



2023

永續報告書

三芳化學工業股份有限公司

ESG Sustainability Report

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Message from the Chairman

SFC's Vision

The Company aims at becoming the most trustworthy material supplier; is committed to the mission to use resources efficiently, provide clean and high-quality material technology, and create a happy environment; adopts the business policies of professionalism, integration, innovation and service; sets key business goals for the mission to accelerate the integration of resources and achieve benefits and objectives, implements efficiency reengineering to reduce operating costs, improve service levels to meet customer needs, and strives to fulfill our corporate responsibility for environmental protection and sustainability.

Move Towards Sustainability with Innovation

In recent years, geopolitical changes and tensions have had multiple impacts on companies' markets, capital, supply chain, brand image, and government support. We will closely monitor geopolitical dynamics and develop flexible strategies to deal with various uncertainties.

In terms of environmental protection, we are deeply aware of the threat of climate change to the earth, so we are committed to reducing carbon footprints and promoting the use of renewable energy. We have reduced GHG emissions through process improvement, energy conservation, and emission reduction. We also seek collaboration with suppliers to promote the sustainable development of the entire supply chain.

As a responsible corporate citizen, we always comply with laws, regulations and ethical standards and incorporate them into business decision-making and operational processes. We also work with governments and regulatory agencies in various countries to ensure that our business activities comply with local legal requirements. In addition, we actively promote further legal compliance training to enhance employees' awareness and understanding of legal compliance and emphasize the importance of corporate governance. A sound corporate governance system helps ensure a company's transparency, accountability, and ethical principles. The Company will continuously improve the internal control system and procedures to ensure that correct regulatory and ethical standards are implemented.

Occupational health and safety have always been one of the Company's most important areas of concern. We have prioritized the protection and maintenance of employee health and safety by constantly improving and strengthening the occupational health and safety management system and reinforcing employee safety training and awareness education to reduce occupational hazards and accidents at work. We also actively invest in the improvement of the working environment to provide a healthier and safer workplace.

Societies around the world are facing many challenges. We will promote the achievement of the Sustainable Development Goals and are committed to improving social well-being and community development. We will make continuous efforts in improvement and innovation to achieve higher social responsibility standards. Furthermore, the Company will more actively communicate with stakeholders and embrace their suggestions and opinions to ensure that our actions meet social expectations.

This Report shares our progress on sustainable development and social responsibility, as well as our prospects for the future. Thank you for your trust and support, and we look forward to creating a better future together!

Chairman

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About This Report

- 1.1 Editorial Principles
- 1.2 Structure of the Corporate Sustainable Development Organization
- 1.3 Stakeholder Identification and Communication
- 1.4 Analysis of Material Issues

ESG



1.1 Editorial Principles



About This Report

This Report summarizes the activities and specific performance of San Fang Chemical Industry Co., Ltd. in corporate social responsibilities in 2023, such as corporate governance, environmental protection, employees, and social welfare. This Report covers SFC's headquarters in Taiwan and business locations in various regions, excluding controlled affiliates. However, the financial information is based on the data in the consolidated financial statements of San Fang Chemical and all subsidiaries in accordance with the International Financial Reporting Standards.



Reporting Period

January 1, 2023 to December 31, 2023.



Scope of Coverage

Taiwan

| San Fang Chemical Industry Co., Ltd.

Vietnam

| San Fang Vietnam Co., Ltd.

Indonesia

| PT. San Fang Indonesia

China

| Dong Guan Bao Liang
Materials Technology Co., Ltd.



Report Management Procedures

The Company's ESG Sustainability Report was discussed and resolved by the board of directors. It has been disclosed on the Market Observation Post System of the Taiwan Stock Exchange and the ESG section of the Company's website (www.sanfang.com).



Basis of Compilation

The statistics and information disclosed and presented in this Report are annual data. This Report has been prepared in accordance with the GRI Standards issued by the Global Reporting Initiative (GRI), the industry-specific disclosure standards of the SASB(Sustainability Accounting Standards Board), the framework of the Task Force on Climate-Related Financial Disclosures (TCFD), the Sustainable Development Goals (SDGs) and other sustainability indicators of the United Nations, and the Taiwan Stock Exchange Corporation Rules Governing the Preparation and Filing of Sustainability Reports by TWSE Listed Companies.



Publication

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Contact Information

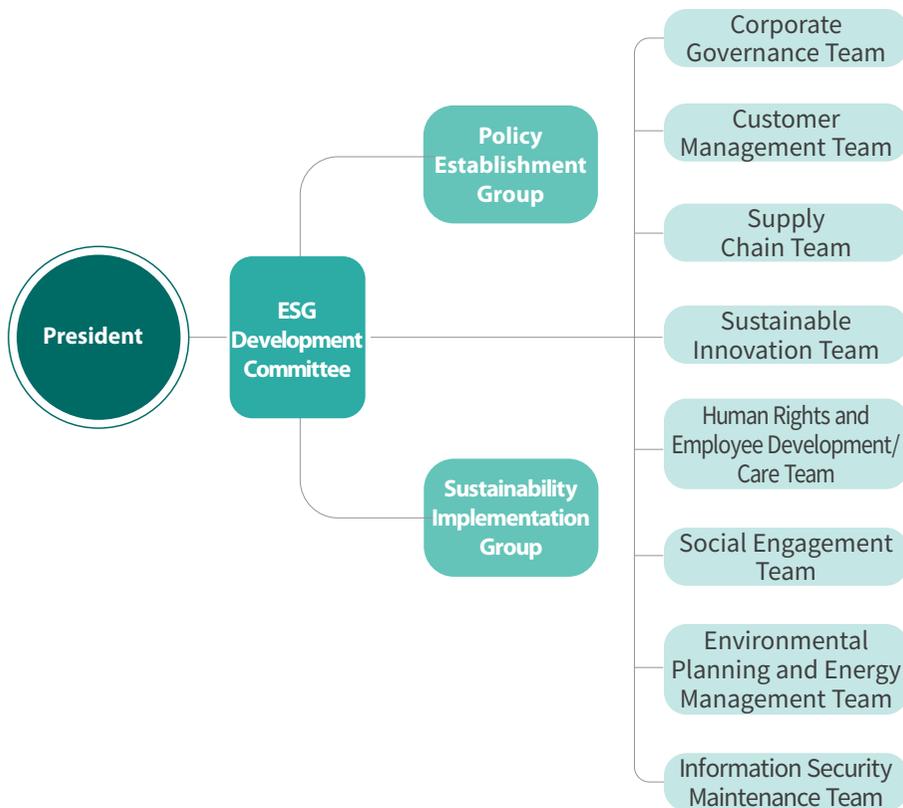
Please contact us if you have any questions about this Report or the Company's corporate social responsibility practices.

San Fang Chemical Industry Co., Ltd.

- Address: No. 402, Fengren Road, Renwu District, Kaohsiung City
- Contact persons: Jui-E Chiang, Hsing-Hung Hsiao
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- Website: <http://www.sanfang.com>

1.2 Structure of the Corporate Sustainable Development Organization

SFC's headquarters in Taiwan has established an ESG Development Committee to coordinate and supervise the promotion of corporate sustainable development affairs related to environmental safety and health, labor-management relations, corporate governance, and risk management at subsidiaries in various regions, assist the highest governance body in responding to issues of stakeholder concern, and inform the highest governance body of the impact of stakeholders on the Company.

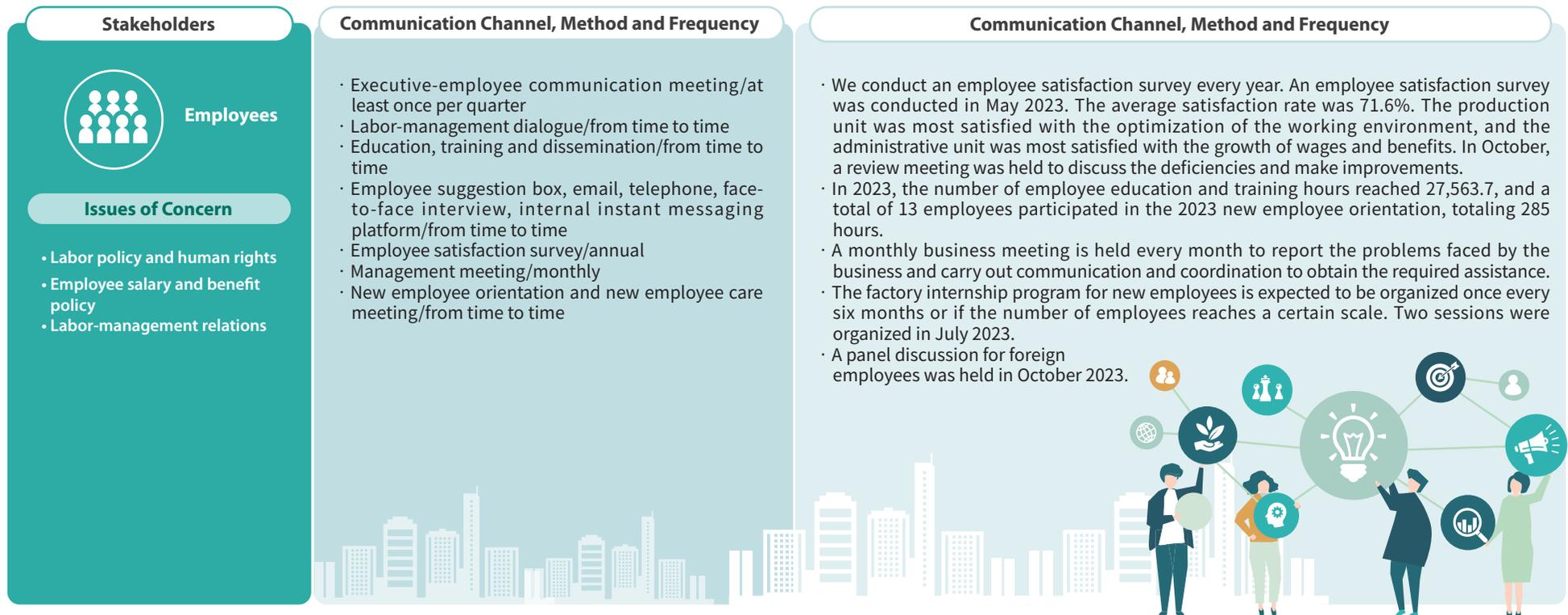


|  Work team |  Key promotion item |
|--|--|
| Policy Establishment Group | <ul style="list-style-type: none"> Formulate corporate sustainable development policies on environmental safety and health, labor-management relations, corporate governance, and risk management. |
| Sustainability Implementation Group | <ul style="list-style-type: none"> Regularly summarize the implementation progress of the corporate sustainable development policies formulated by the Policy Establishment Group and review their performance. |
| Corporate Governance Team | <ul style="list-style-type: none"> Protect the rights and interests of shareholders Strengthen the structure and operation of the board of directors Implement ethical management |
| Customer Management Team | <ul style="list-style-type: none"> Engage in the coordination and integration of feedback on customer needs and improvement promotion with brand customers |
| Supply Chain Team | <ul style="list-style-type: none"> Promote and use sustainable raw materials Promote actions to improve labor human rights and environmental sustainability among suppliers |
| Sustainable Innovation Team | <ul style="list-style-type: none"> Develop green processes and increase the utilization rate of environmentally friendly materials |
| Human Rights and Employee Development/Care Team | <ul style="list-style-type: none"> Improve employee well-being and create a happy work atmosphere Provide employees with an appropriate growth environment |
| Social Engagement Team | <ul style="list-style-type: none"> Promote the development of surrounding communities through collaboration with community/social collaboration |
| Environmental Planning and Energy Management Team | <ul style="list-style-type: none"> Improve the environmental management system and the mechanism and capability for GHG emissions inventory Plan and promote the directions, policies and programs for climate change risk mitigation, and implement environmental conservation from the inside out. Sign the SBTi (Science-Based Reduction Targets initiative) commitment letter |
| Information Security Maintenance Team | <ul style="list-style-type: none"> Construct the Group's network information system, formulate information security policies, and implement various information security management requirements. |

1.3 Stakeholder Identification and Communication

The Company has implemented stakeholder identification and communication with reference to the AA1000 Stakeholder Engagement Standard. The identification of key stakeholders facilitates internal and external company communication, and understanding the issues that are important to stakeholders is helpful for grasping the overall development trend, which can be used as the basis for planning business strategies.

