customers and PCG's business units.</li><li>• Establish sustainable Supply Chain Management system.</li></ul>



## Chapter 7

## Operating Practices

### Supply Chain Management

To assist brand customers in developing unique and innovative products of high quality, and to perform the Group's responsibilities as citizens of the planet earth, the Group focuses primarily on aspects of quality and sustainable development management with respect to management of raw material and mechanical equipment suppliers. The Group sets various quality and sustainable development indicators, regularly evaluates suppliers and implements management mechanisms. Except for suppliers appointed by brand customers or those supplying specific items (such suppliers must follow the international social and environmental practices and standards stipulated by brand customers, including those on labor issues), the Group selects new suppliers of raw materials and mechanical equipment by applying environmental standards. New suppliers must fill in a self-assessment form which covers assessment items including environmental management, fire safety, safety and health, code of conduct of the company, etc.

The Group also regularly conducts random site visits to new suppliers every year. After collecting the self-assessment forms and conducting sample site visits, the Group will decide whether to include them as the Group's suppliers. Professional teams will subsequently carry out quality assessments and evaluation of sustainable development indicators to ensure that the relevant suppliers have systematic quality control capabilities, and that a supplier sustainable development management system will be established. In addition, the Group conducts regular reviews quarterly or half-yearly with the relevant suppliers according to the characteristics of different supplied items, so as to ensure the continued maintenance of quality standards and compliance with legal requirements of the production and supply of daily raw materials and mechanical equipment, which are critical to quality assurance for the brand customers and prompt adaptation to the trend of sustainable development.

In 2020, the Group regularly promoted the "Group Code of Conduct" to the suppliers, including but not limited to lawful employment of workers, prohibition of child labor and forced labor and prohibition of violence, harassments and abuses, etc., with an aim to comply with the labor issues of concern to the international community together.

### Suppliers Quality Management Highlights in 2020

- (1) Within the Group's supplier quality assessment system, there are 11 scoring categories for quality management, including incoming quality control supplier management, manufacturing process control, quality system, finished product and shipment inspection, laboratory management, non-conformity product control, education and training, storage and delivery, customer service, document and record control as well as environment and labeling. In addition, suppliers are required to meet 100% of the standards for Restricted Substances Lists (RSL) of various cooperating brands, to carry out the audits of RSL (the auditing of RSL management specifications or systems of suppliers, as well as undertakings and warranties in RSL, and test result lists and reports on RSL).





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- (2) According to the basis of ISO 9001:2015 Quality Management System, the criteria for the selection and evaluation of suppliers were established, and the suppliers' operation conditions, quality management systems, supply capabilities, service qualities and delivery capabilities, etc. were comprehended by using an inquiry form.
- (3) To effectively manage suppliers and ensure that procurement quality can meet the requirements of the Group and the brand customers, the Group requires suppliers to adopt improvement measures after supplier assessments based on the principles of "Plan, Do, Check, Action" (PDCA). The objective is to enhance the suppliers' control on quality to reduce the costs of quality failures, and to ensure that the quality control of all incoming materials to the production bases in various regions are in line with requirements of the brand customers.

### **Suppliers Sustainable Development Management Highlights in 2020**

- (1) The Group established 12 categories of assessment items for sustainable development management according to the bases of ISO 14001:2015 environmental management system, which can be summarized into three aspects of environmental management, fire safety and safety and health. In addition, suppliers with excellent performance were encouraged to promote circular economy, including but not limited to green design, green production, green procurement, green marketing, green products and green recycling.
- (2) A stable supply chain is the key to the maintenance of the Group's sustainable production. The Group continuously enhanced the suppliers' self-management capabilities through evaluation and improvement tracking mechanism. The Group also continued to implement sustainable development management of supply chain, and encourage suppliers with excellent performance in sustainable development to abide by the "Group Code of Conduct" together.
- (3) As the scales, management capabilities and degrees of cooperation vary between suppliers, the Group will request suppliers who were unable to meet the Group's sustainable development management indicators to improve within prescribed time and supervise them on projects on improvement activities on issues such as environmental protection to ensure that the suppliers have effective measures against environmental pollution prevention and treatment. If the suppliers were still unable to meet the Group's requirements after the expiry of the prescribed time, they would be replaced to reduce the risks in the supply chain. This is to ensure that the Group's supply chain management is in compliance with the basic requirements such as environmental protection management, and consistent with the global sustainability trend.



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- (4) According to the significance and transaction volumes of raw materials items and mechanical equipment, the Group has progressively implemented control mechanism on critical areas.

### Major Focus Areas for Supplier Quality Management Assessment



### Major Focus Areas for Supplier Sustainable Development Management Assessment

#### 12 Categories of Assessment Items





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## Operating Practices

### Results of Supplier Assessments of 2020

Quality management assessments on 4 supplier factories of raw materials and mechanical equipment were conducted in the year 2020, none of which was unable to pass. Sustainable development management assessments on 9 supplier factories of raw materials and mechanical equipment were conducted, with 2 supplier factories unable to pass. The procurement ratio of the suppliers who failed to meet requirements were adjusted through a supplier management mechanism, in order to establish a high quality supply chain management system.