In order to systematically fulfill corporate social responsibility, the Company responds to stakeholders and issues of their concern. According to the five principles for stakeholder communication and engagement, namely “dependency,” “influence,” “responsibility,” “diverse perspectives,” “tension,” we have determined the connection between stakeholders and corporate sustainable operations to identify six types of key stakeholders, including 1. employees, 2. customers/brands, 3. shareholders/investors, 4. suppliers, 5. government agencies/competent authorities, and 6. community residents. For details on our stakeholder contact persons, please refer to the Company's website at <https://reurl.cc/Ger9dA>. In 2023, we focused on stakeholders in the hope to grasp market trends through stakeholder communication and use them as a reference for further formulating risk response mechanisms, crisis handling mechanisms, and short-, medium-, and long-term corporate development strategies. The communication with stakeholders in 2023 was reported to the board of directors on January 23, 2024.



Stakeholders



**Customers/
Brands**

Issues of Concern

- Customer communication and complaint management
- Product quality and production efficiency
- Innovative products and technologies

Communication Channel, Method and Frequency

- Email, telephone, physical meetings/from time to time
- Factory inspections and visits/from time to time
- Exhibitions/from time to time
- Product introduction/at least twice a year
- Customer satisfaction survey/annual

Communication Channel, Method and Frequency

- Major customers conduct one on-site quality and environmental safety inspection every year.
- In 2023, we participated in a total of 20 exhibitions.
- Two new product introductions were organized in 2023.
- For the annual customer satisfaction survey, 230 customer satisfaction survey forms were completed in December 2023, and we reviewed and improved the areas where delivery time and quality did not meet customer needs, which were the key concerns of customers.

Stakeholders



**Shareholders/
Investors**

Issues of Concern

- Business performance
- Corporate governance
- Legal compliance
- Sustainable development

Communication Channel, Method and Frequency

- Shareholders' meeting/annual
- Investor conference/at least once a year
- Market Observation Post System/as required by laws
- Company website/from time to time
- Scheduled visits with investors and corporates/from time to time

Communication Channel, Method and Frequency

- The shareholders' meeting was held in June 2023.
- In 2023, a total of one investor conference was held to report business and financial information to investors.
- In 2023, a total of 14 material announcements were released in Chinese and English, including monthly operating revenue announcements and quarterly financial reports.
- We have set up an Investors section on the Company's website and provided the contact information of the spokesperson and shareholder contact persons.
- Irregular scheduled visits with investors and corporates.

Stakeholders



Suppliers

Issues of Concern

- Supply chain management
- Supplier quality management and product liability
- Supplier environmental protection management and pollution control

Communication Channel, Method and Frequency

- Email, phone, correspondence, face-to-face interview/from time to time
- Physical meetings, seminars/from time to time
- Environmental safety and health management platform/real-time
- Supplier evaluation system/on-site random inspection once a year and quarterly supplier evaluation
- Supplier meeting/from time to time

Communication Channel, Method and Frequency

- A meal meeting is held every two months.
- In 2021, the Company's Environmental Safety Office developed an environmental safety and health management platform (<https://contractor.sanfang.com:52101/>) to provide vendors with access to education and training, including online training/examination/certificate issuance before they enter the Company's factories. As of December 31, 2023, the platform had 36,720 users. The Company's environmental safety and health philosophy and related materials have been disclosed on the platform for vendors' reference.
- For suppliers, we conduct random audits of several suppliers once a year, and the average supplier audit score in 2023 was 93.8.
- Supplier evaluation is conducted quarterly. There were 124 A-level suppliers in the first quarter of 2023, 120 A-level suppliers in the second quarter, 129 A-level suppliers in the third quarter, and 121 A-level suppliers in the fourth quarter.
- Irregular supplier meetings.

Stakeholders



Government Agencies/Competent Authorities

Issues of Concern

- Legal compliance
- Environmental impact management and assessment
- Workplace safety and health

Communication Channel, Method and Frequency

- Market Observation Post System/as required by laws
- Regular reporting/as required by laws
- Telephone, official document, email, suggestion mailboxes on open government websites/from time to time

Communication Channel, Method and Frequency

- Once a year, we report the implementation of the annual audit plan, education and training hours, internal control statement, and information of auditors in accordance with the regulations of TWSE.
- The Company makes a occupational safety and health report every month and an environmental protection report every quarter according to regulations.
- We promote communication and understanding via telephone or website suggestion boxes as appropriate and make improvements to comply with legal requirements.

Stakeholders



Community Residents

Issues of Concern

- Environmental impact management and assessment
- Waste management
- Water resource management
- Giving back to the community for social welfare

Communication Channel, Method and Frequency

- Unscheduled visits/from time to time
- Appointment of contact persons for feedback from and communication with external units/from time to time
- Sponsorship for community welfare activities/from time to time

Communication Channel, Method and Frequency

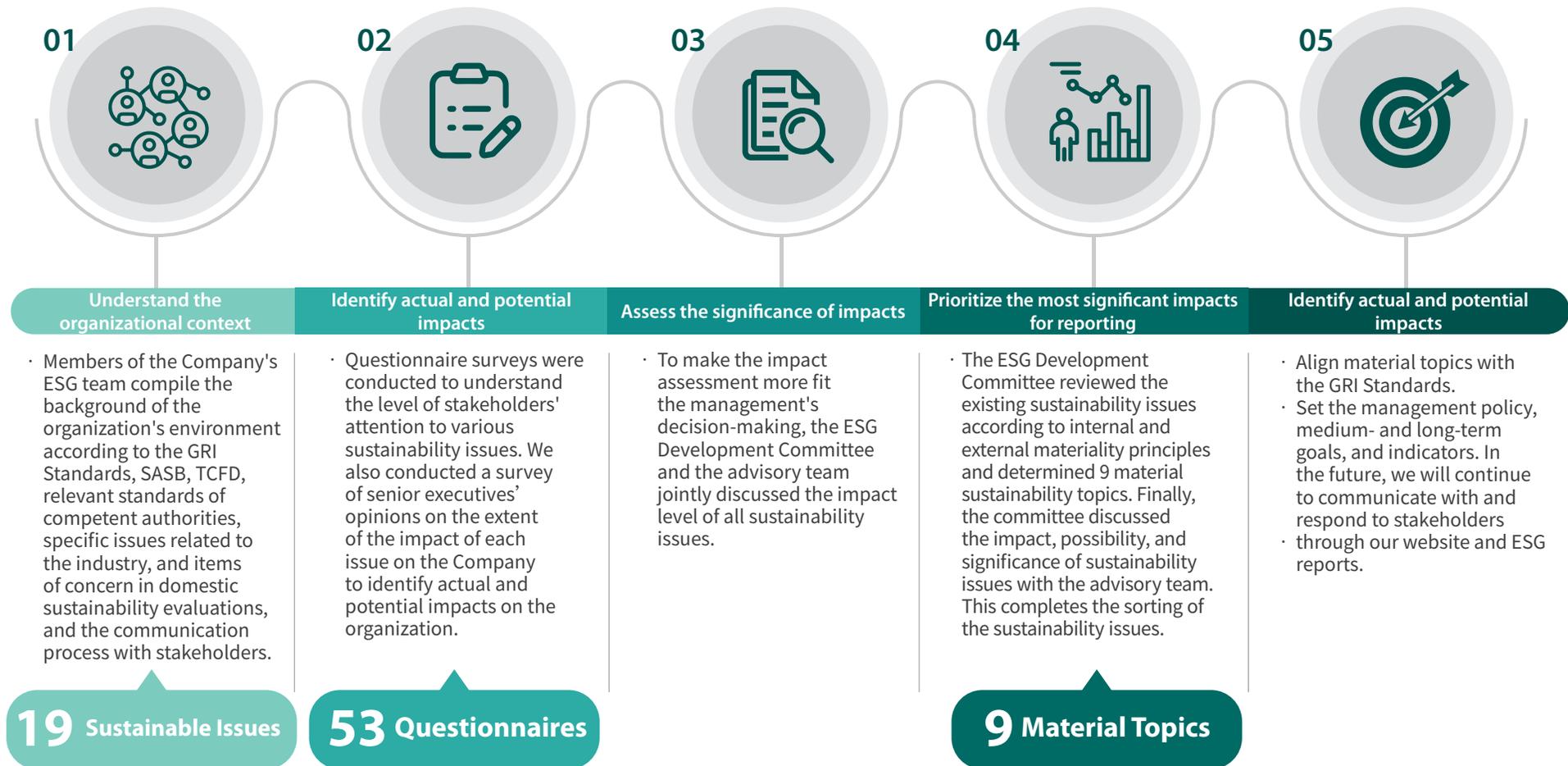
- Monthly neighborhood visit.
- There were no resident complaints in 2023.
- Connections with the industrial park in 2023: The Company publicized the measures for drought prevention in March and promulgated the measures for solar energy installation in May.
- The Company sponsors communities for resident care and hygiene promotion lectures every quarter.
- In 2023, we donated 1,000 fire alarms to the Renwu Fire Brigade, cared for disadvantaged children and sponsored schoolchildren's tuition and miscellaneous expenses, as well as community walking activities.
- In 2023, 80 supervisors participated in an afforestation event in the Jiading Wetland to plant 240 saplings.
- In 2023, an employee blood donation campaign was held, with 110 participants.



1.4 Analysis of Material Issues

1.4.1 Identification of Material Issues

The Company have identified material sustainability issues that are critical to the current status and future operations of SFC through sustainability issue collection, investigation, discussion, and review processes.



1.4.2 Materiality Analysis Results of Stakeholders' Concerns



Governance Aspect

- Operational and Financial Performance
- Product Quality and R&D
- Legal Compliance



Environmental Aspect

- Water Resource and Wastewater Management
- Air Pollutant Management
- Waste and Hazardous Substance Management
- Energy Consumption and Management

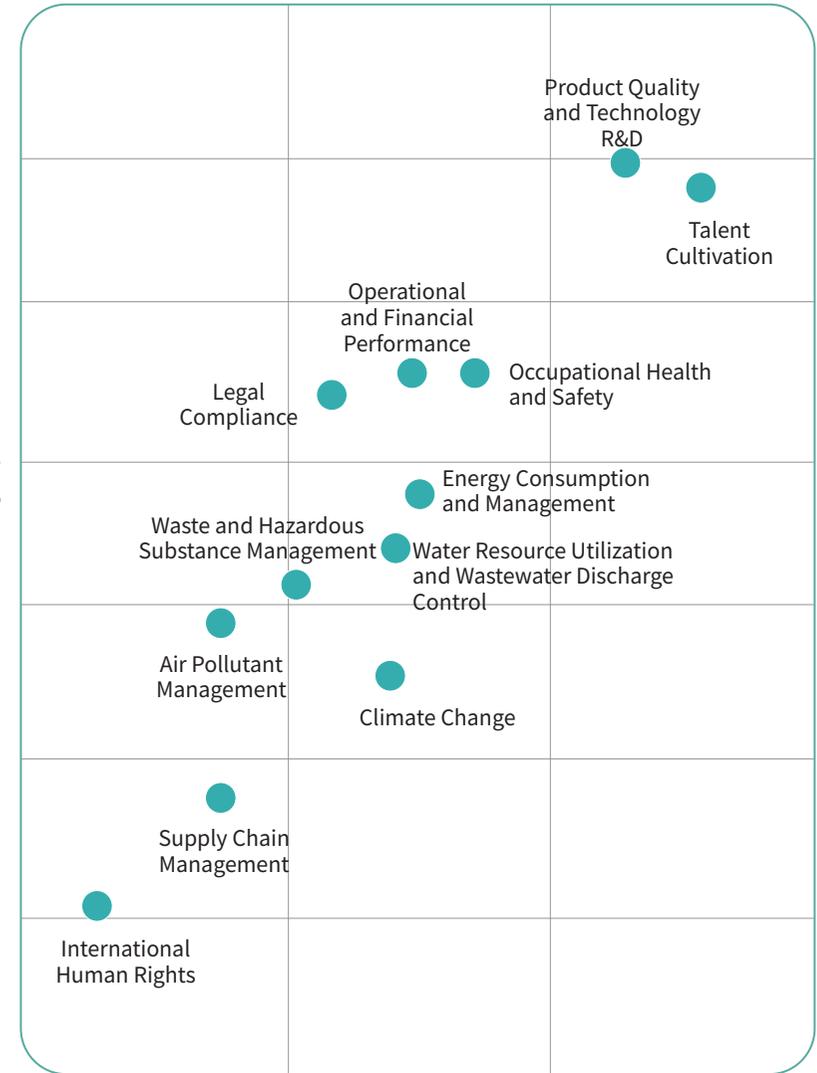
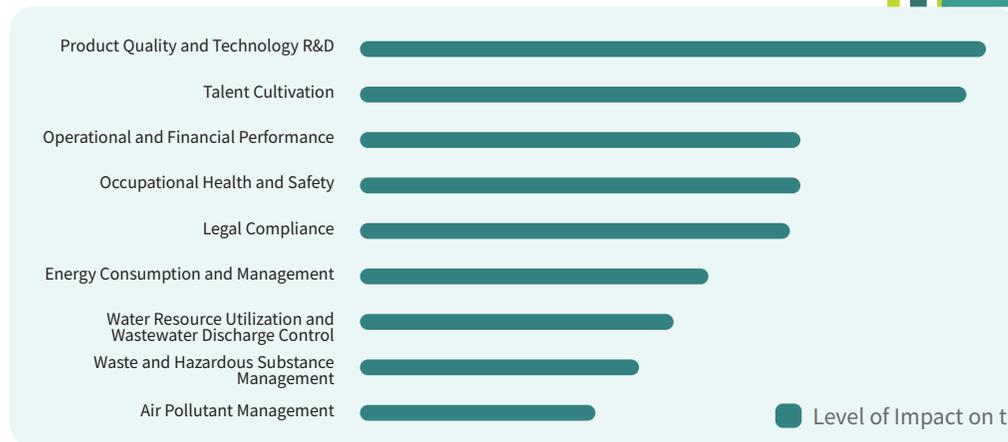


Social Aspect

- Talent Cultivation
- Occupational Health and Safety



Operational Impact



Duration of Impact on SFC

Level of Impact on SFC

Level of Impact on the Company

► Explanation of Adjustments to the Material Topics Disclosed for the Current Year

In 2022, the ESG Development Committee reviewed the materiality analysis process, clarified the significance of each sustainability issue with reference to domestic and foreign industry trends, and made appropriate adjustments to the scope. Compared with the 7 sustainability topics in the previous year, in 2023, the Company added or renamed the economic, environmental, and social topics, and a total of 9 operational-related sustainability topics were compiled. The reasons for the adjustments are explained as follows.

| Changed Material Topic | Change | Reason for adjustment |
|--------------------------------|-------------|--|
| Legal Compliance | Newly added | To increase the Company's attention and actions on legal compliance in respect to the existing international rating and the fact that stakeholders are very concerned about the compliance status of the Company. |
| Occupational Health and Safety | Newly added | In response to the occupational health and safety disclosures currently required by competent authorities and the fact that the international supply chain is very concerned about the labor safety issues in this industry. |

1.4.3 Material Topics and their Boundaries

| Material Topic | Significance to SFC | Potential Impact | Impact Boundary | | | | | GRI Topic Category | Corresponding SDG |
|--|--|--|-----------------|-----------|-----------|-----------|-------------|---|---|
| | | | Suppliers | Investors | Customers | Employees | Communities | | |
| Governance and Economic Aspects | | | | | | | | | |
| Operational and Financial Performance | Setting the corporate management vision and goals, including sustainable management strategies, as well as financial-related performance, such as operating profit margins, stock price, dividends, and assets and liabilities, which are the cornerstone of SFC's sustainable operations. | Operating performance directly affects the Company's costs and profits. | ✓ | ✓ | ✓ | | | 201 Direct economic value generated and distributed |  |
| Product Quality and Technology R&D | Maintaining and improving production quality to minimize the negative environmental and social impacts of products. | Product quality directly affects the Company's customers' willingness to place orders. | ✓ | | ✓ | | | Industry Issues |   |
| Legal Compliance | For legal compliance, we strive to comply with internal operating procedures and the Company's business philosophy, establish an effective compliance system, and control possible risks in order to maintain a good reputation. | Failure to properly address the risks caused by legal compliance issues will increase operating costs and affect the Company's reputation. | ✓ | ✓ | ✓ | ✓ | ✓ | 2-27 Compliance | |

1.4.3 Material Topics and their Boundaries

| Material Topic | Significance to SFC | Potential Impact | Impact Boundary | | | | | GRI Topic Category | Corresponding SDG |
|--|--|--|-----------------|-----------|-----------|-----------|-------------|------------------------------------|-------------------|
| | | | Suppliers | Investors | Customers | Employees | Communities | | |
| Environmental Aspect | | | | | | | | | |
| Air Pollutant Management | Strengthening the Company's ability to cope with climate change and GHG reduction measures, including responses to climate risk governance and identification, GHG inventory, and disclosure of carbon emission information in the life cycle of products and services, to ensure climate resilience and climate information transparency in operations. | Failure to properly address the substantive and transition risks caused by climate change will increase operating costs. | ✓ | | ✓ | | ✓ | 305 Emissions | |
| Water Resource Utilization and Wastewater Discharge Control | Establishing a comprehensive environmental management system to reduce air, water, waste, hazardous substance pollution, and other pollution caused by operations to minimize environmental impact. | The water shortage resulting from a lack of water resources caused by climate change will increase operating costs, and water rationing will directly affect production and revenue. | ✓ | | ✓ | | ✓ | 303 Water | |
| Waste and Hazardous Substance Management | Reducing the environmental load of each stage of the product life cycle is an important goal of the Company in promoting environmental protection. | Proper waste management can not only reduce waste generation and related costs, but also create revenue value and reduce the environmental impact of our operations. | ✓ | | ✓ | | ✓ | 306 Waste | |
| Energy Consumption and Management | Good energy management can improve operational performance and reduce environmental load and carbon footprints. | The use of low-carbon energy has become a future trend. Power rationing will directly affect production. Failure to take appropriate measures may increase operating costs. | ✓ | | ✓ | | ✓ | 302 Energy | |
| Social Aspect | | | | | | | | | |
| Talent Cultivation | Establishing a talent attraction and cultivation system, including recruitment channels, transparent promotions, employee career development, performance evaluation mechanisms, and talent cultivation, to facilitate corporate growth. | Failure to properly address the substantive and transition risks caused by climate change will increase operating costs. | | | | | ✗ | 404 Education and Training | |
| Occupational Health and Safety | Establishing a comprehensive environmental management system to reduce air, water, waste, hazardous substance pollution, and other pollution caused by operations to minimize environmental impact. | The water shortage resulting from a lack of water resources caused by climate change will increase operating costs, and water rationing will directly affect production and revenue. | ✗ | | | | ✗ | 403 Occupational Health and Safety | |

Note 1 SFC Group consists of subsidiaries including BAL (China), San Fang Vietnam (Vietnam), and PT (Indonesia). San Fang Indonesia

2

Operational Governance

- 2.1 Group Profile
- 2.2 Operations Management
- 2.3 Corporate Governance
- 2.4 Risk Management
- 2.5 Cyber Security Maintenance



2.1 Group Profile

In 1973, San Fang Chemical was established in Kaohsiung, becoming the first company in Taiwan to use the wet PU production process. Our main products are PU synthetic leather, films, and the core technology of leather manufacturing. The Company continues to develop a variety of environmentally friendly materials using recycled polyester. In response to the market's demand for lightweight, breathable, and low-carbon products, such products will be the focus of our future marketing and innovative research and development.

The Company's film materials are produced in Taiwan, can accommodate the diversified processing methods of shoe factories, and are the Company's core product, besides artificial leather. We strive to expand the application fields with a high film recycling rate and increase product categories and design changes in order to not only meet customer needs, but also protect the earth and cope with the challenge of carbon reduction.

Basic Information of the Company

| | |
|---|--|
| Date of Establishment | June 16, 1973 |
| Person in Charge | Meng-Ching Lin |
| President | Chih-Yi Lin |
| Main Business | The Company is mainly engaged in the manufacturing of shoe materials. In recent years, the Company has expanded into new fields such as yarn, films, ready-made clothing, sports goods, and transportation interior materials. |
| Operation Headquarters | No. 402, Fengren Road, Renwu District, Kaohsiung City, Taiwan |
| Global Locations | Taiwan, China, Vietnam, Indonesia |
| Paid-up Capital | NTD 3.98 billion |
| Number of Employees in the Group | Approx. 2,590 |



· **Taiwan** 510 Employees



· **China** 310 Employees



· **Indonesia** 550 Employees



· **Vietnam** 1,220 Employees

China

Dong Guan Bao Liang Materials Technology Co., Ltd.