For the suppliers with relatively high deficiencies, constant consultations and improvement measures were provided by the Group. In some cases, situations were reported to the brand customers with joint effort to track the improvement progress. The objective is to promote among the suppliers to continue the improvement of the production cycle, to fulfill corporate social responsibilities and to put the concept of sustainable development into practice.

### Suppliers Development

The Group considers our suppliers as working partners and values the interaction and communication with them. We assist and coach the suppliers in strengthening product qualities and sustainable development management, so as to improve the suppliers' competitiveness and increase the value of the overall supply chain.

In the area of quality management, training courses were conducted on management of RSLs for 15 suppliers in 2020, with an objective to fulfill our corporate responsibility in reducing the negative impacts of the suppliers on the environment. In addition, for the requirement of continuous improvement of product quality management, inspections and quality awareness education and training courses coaching were arranged for one supplier. The Group also assisted one supplier with third-party re-evaluation of its ISO 9001 quality management system.



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In the area of sustainable development management, we have been holding regular sharing sessions on ESH (Environment, Safety, Health) since 2018. The focus of the ESH sharing session in 2020 was changed to promoting different levels of projects based on partnerships with suppliers. Different levels of projects were proposed to different suppliers. For suppliers with close partnerships, we have implemented green energy projects, occupational risk reduction and establishment of a complaint mechanism. We have also held exchanges on human rights compliance advocacy and formulated supplier-friendly workplace guidelines.

Since 2019, we have started to introduce the Suppliers' Green Energy Project. 37 suppliers have been invited to participate in the project, and through the provision of examples combined with on-site guidance, the air compressor system in the factory was reviewed with its leaking rate improved, achieving an annual electricity saving of approximately 2,068.12 kWh, which is equivalent to an energy saving of approximately NT\$8.686 million and 1,052.67 metric tons of CO<sub>2</sub>° greenhouse gas emission.

According to specific needs of our key suppliers, as well as the professional knowledge and customer experience of the Group's colleagues, we assisted our key suppliers in complying with the customers' standards. It is hoped that a sustainable supply chain can be established through innovation collaboration with the suppliers and the vision of "resources integration and value enhancement" can be put into practice, such that the fulfilment of corporate social responsibility can be ensured.



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## Operating Practices

### 7.3 Moral Integrity and Anti-corruption

#### Setting Standards and Compliance with Laws and Regulations

A system with good moral integrity and anti-corruption mechanism is the cornerstone for the sustainable and healthy development of the Group. The Group is generally in compliance with the applicable laws and regulations that have a significant impact on the Company relating to the prevention of bribery, extortion, fraud and money laundering, including but not limited to:

- Mainland China: the Anti-unfair Competition Law of the People's Republic of China (《中華人民共和國反不正當競爭法》), the Criminal Law of the People's Republic of China (《中華人民共和國刑法》), the General Provisions of the Civil Law of the People's Republic of China (《中華人民共和國民法總則》), the Anti-money Laundering Law of the People's Republic of China (《中華人民共和國反洗錢法》);
- Vietnam: the Prevention of Corruption Law (《防止貪污法》), the Criminal Law (《刑事法》);
- Indonesia: the Money Laundering Control Law (《洗錢防制法》), the Criminal Law (《刑事法》).

In addition, the Group maintains an "Ethical Corporate Management Best Practice Principles", which requires the employees, during the course of business engagement, not to (whether directly or indirectly) provide, undertake, request or receive any improper benefits, or take any other actions which are in violation of integrity, illegal or dishonest behaviors which are in breach of fiduciary duties. Such behaviors to be prevented include criminal acts such as bribery, extortion, fraud, money laundering and other acts such as the provision of illegal political contributions, inappropriate charitable donation or sponsorship, provision or acceptance of unreasonable gifts, entertainments or other improper benefits, infringement of trade secrets, trademarks, patents, copyrights and other intellectual property rights, and engagement in acts of unfair competition, etc..

The Group's "Work Rules" requires the employees to sign the "Code of Ethics and Integrity Pledge" and the "Confidentiality Undertaking" and to strictly adhere to the applicable laws and regulations relating to the above acts.

In addition to requiring the suppliers to sign confidentiality agreements or relevant documents in respect of the trade secrets of brand customers, the Group also requires them to follow the Group's principles on honest transactions. The suppliers are required to sign the "Undertaking of Ethics and Integrity", or provide their declaration of probity or information on their moral integrity systems for the review by the Group. Except for special cases, suppliers are required to sign the "Undertaking of Ethics and Integrity" before any procurement can be carried out by the Group.



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### Communication and Training

The Group discloses its business integrity policies on internal website or other company documentation. The objective is to ensure that the employees of the Group, suppliers, customers or personnel of other organizations relevant to the business can clearly understand the Group's philosophy and standards on business integrity.

During the course of business engagement, the Group's employees are required to explain to business counterparts the Group's policies and regulations on business integrity, and should clearly reject any direct or indirect provisions, undertakings or requests for any type or receipts of improper benefits in whatever manner or form.