Established in: 2000

Main Products: Shoe materials, transportation materials, Sporting goods

Vietnam

San Fang Vietnam Co., Limited

Established in: 2003

Main Products: Shoe materials, sports goods

Indonesia

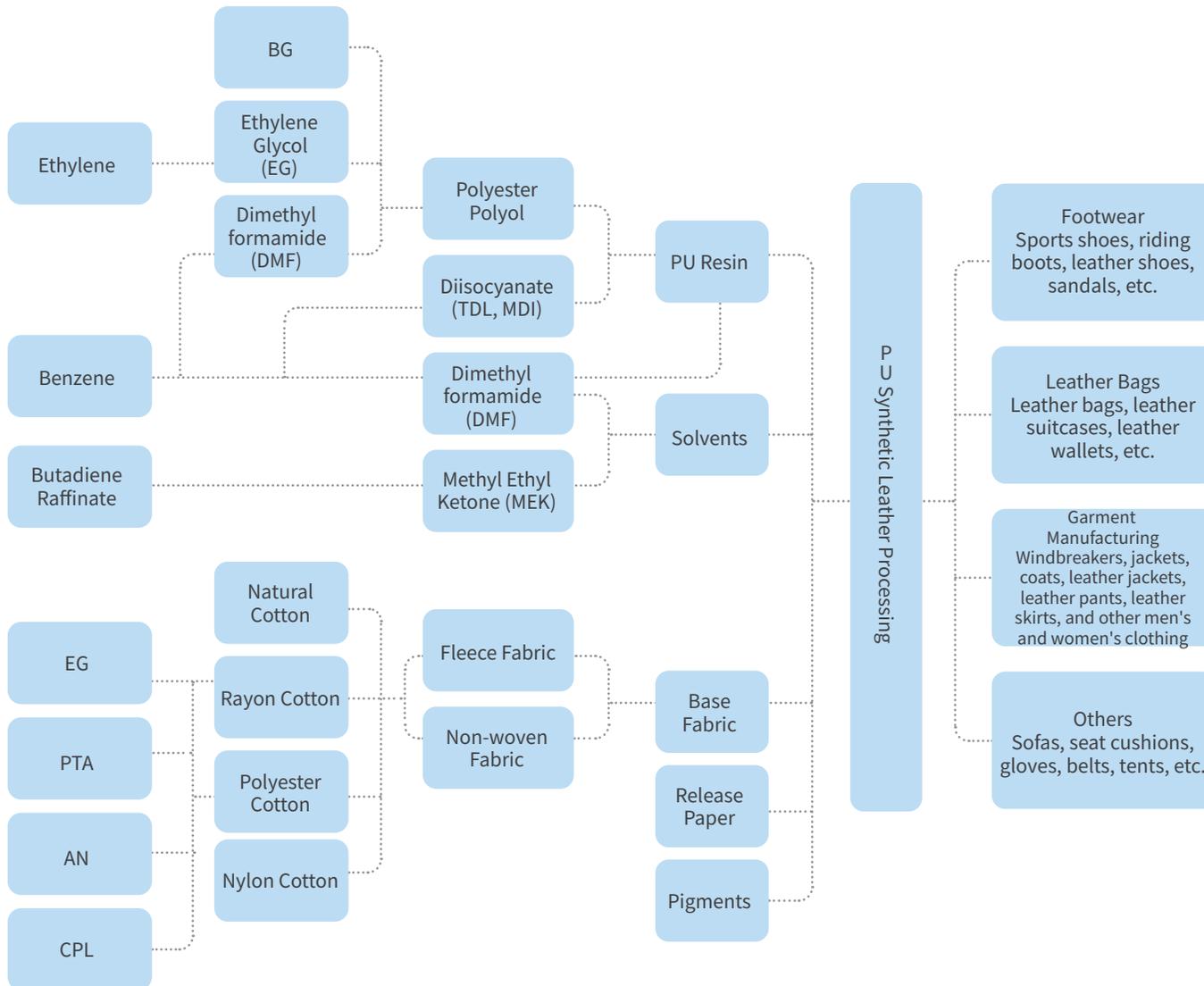
PT. San Fang Indonesia

Established in: 2010

Main Products: Shoe materials

2.1.2 Industry Chain Diagram

► Correlation Diagram of the Upstream, Midstream, and Downstream Segments of the Industry



The Company is a large-scale manufacturer of branded materials for sports shoes and casual shoes. As a partner of international brands such as Nike, adidas, Asics, and New Balance, as well as footwear manufacturers such as Pou Chen Group and Feng Tay Group, we provide flexible production capabilities and services for multiple brands.

Shoe materials account for more than 90% of the Company's revenue in end product applications. We actively strengthen the promotion and marketing of non-shoe materials, explore new customer sources, and diversify the customer base to increase operational momentum.

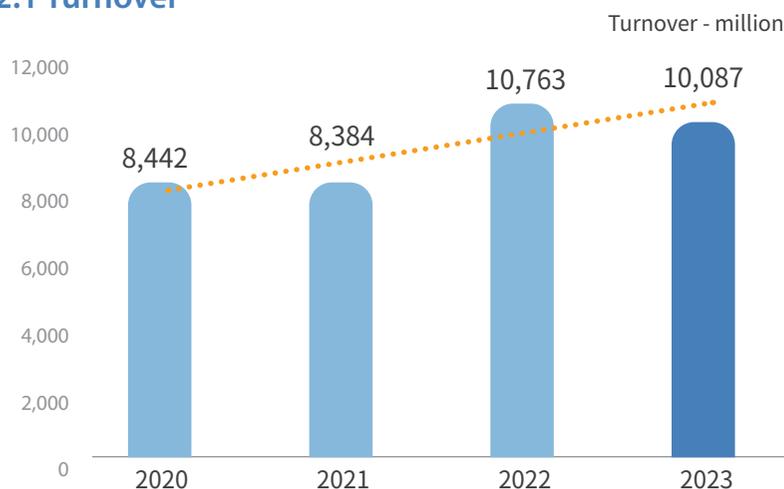
In 2024, 90% of the growth momentum will be in sports shoe materials, with the development and promotion of new materials as the focus. Particularly we will engage in the R&D and production of recycled fibers, advanced films, and water-based solvent-free artificial leather to attract international brand customers to introduce the next generation of carbon reduction materials and product applications.

At present, the Company's capacity utilization rate in Vietnam and Indonesia is 70% and 75%, respectively. As the second phase of plant expansion in Indonesia is planned to be completed in 2024, the improvement in our Indonesia factory's output efficiency can meet the growing needs of international customers in Europe and the United States.

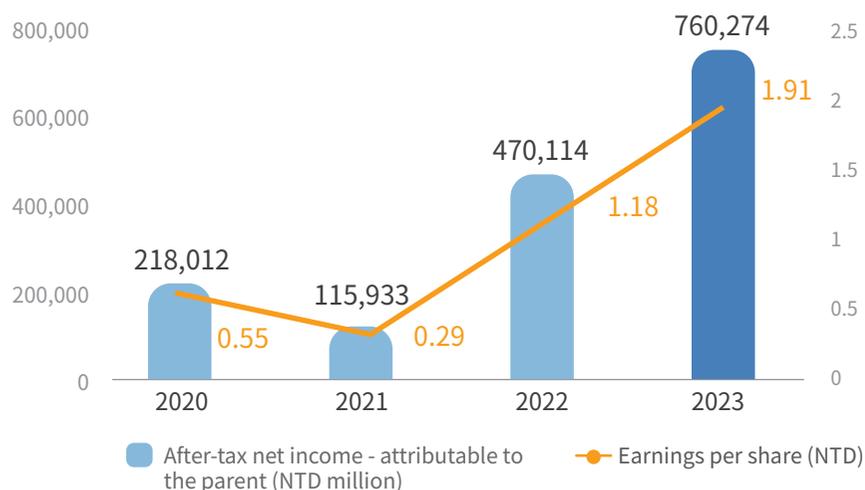
In 2024, we will establish a joint venture in India to promote the automotive materials market, establish an office in Sri Lanka to specialize in the apparel film market. With local services and integration of local resources, we will actively expand overseas markets, engage in quicker and closer brand development and interaction, and established differentiated service advantages in order to get in on the ground floor.

2.2 Operations Management

2.2.1 Turnover



2.2.2 After-tax Net Income and Earnings per Share



Looking back on 2023, the slowdown in the U.S. economy, China's weak economy, and cautious consumer spending due to inflation; the global economy was hampered by sluggish end market demand and industrial inventory adjustment, which slowed economic growth; and major brands were affected by the declining consumption power of the Chinese market. As well as high inventory pressure, it is planned to reduce the types of key product lines to control costs, and the orders in the artificial leather market show a declining trend.

Under various challenges, the Company strictly controlled operating costs, adjusted product strategies rapidly with the market, and actively discussed with customers on countermeasures to respond to market changes. Through diverse productions niche adjustment responding to the short and urgent order request of customers and jointly develop and create values with customers. The Company strives to reduce the impact of the operating environment on operations and business, responds prudently in all aspects, implements future development strategies at a steady pace, and benefits from the maintenance of raw material costs, which has contributed to the outstanding performance of the Company's overall operating results and profits.

► Overview of the Business Plan and Implementation Results

Currency: NTD in Thousands

| Year \ Item | 2021 | | 2022 | | 2023 | |
|--------------------------------|-----------|------------|------------|------------|------------|------------|
| | Amount | Percentage | Amount | Percentage | Amount | Percentage |
| Net operating revenue | 8,384,006 | 100% | 10,763,499 | 100% | 10,086,736 | 100% |
| Operating costs | 6,909,767 | 82% | 9,029,397 | 84% | 7,561,009 | 75% |
| Gross profit | 1,474,240 | 18% | 1,734,102 | 16% | 2,525,727 | 25% |
| Net income | 240,999 | 3% | 293,331 | 3% | 987,075 | 10% |
| Pre-tax net income | 146,348 | 2% | 595,297 | 6% | 1,029,077 | 10% |
| After-tax net income | 115,933 | 1% | 470,114 | 4% | 760,274 | 8% |
| Basic earnings per share (NTD) | 0.29 | | 1.18 | | 1.91 | |

2.2.3 Government Subsidies/Incentives

| Region | Item | Amount of Subsidy |
|--------|--|--------------------------|
| China | • Incentives for high-quality development of industrial enterprises in the first quarter of 2023 | RMB 300,000.00 |
| | • Export and tax incentives | RMB 51,000.00 |
| | • Others | RMB 14,295.84 |

| Region | Item | Amount of Subsidy |
|--------------------------|--|-----------------------|
| Parent Company in Taiwan | • Incentive under the Employment Stabilization Program | NTD 105,000 |
| | • Government exhibition subsidies | NTD 130,000 |
| | • Youth internship program allowance | NTD 40,000 |
| | • Others | NTD 41,694 |

2.2.4 Tax Information

The Company supports tax policies that contribute to sustainable corporate development and economic growth, and is committed to information transparency and corporate social responsibility.

-  Each operating location follows local tax laws and regulations by filing applications and paying taxes on time.
-  Disclose tax information in financial reports as required to ensure information transparency.
-  Business-to-business transactions are subject to the arm's length principle.
-  Keep track of the changes in tax laws and regulations at each operating location, conduct tax risk assessments, and formulate response strategies.

| NTD in Thousands | 2021 | 2022 | 2023 |
|--------------------------------|---------|---------|-----------|
| Pre-tax net income (A) | 146,348 | 595,297 | 1,029,077 |
| Monthly income tax expense (B) | 30,415 | 125,183 | 268,803 |
| Effective tax rate (B/A) | 20.80% | 21.00% | 26.12% |

Note: For relevant tax information, please refer to the Company's 2023 consolidated financial statements

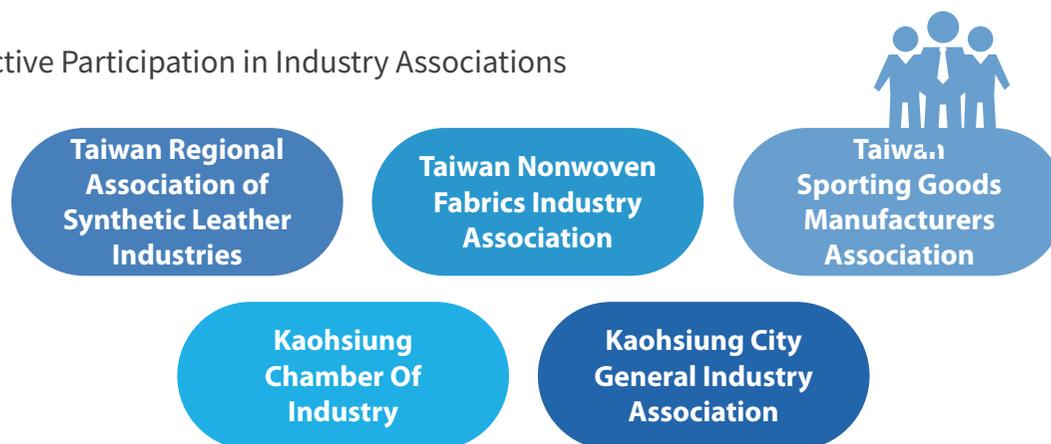
2.2.5 Products and Sales

Unit: Thousand Yards, NTD in Thousands

| | 2022 | | 2023 | |
|---|-------------------|------------------|-------------------|------------------|
| | Production Volume | Production Value | Production Volume | Production Value |
|  Wet synthetic leather | 27,923 | 5,873,277 | 25,801 | 4,633,532 |
|  Dry synthetic leather | 11,381 | 2,585,246 | 10,022 | 2,058,250 |
|  Films | 17,975 | 1,795,817 | 15,685 | 1,380,672 |
|  Others | | 7,671,315 | | 5,403,357 |
|  Total | 57,279 | 17,925,655 | 51,508 | 13,475,958 |

2.2.6 External Engagement

▶ Active Participation in Industry Associations



▶ Participation in Public Affairs

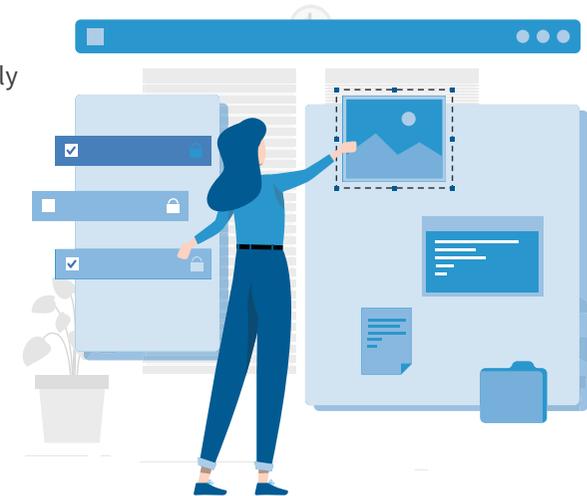
The Company has always maintained political neutrality and does not engage in any form of political party-related activities. However, we actively participate in local public affairs such as social care and community welfare. We also encourage employees to participate in public affairs to fulfill their civic responsibilities.

For details, please refer to 5.4 Social Assistance of this Report.

2.3 Corporate Governance

► Goals of the 2024 Corporate Governance Action Plan

In accordance with the Sustainable Development Action Plan for TWSE/TPEX Listed Companies, the Company actively enhances corporate governance performance and information transparency.



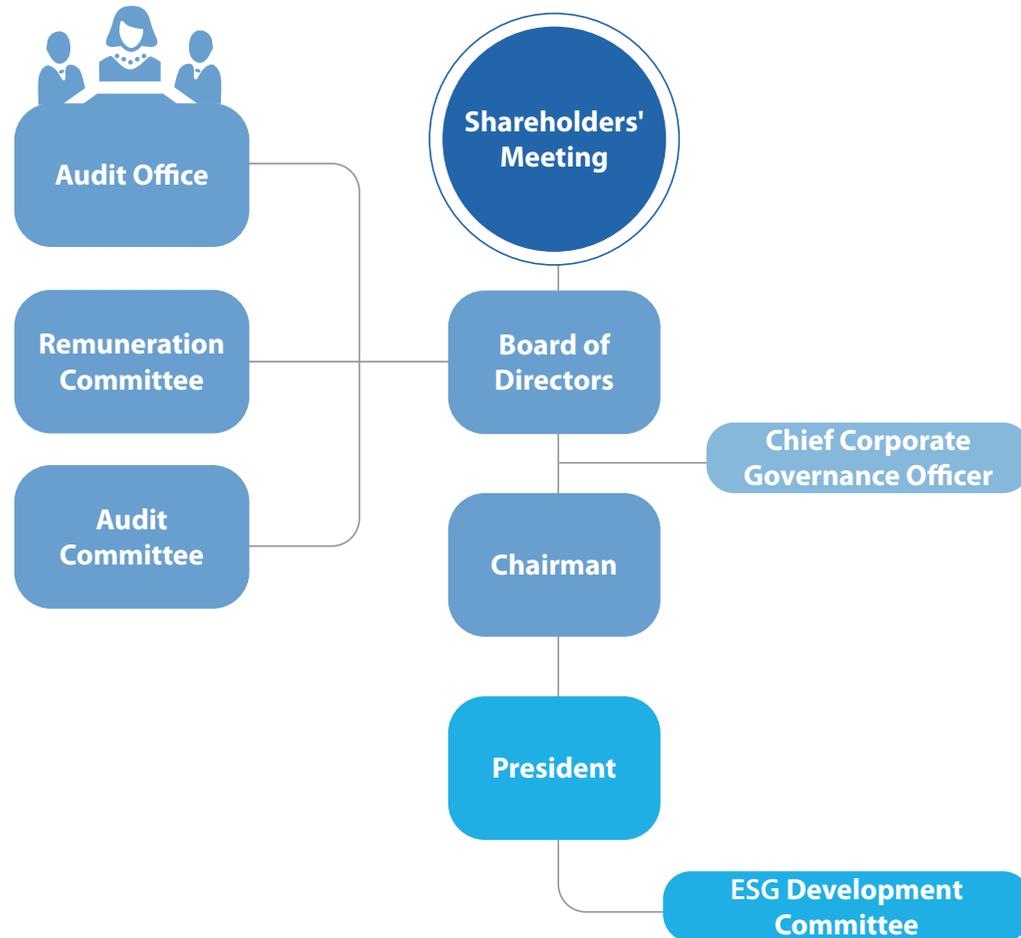
► Process of the 2024 Corporate Governance Action Plan



2.3.1 Structure of the Corporate Governance Organization

Protect the Rights and Interests of Shareholders

The board of directors has formulated the "Corporate Governance Best Practice Principles," "Ethical Management Best Practice Principles," "Code of Ethical Conduct" and "Sustainable Development Best Practice Principles" to foster a company-wide culture of integrity and ethical conduct and fully protect the rights and interests of shareholders.



2.3.2 Aspects of Corporate Governance

- ✓ Abide by national laws and policies as well as corporate ethics and morals, and firmly adhere to integrity and decency in operations.
- ✓ Implement corporate governance and strive to achieve a balance of interests with all stakeholders.
- ✓ Reinforce the functions of the board of directors, perform self-performance evaluation, and control the GHG inventory and disclosure schedule on a quarterly basis.
- ✓ Ensure the transparency of operating results, communicate with stakeholders through appropriate means, and respond to their concerns in a proper manner.

The Company continues to uphold the four core principles of protecting shareholders' rights and interests, strengthening the operation of the board of directors, respecting stakeholders, and enhancing information transparency to implement corporate governance and pursue sustainable operations.

2.3.3 Operation of the Board of Directors

In addition to the Remuneration and Audit Committees established in accordance with the law, we have also established the "ESG Development Committee" to improve supervision and strengthen management. The Company conducts internal performance self-evaluation on the board of directors and functional committees annually to enhance the effectiveness of the board.



2.3.3 Operation of the Board of Directors

Functions of the Board of Directors

The Company's board of directors is the Company's highest governing body and operational decision-making center. It is responsible for overseeing the Company's compliance with various laws and regulations and transparency of operations, assessing risks, and reviewing the appointment, dismissal, and reward of the management team.

The Company's Articles of Incorporation stipulates that the candidate nomination system shall be adopted for director elections. The board will discuss matters such as the eligibility requirements of shareholders or director candidates nominated by the board of directors, and the resolution results will be made available to shareholders for reference in order to elect suitable directors.

Board Diversity

The composition of the board of directors has taken into consideration the Company's business model and development needs. The Company has specified the required number of directors and diversity guidelines, including basic requirements, values (such as gender, age, nationality, and culture), and professional knowledge and skills (such as law, accounting, industry, finance, marketing, or technology), in Article 23 of the "Corporate Governance Best Practice Principles" on the diversity of board members. In order to achieve the ideal goals of corporate governance, the board of directors as a whole shall be equipped with the ability to make operational judgments, management ability, crisis management ability, industry knowledge, financial accounting expertise, etc.

| Core Diversity Item Name of Director | Gender | Age (years) | Term of Office/Years of Service of Independent Directors | Main Education Background | Industry Experience | Academic Experience | Areas of Expertise |
|--|--------|--------------------------------------|--|--|------------------------|------------------------|---|
| San Fang Investment Enterprise Co., Ltd. Representative: Meng-Ching Lin | Male | Most are between 55 and 70 years old | | Doctor of Management, National Sun Yat-Sen University Master's Degree, Johns Hopkins University | ✓ | | Corporate management, strategic planning, and corporate development |
| POU CHIEN TECHNOLOGY CO., LTD. Representative: Jin-Chu Lu | Male | | | Master's degree, College of Management, National Chung Hsing University | ✓ | | Production management and business management |
| POU CHIEN TECHNOLOGY CO., LTD. Representative: Jia-Hui Tang | Male | | | Master of Accounting, New York University, USA | ✓ | | Business administration and accounting auditing |
| POU CHIEN TECHNOLOGY CO., LTD. Representative: Yuan-Huang Liao | Male | | | Master's degree, University of Cambridge, UK | ✓ | | Business administration and financial management |
| Independent Director Li-Fan Lin | Male | | 8-9 years | Master's degree, California State University | ✓ | | Finance |
| Independent Director Wan-Lin Hsu | Male | | 8-9 years | Bachelor of Commerce, National Taiwan University | ✓ | | Accounting auditing |
| Independent Director Chih-Lung Chou | Male | | 5-6 years | Master of Financial Management, National Kaohsiung First University of Science and Technology | ✓ | ✓ | Accounting auditing |