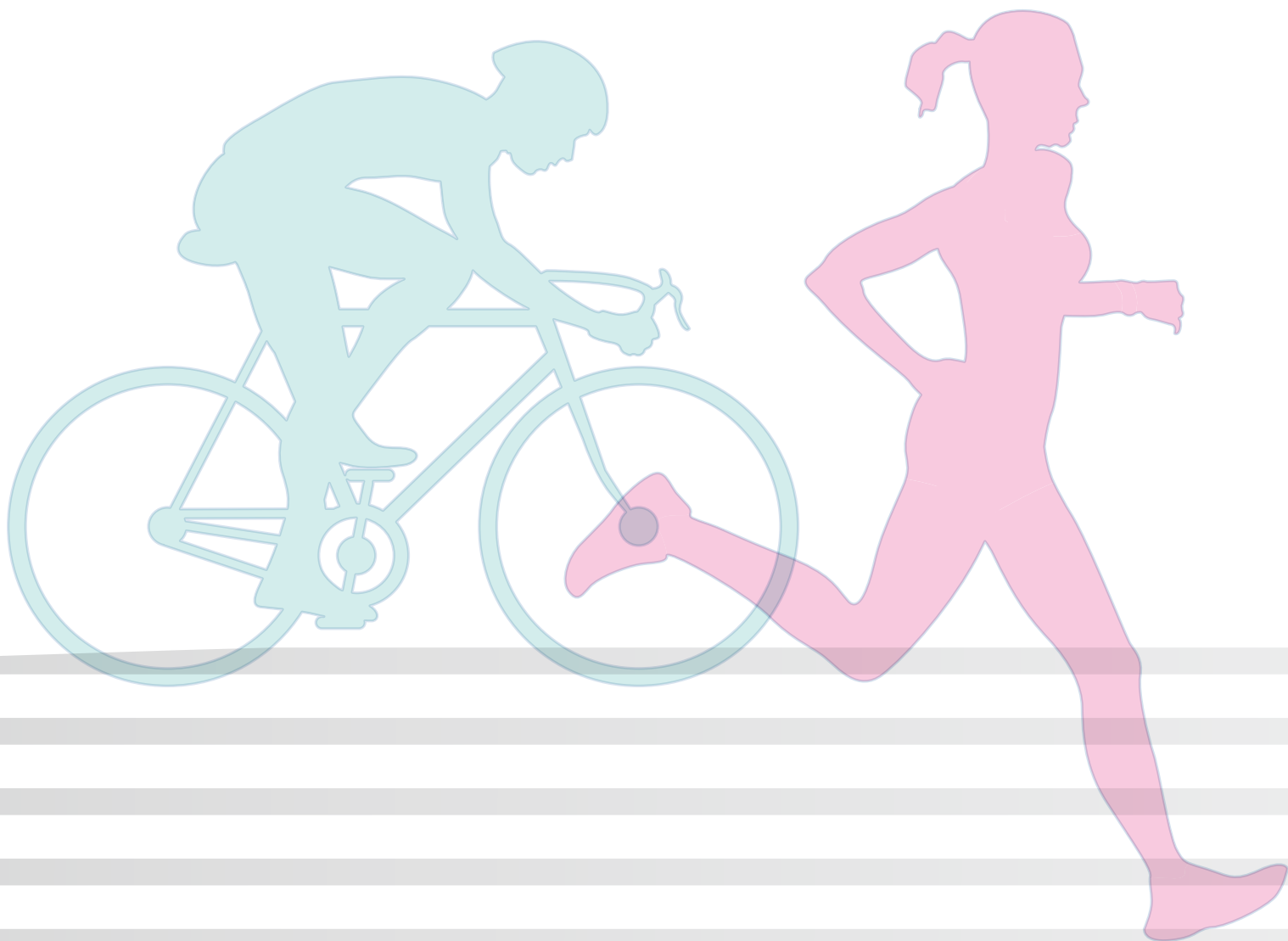
Since January 2017, the legal department of the Group has been holding a series of educational campaigns and training sessions on moral integrity, and online induction courses for the Group's employees and new recruits in relation to "honest transactions and protection of the Group's interests". It is hoped that the Group's philosophy and standards on ethical operation will be further promoted. In 2020, the arrangement and planning for overseas courses had been suspended since the beginning of the year due to the pandemic, but there were completed and recorded courses in English which will be promoted when the pandemic situation overseas eases in the future.

### Complaints Reporting Principles and Communication Channels

In response to the employees' opinions and grievances, the Group has established the following complaints and reporting channels according to "Work Rules". If any employee of the Group is suspected of violating the laws or committing dishonest acts, any person may provide the relevant information through the following channels:

- (1) the direct supervisor of the employee;
- (2) Human Resources Department;
- (3) complaints mailbox; and
- (4) electronic complaint and reporting channels (including e-mails and internal website).

In addition, if the Group discovers any event of corruption, bribery, extortion, fraud and money laundering, necessary legal actions will be taken to protect the interests of the Group. In 2020, the Group was not aware of any case of corruption, bribery, extortion, fraud or money laundering brought against the Group or its employees.



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Yue Yuen Industrial (Holdings) Limited

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