► Disclosure of Information on the Professional Qualifications of Directors and the Independence of Independent Directors

|  Name/Conditions |  Professional Qualifications and Experience |  Independence of Independent Directors |  Number of Public Companies Other than the Company where the Independent Director Serves as Independent Director |
|--|--|--|--|
| Meng-Ching Lin Chairman | <ol style="list-style-type: none"> Has been the Company's President for about 12 years, with the work experience required for the Company's business Equipped with expertise in business administration, strategic planning, and corporate development None of the circumstances in Article 30 of the Company Act apply | N/A | 0 |
| Jin-Chu Lu Director | <ol style="list-style-type: none"> Has been the President of Pou Chen Corporation for more than 10 years as well as the Chairman of the Board and Executive Director of Yue Yuen Industrial (Holdings) Ltd.; has about 40 years of experience in the production of shoes and shoe materials Equipped with expertise in production management, business management, and corporate development None of the circumstances in Article 30 of the Company Act apply | N/A | 0 |
| Yuan-Huang Liao Director | <ol style="list-style-type: none"> Executive Assistant Vice President of Pou Chen Corporation responsible for responsible for supervising global supply chain management functions; Director of NAN PAO RESINS CHEMICAL CO., LTD.; Executive Director of Pou Sheng International (Holdings) Ltd. (Hong Kong); Director of Prosperous Industrial (Holdings) Limited; has more than 29 years of experience in banking, finance, corporate governance, and commercial operations. Equipped with expertise in business administration and financial management None of the circumstances in Article 30 of the Company Act apply | N/A | 0 |
| Jia-Hui Tang Director | <ol style="list-style-type: none"> Has been the Chairman of TAH KONG CHEMICAL INDUSTRIAL CORP. for more than 25 years, with the work experience required for the Company's business Expertise in business administration, corporate development, and accounting auditing None of the circumstances in Article 30 of the Company Act apply | N/A | 0 |

|  Name/Conditions |  Professional Qualifications and Experience |  Independence of Independent Directors |  Number of Public Companies Other than the Company where the Independent Director Serves as Independent Director |
|--|---|---|--|
| Li-Fan Lin Independent Director | <ol style="list-style-type: none"> Former President of King's Town Bank Former Vice President of Chase Bank Executive Director of Acosta Ventures (BVI) Limited Serving as a member of the Audit Committee, equipped with expertise in finance Current Independent Director of FONG CHIEN CONSTRUCTIONCO., LTD. None of the circumstances in Article 30 of the Company Act apply | <p>None of the following circumstances apply to the independent directors of the Company, and all of the independent directors comply with the independence requirements:</p> <ol style="list-style-type: none"> The independent director is an employee of the Company or its affiliates. The independent director, his/her spouse or relative within the second degree of kinship serves as a director, supervisor or employee of the Company or its affiliates. The independent director, his/her spouse or relative within the second degree of kinship (or in the name of others) holds the Company's shares. The independent director serves as a director, supervisor, or employee of a company with which the Company has a specific relationship. The independent director provided business, legal, financial, or accounting services to the Company or its affiliates and received remuneration in the most recent two years. | <p>1</p> |
| Wan-Lin Hsu Independent Director | <ol style="list-style-type: none"> Has been a partner CPA of KPMG Taiwan for 25 years Former Assistant Auditor of Tax Reform Commission, Executive Yuan Serving as a member of the Audit Committee, equipped with expertise in accounting auditing Former Independent Director and Remuneration Committee Member of JMC ELECTRONICS CO., LTD. None of the circumstances in Article 30 of the Company Act apply | <ol style="list-style-type: none"> The independent director is an employee of the Company or its affiliates. The independent director, his/her spouse or relative within the second degree of kinship serves as a director, supervisor or employee of the Company or its affiliates. The independent director, his/her spouse or relative within the second degree of kinship (or in the name of others) holds the Company's shares. The independent director serves as a director, supervisor, or employee of a company with which the Company has a specific relationship. The independent director provided business, legal, financial, or accounting services to the Company or its affiliates and received remuneration in the most recent two years. | <p>0</p> |
| Chih-Lung Chou Independent Director | <ol style="list-style-type: none"> Certified Public Accountant of Wushi Accounting Firm Serving as a member of the Audit Committee, equipped with expertise in accounting auditing Former Supervisor of St.Shine Optical Co., Ltd. None of the circumstances in Article 30 of the Company Act apply | <ol style="list-style-type: none"> The independent director is an employee of the Company or its affiliates. The independent director, his/her spouse or relative within the second degree of kinship serves as a director, supervisor or employee of the Company or its affiliates. The independent director, his/her spouse or relative within the second degree of kinship (or in the name of others) holds the Company's shares. The independent director serves as a director, supervisor, or employee of a company with which the Company has a specific relationship. The independent director provided business, legal, financial, or accounting services to the Company or its affiliates and received remuneration in the most recent two years. | <p>0</p> |

▶ Continuing Education of Directors

| Name of Director | Date of Continuing Education | Organizer | Course Title | Continuing Education Hours |
|------------------|------------------------------|--|--|----------------------------|
| Meng-Ching Lin | 2023/7/14 | Accounting Research and Development Foundation | Analysis of Policies Related to the Sustainable Development Action Plan and Roadmap for TWSE/TPEX Listed Companies | 3 |
| | 2023/7/11 | Accounting Research and Development Foundation | Establishment of ESG Sustainability Strategies to Enhance Competitiveness | 3 |
| | 2023/7/10 | Accounting Research and Development Foundation | How the Board of Directors and Senior Management Review the ESG Sustainability Report | 3 |
| Jin-Chu Lu | 2023/5/15 | Taiwan Corporate Governance Association | Trends and Practices of Human Rights and Sustainable Development in Multinational Enterprises | 3 |
| | 2023/4/14 | Taiwan Academy of Banking and Finance | Corporate Governance Workshop | 3 |
| Jia-Hui Tang | 2023/7/4 | Cathay United Bank | Cathay Sustainable Finance and Climate Change Summit | 6 |
| Yuan-Huang Liao | 2023/8/10 | Taiwan Corporate Governance Association | How to Improve Communication with External Stakeholders to Address the Challenges of IFRS 17 | 1.5 |
| | 2023/07/07-2023/8/6 | Taiwan Academy of Banking and Finance | E-Course on Financial Resilience and Operational Continuity in the Post-pandemic Era | 2.3 |
| | 2023/4/14 | Taiwan Academy of Banking and Finance | Corporate Governance Workshop | 3 |
| Li-Fan Lin | 2023/10/13 | Securities & Futures Institute | Carbon Rights Trading Mechanism and Business Administration Application | 3 |
| | 2023/10/12 | Securities & Futures Institute | How Enterprises Should Conduct International Tax Planning and Investment | 3 |
| Wan-Lin Hsu | 2023/11/14 | KPMG Taiwan | Global Corporate Sustainability Forum 2023 - Sustainable Future: Comprehensive Low-Carbon Innovation Blueprint | 3 |
| | 2023/10/2 | KPMG Taiwan | Thinking and Resilience in the New International Order | 3 |
| Chih-Lung Chou | 2023/3/31 | CPA Associations R.O.C. (Taiwan) | Directors' Fiduciary Duties and Responsibility for False Financial Statements | 3 |
| | 2023/3/20 | CPA Associations R.O.C. (Taiwan) | Supervision and Practice of Money Laundering Prevention for CPAs | 3 |

Implementation by the Board of Directors

The board of directors meets least once a quarter to review the Company's business performance and discuss important strategic planning issues. Through the business report of the management team and the communication with the management, the board understands the actual operation and urge the management team to achieve operational goals. The board of directors maintains good communication with the management to implement the board's instructions and achieve business and operational goals, creating maximum value for shareholders.

The board of directors adheres to the Company's "Rules of Procedure for Board of Directors' Meetings" and formulates principles for the recusal of directors for conflicts of interest. All board members shall faithfully perform their duties, fulfill their obligations as good administrators, and exercise their powers with a high degree of self-discipline and prudence. To prevent conflicts of interest, they shall recuse themselves from any proposal involving a conflict of interest, and shall not participate in the discussions, nor shall they exercise voting rights on behalf of other directors.

The Company's board of directors held six meetings in 2023. The board members actively attended the meetings, with a personal attendance rate of 91%, effectively supervising the implementation of business plans. Please refer to the Company's annual report for the shareholders' meeting for important resolutions adopted by the board of directors.

Remuneration Policy for Directors and Managers

Directors' remuneration: Transportation expenses and director compensation.

Independent directors' remuneration: Fixed monthly remuneration. The Company's independent directors does not participate in the distribution of director remuneration to maintain their independence.

The policy for the allocation of director compensation is specified in the Company's Articles of Incorporation, and the rules for distribution of the director compensation are determined by the board of directors.

The remuneration of managers is divided into fixed remuneration and variable remuneration. Variable remuneration is determined based on the salary level of the respective positions in the market, the scope of the positions' power and responsibility within the Company, the contribution to the Company's operational goals, and the decision-making risks assumed, the achievement of departmental performance goals, the risks of failure to achieve operational goals assumed, and the risks of non-compliance with policies and regulations assumed are the bases for paying the remuneration. Reasonable remuneration is provided to achieve the purpose of seeking, motivating, and retaining talent.

The remuneration of directors and managers shall be reviewed by the Remuneration Committee and approved by the board of directors as required by law. It shall also be disclosed in the Company's annual report so that stakeholders can fully understand the linkage between the remuneration of directors and managers and the Company's operational performance.

2.3.4 Audit Committee

In 2018, the Company set up the Audit Committee in accordance with the law, whose duties are to supervise the Company's financial reporting quality and integrity to ensure the presentation reasonableness and adequacy of financial statements. The Audit Committee is also responsible for reviewing the professionalism and independence of CPAs, the rationality of transactions with significant parties, and ensuring the design and effective implementation of the internal control system.

The Audit Committee consists of three members, all of whom are independent directors, with one of them being the convener. The committee holds at least one meeting every quarter. A total of five Audit Committee meetings were held in 2023, with an attendance rate of 100%. Please refer to the Company's annual report for the shareholders' meeting for the implementation status of the meetings.

2.3.5 Remuneration Committee

The Company established the Remuneration Committee in 2012 in accordance with the law. It shall faithfully fulfill its responsibilities, namely "establishing and regularly reviewing the policies, systems, standards and structures for the performance evaluation and remuneration of directors and managers" with its professionalism and the due care of a good administrator and "determining and periodically assessing the remuneration of directors and managers." The committee also makes recommendations to the board of directors for reference in decision-making.

The committee currently has three members appointed by the resolution of directors. One of them is the convener. At least two meetings are held every year. A total of five Remuneration Committee meetings were held in 2023, with an attendance rate of 93%. Please refer to the Company's annual report for the shareholders' meeting for the implementation status of the meetings.

2.3.6 Performance Evaluation of the Board of Directors and Functional Committees

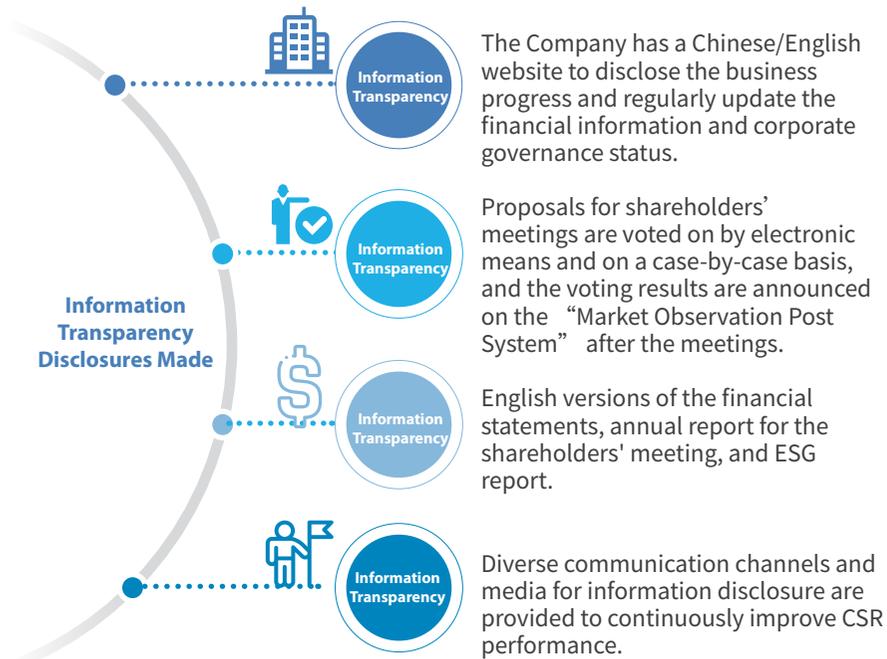
In 2023, the Company implemented the performance evaluation of the board of directors and the functional committees of the Remuneration Committee and Audit Committee. The performance evaluation of the board of directors, individual directors, and functional committee members is conducted every year. Please refer to the Company's annual report for the shareholders' meeting for the evaluation content.

2.3.7 Respect for Stakeholders

We have set up a spokesperson's mailbox and dedicated staff to properly respond to the suggestions and problems of various stakeholders in an ethical and responsible manner, thereby fulfilling our social responsibilities.

Enhancing Information Transparency

The Company is committed to enhancing the timeliness and transparency of information disclosures. In addition to disclosing relevant information on the Market Observation Post System in accordance with the law, the Company also participates in investor conferences held by securities firms to explain the financial data, business performance, and other relevant information that has been released. There is also an "Investors" section on the Company's website to provide real-time information on financial, business, and stock affairs. We have also set up an investor service contact point as a smooth two-way communication channel.



2.3.8 Ethical Management



Ethical Governance Regulations

The Company has established the "Rules of Procedure for Board of Directors' Meetings," "Board of Directors Self-Evaluation or Peer Evaluation Measures," "Organizational Charter of Audit Committee," and "Organizational Charter of Remuneration Committee." These regulations regulate the functions of the board and all functional committees and ensure that they fully supervise the Company's business activities. The charters also stipulate that directors or members shall recuse themselves from decision-making matters that conflict with their own interests and adhere to the highest standards in ensuring ethical management.

The Company has established the "Ethical Management Best Practice Principles" and the "Code of Ethical Conduct" to establish and implement an ethical management culture. The audit unit subordinate to the board of directors annually audits the compliance of the operations of all operating locations around the world with the norms corresponding to the eight management cycles as well as local laws and regulations. The audit reports are all presented at Audit Committee meetings and board meetings.



Avoidance of Conflicts of Interest

The Company strictly requires that if directors, managers, and other attendees or their representatives have a stake in a board meeting agenda item, they shall explain the important contents of the stake at the current board meeting. If the stake is likely to harm the Company's interests, they shall not participate in and shall recuse themselves from the discussions and voting.

All employees of the Company must avoid situations where there is a conflict of interest with themselves or the Company, or where undue or improper advantages may be obtained for themselves, their spouses, parents, children, or other interested parties when conducting company business.



Compliance with Discipline and Anti-corruption

The Company undertakes to ensure all overseas operating locations comply with local tax laws, labor laws, environmental, safety and health laws and regulations. If there are changes in the laws and regulations, we will immediately analyze their impact and take corresponding actions. In addition, the Company also communicates with local governments from time to time when there are doubts to ensure compliance with local laws and regulations.

We have established the "Ethical Management Best Practice Principles" and the "Code of Ethical Conduct" to set forth anti-corruption clauses that strictly prohibit bribery. Each employee is required to prohibit bribery or gifts from business related parties, abide by the law and discipline, and be ethical.

Reports of illegal acts may be made to designated personnel according to the Company's "Regulations for Reporting of Unlawful and Unethical Behavior" and "Employee Complaint Regulations." <https://reurl.cc/Nq6k0q>



Integrity Education and Training

To establish an ethical management culture, we ensure education, training, and communication on the "Ethical Management Best Practice Principles" and "Code of Ethical Conduct" for all employees, including:

- The Company gives a written notice to individual directors whenever there is a re-election of directors by the shareholders' meeting. All seven members have been fully informed.
- New employees receive orientation including courses on ethical management and prevention plans to gain a full understanding of correct behaviors.
- The Company's supervisors participate in the "Awareness Course on the Ethical Management Best Practice Principles and the Code of Ethical Conduct for Supervisors, and Handling of Unlawful and Unethical Behavior Reports" every year. We make the course information available on the Company's KM Education and Training section to communicate integrity and the duty of confidentiality to all employees.

Implementation of Ethical Management in 2023

The Company has established the "ESG Development Committee" and set up a "Corporate Governance Team" under it to promote the Company's corporate governance matters such as ethical management, anti-corruption, anti-bribery and legal compliance. The team reports its implementation status to the Company's board of directors once a year. The 2023 implementation status of ethical management was reported to the board of directors on January 23, 2024. The Company's board of directors has fulfilled the duty of care of a good administrator to supervise the Company in preventing unethical conduct in order to ensure the implementation of the ethical management policy.

| Item | Implementation Description |
|--|--|
|  <p>Suppliers' Commitments</p> | <p>The Company's integrity policy is propagated to suppliers. In 2023, 95 integrity agreements were signed with suppliers.</p> |
|  <p>Education and Training</p> | <p>In 2023, a total of 14 new employees received education and training on the integrity policy. In 2023, a total of 70 first- and second-level supervisors received integrity and ethical behavior education and training.</p> |
|  <p>Regulatory Propagation</p> | <p>Promotional materials on integrity and ethical behavior are placed on the Company's KM Education and Training section for the promotion of integrity and the duty of confidentiality to employees.</p> |
|  <p>Commitments</p> | <p>In 2023, 22 employee confidentiality agreements were signed by new employees.</p> |
|  <p>Periodic Inspection</p> | <ul style="list-style-type: none"> The Company has established a risk assessment mechanism for ethics, integrity, avoidance of conflicts of interest, and anti-corruption in operating activities at important operating locations. In 2023, we identified material risks and the departments exposed to the risks through the 90 "Assessment Forms for the Context and Risks of the Unit Organization" provided by all units (including subsidiaries), and conducted internal surveys and audits to actively prevent the occurrence of relevant risks. There was no corruption or anti-competitive behavior in 2023. |
|  <p>Whistleblowing System and Whistleblower Protection</p> | <ul style="list-style-type: none"> The Company has multiple smooth whistleblowing channels to report to the relevant departments: Spokesperson: Accept reports made by shareholders, investors, and other stakeholders. Chief Auditor: Accept reports made by internal employees, customers, suppliers, and contractors. The Company processes whistleblowing reports in a confidential manner, and conducts verification through independent channels, making every effort to protect whistleblowers, and the identity of whistleblowers will be kept absolutely confidential. If the whistleblower is an employee, the Company shall ensure that the employee will not receive improper treatment as a result of the whistleblowing. To protect the rights of the counterparty and avoid retaliation, the Company shall give the counterparty with the opportunity to appeal and, if necessary, may hold a Human Resources Arbitration Committee meeting as a hearing. |

2.3.9 Implementation of Legal Compliance

Legal compliance is a fundamental requirement of corporate governance. Due to the diversification and globalization of operations, the scope of relevant businesses has expanded. Therefore, we adhere to the principle of ethical management, continue to pay attention to any domestic and foreign policies, laws and regulations that affect our operations, and strictly abide by the applicable laws and regulations in places where we operate.

To ensure the implementation of legal compliance, the Company requests the finance, human resources, and environmental safety departments to conduct regulatory inventory, regulatory identification, and compliance review at least once a year to ensure continuous and effective legal compliance. There were 25 amendments to the laws and regulations that the Company followed in 2023, for which out relevant units have conducted regulatory identification and operational compliance assessment.

The audit unit conducts compliance audits every year and reviews the compliance of relevant units with major laws and regulations in a timely manner. If there are cases involving fines imposed by competent authorities, the unit performs regular tracking and makes improvements. Every year, employees' ethical conduct, ethical management, and insider trading prevention are propagated from time to time so that employees can understand and comply with related laws.



► Records of Punishment for Violations of Environmental Protection and Occupational Safety Regulations in 2023

NTD in Thousands

| Date of Punishment | Provision Violated | Content of Violation | Amount of Fine |
|--------------------|--|---|----------------|
| 2023/1/3 | Article 24, Paragraph 2 of the Air Pollution Control Act | The Company did not obtain a stationary pollution source operating permit and operated a stationary pollution source, which violated the Air Pollution Control Act. | 1,600 |
| 2023/9/28 | Article 6, Paragraph 1, Subparagraph 5 of the Occupational Safety and Health Act | Failure to check the shape, size, and material characteristics the load to estimate the weight of the load and select appropriate hoisting implements and methods when using a crane for hoisting operations. | 60 |

2.3.10 Complaint Mechanism and Management

The Company values the Group's overall reputation, and is committed to maintaining the highest ethical standards and professional competence by strictly requiring all employees, agents, and contractors of the Company to comply with applicable anti-corruption and anti-bribery laws and regulations of countries where the Company operates.

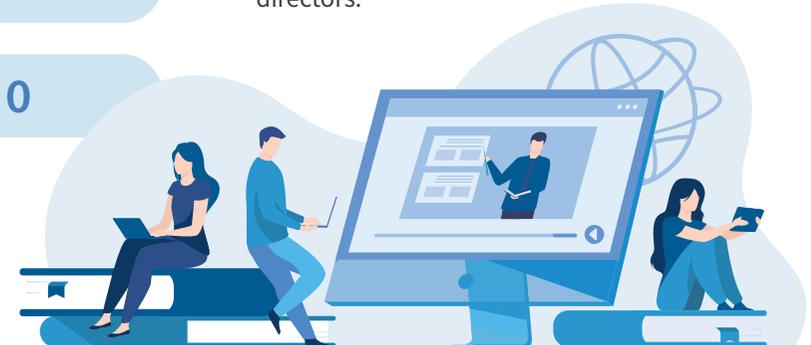
To implement the above anti-corruption regulations, we have adopted management approaches, such as “establishing relevant regulations,” “organizing education and training,” and “providing smooth communication channels,” for all the Company's employees and business partners to jointly fulfill social responsibilities, promoting economic, social, and environmental balance and sustainable development.

Employees and stakeholders are provided with channels for reporting any illegal act or any act in violation of ethical management to the Chief Auditor or spokesperson or making reports anonymously. The Company keeps the reported data strictly confidential.

Through the annual internal control self-evaluation, the Company establishes a risk assessment mechanism for ethics, avoidance of conflicts of interest, and anti-corruption. In 2023, with the risk assessment mechanism, we identified material risks and the departments exposed to the risks through the 90 “Assessment Forms for the Context and Risks of the Unit Organization” provided by all units, and conducted internal surveys and audits. For such departments, job rotation of different positions has been conducted to actively prevent the occurrence of relevant risks.

| Category | Total Number of Complaints Received | Total Number of Complaints Handled (or Reviewed) | Total Number of Complaints Resolved |
|---|-------------------------------------|--|-------------------------------------|
|  Anti-corruption | 0 | 0 | 0 |
|  Environmental Issues | 0 | 0 | 0 |
|  Social Issues | 0 | 0 | 0 |

In 2023, according to either the Company's internal audit results, reports from reporting channels, or the assessment of violations, there were no incidents of corruption. If there are any relevant complaints in the future, they will be processed according to the regulations and reported by the audit unit to the board of directors.



2.4 Risk Management

2.4.1 Risk Management Policy

The impacts and challenges of changes in the global economic environment are increasingly complex. In 2023, inflation affected consumption, resulting in an impact on revenue. In 2024, the implementation of carbon fees and the expected rise of electric bills will cause great impacts and challenges to business operations. As a result, the Company takes the identification, management, and mitigation of risks seriously.

Risk Management Policy

By referring to international trends and in line with brand development, we integrate corporate strategies, identify key risks, link performance indicators, and implement risk management to move towards sustainable operations.



2.4.2 Risk Management Scope

Operations Management Risk

Consider the impact and influence of changes in factors such as the domestic and international economy, technology, environment, and the sports goods consumer market.



Internal Control Risk

The risk of losses for the Company due to negligent control over internal operating procedures, improper information systems, or errors.



Sustainability and Climate Risks

Avoid the risk of losses caused by climate change and related regulatory changes in response to the higher probability and intensity of extreme weathers.



Strategic Investment Risk

Market price fluctuations of short-term investment in marketable securities, and operations management for long-term investment.



Credit Risk

The Company sets customer margin trading limits and methods according to the credit assessment mechanism, continuously assesses the status of accounts receivable, and plans countermeasures in advance.



Legal Management Risk

Refers to the risk of financial or reputational losses which may result from factors that cause a failure to bind the counterparty to perform its obligations under a contract, such as an incomplete contract, untruthful authorization, or an invalid counterparty.



2.4.3 Risk Management Organization and Its Responsibilities

The structure and responsibilities of the Company's main risk management organization are as follows:

1. Board of Directors/Audit Committee:

To ensure the Company's stable operations, the Company's board of directors/Audit Committee is the highest decision-making body for risk management. It is responsible for approving risk management policies and important risk management systems, and supervising the implementation of risk management systems to ensure the effective operation of the risk management mechanism.

2. ESG Development Committee:

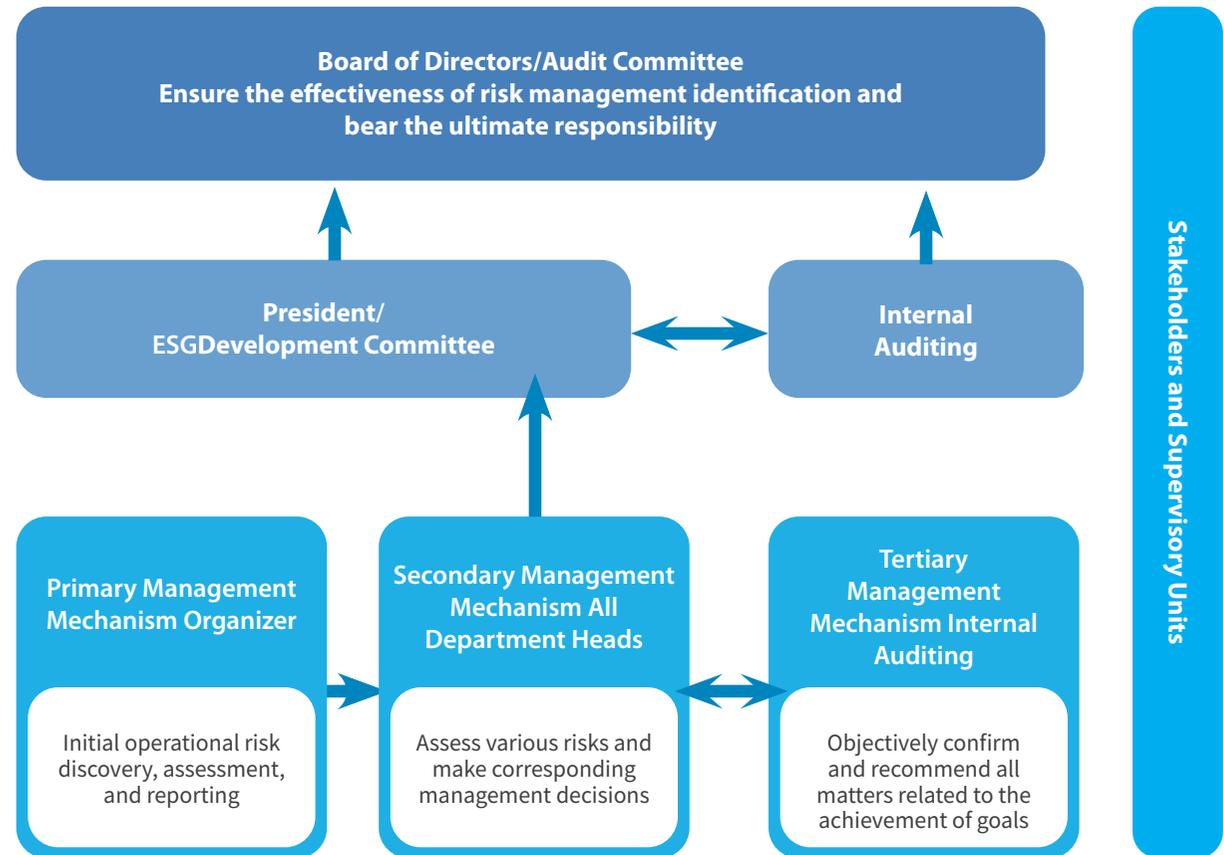
It is responsible for assisting the board of directors in fulfilling its risk management responsibilities and implementing the board's risk management decisions; reviewing the issues raised by each unit on the implementation and operation of risk management and the risk management coordination and communication across departments.

3. Risk Management Units:

Each business unit of the Company shall clearly identify the material risks faced by its business, conduct risk planning in response to variables such as internal and external environments and regulatory changes, perform necessary risk assessment and management operations, and regularly report its risk management status to the audit unit.

Each risk management unit shall submit regular risk management reports to the responsible executive. The audit unit shall supervise the overall internal control risk, regularly report the status of the implementation of internal control risk management to the Audit Committee and the board of directors, and provide the necessary improvement advice.

2.4.4 Risk Management Mechanism



► Material Risk Assessment and Management Operations in 2023

The risk management operations of 2023 were reported to the 17th meeting of the board of directors for 17th term on January 23, 2024.

| Category | Risk Item | Risk Description | Countermeasures |
|----------------------|-----------------------|---|---|
| Corporate Governance | Product Quality Risk | Product quality does not meet customer standards | <ol style="list-style-type: none"> 1. Establish a hazardous substance control process. 2. Regularly update the "Prohibited Substance Guarantee for Raw Materials (annually)", "Third-party Raw Material Compliance Testing Report (biannually)" and "Product RSL Testing Report (annually)." 3. Materials must undergo physical property testing according to the standards required by customers. 4. Import machine data management for real-time quality monitoring and data analysis. 5. Establish standardized operations for all stages of projects to avoid quality differences. 6. Continue to implement equipment automation to reduce differences between personnel techniques. 7. Before materials go on the market, they must undergo "suitability" (suitability for the customer's production process) testing. |
| | Supply Chain Risk | Material discontinuities Inventory management ESG supply chain management | <ol style="list-style-type: none"> 1. Conduct a "supplier audit" every year, and handle any abnormality immediately and issue a "Corrective Action Sheet." 2. Arrange for backup suppliers for materials with high consumption to avoid the risk of material discontinuities. 3. Maintain more than two suppliers for bulk raw materials. 4. Pay attention to the fluctuation of the upstream bulk raw material market from time to time, as well as external market news and raw material change information, in order to make appropriate adjustments to the inventory. Regularly review the adjustment of raw material inventory and demand on a monthly basis based on the actual and estimated orders to prevent any shortage and excess of materials. 5. Find suitable suppliers to provide test materials for development. 6. Communicate with the material/production management personnel of each factory about the change in the order structure from time to time, and propose revisions immediately when the required delivery time changes to take contingency measures. |
| | Market Risk | Product development that does not meet market demand and marketing problems | <ol style="list-style-type: none"> 1. Refer to Lineapelle's fashion information to understand the market's fashion needs. 2. Review international regulations CBAM/CCA, and revise the definition of environmental protection to introduce materials that comply with international regulations. 3. Review existing product lines, eliminate products that do not meet market demand, and free up production capacity for the introduction of suitable products. 4. Synthesize the product development direction of each brand to identify common needs for full development. |
| | Legal Compliance Risk | Compliance with regulatory updates | <ol style="list-style-type: none"> 1. The unit responsible for laws and regulations regularly reviews regulatory changes and notices of new or amended laws and regulations. 2. Implement the formulation and update of internal regulations in accordance with amended regulations. 3. Conduct semi-annual audits on environmental safety, financial accounting, and human resources units to ensure compliance. |
| | Financial Risk | Exchange rate and interest rate changes | <ol style="list-style-type: none"> 1. Analyze the impact of interest rate exposures at the end of the financial reporting period on the Company's profit and loss. 2. Use short-, medium-, and long-term financing instruments with different interest rate sensitivities in a decentralized manner to mitigate the impact of large interest rate fluctuations. 3. Avoid exchange rate risks through foreign exchange transactions, and sell foreign exchange when the foreign exchange appreciates. |



| Category | Risk Item | Risk Description | Countermeasures |
|---|---------------------------|---|--|
|  <p>Corporate Governance</p> | Information Security Risk | Information security management | <ol style="list-style-type: none"> 1. Implement the backup principle and backup policy, and perform regular recovery drills. 2. Engage external professional information security teams for joint protection to improve internal information security response capabilities. 3. Introduce advanced phishing email defense to reduce the risk of social engineering attacks. 4. Strengthen social engineering drills to develop internal information security awareness. 5. Assess the information security risk level on a regular basis and propose specific improvement plans. |
|  <p>Environment</p> | Climate Change Risk | Carbon emissions management | <ol style="list-style-type: none"> 1. In July 2023, we signed a contract with an organizational inventory system manufacturer to arrange systematic education and training. 2. The parent has completed the annual greenhouse gas inventory and third-party inspections. The overseas subsidiaries expect to complete the 2022 greenhouse gas self-inventory in the first quarter of 2024. 3. Hold an ESG Development Committee meeting quarterly to review the progress and implementation of carbon emissions management. 4. Continue to reduce carbon emissions through management activities. |
|  <p>Environment</p> | Employee Risk | Employee safety risk | <ol style="list-style-type: none"> 1. In November 2023, the factory-wide education and training on the employee safety and health code were held to promote employees' attention to safety and health regulations. 2. In September 2023, an evacuation drill was conducted for all employees. 3. Conduct monthly worker safety compliance checks. 4. In 2023, a total of 66 first-aid personnel were trained. |
| | | Workforce Gap Risk | <ol style="list-style-type: none"> 1. Participate in on-campus talent recruitment, industry-academia collaboration, and recruitment in employment service stations to enhance the Company's visibility. 2. Establish a reasonable and fair remuneration system with reference to the price range and the salary adjustment ranges of other companies. The salary adjustment range for 2023 is about 6%. 3. Flexible working hours have been implemented in research and development, administration, and sales units since the fourth quarter of 2023, and an employee share ownership trust plan is expected to be launched in the second quarter of 2024, in order to achieve the goals of retaining talent and motivating employees to perform at work. 4. Create a diversified and inclusive workplace, strengthen the internal structure of the Company, and focus on human resources and talent sustainability strategies. Currently, we have planned an employee assistance program (EAP) to provide psychological counseling services. In the future, we will implement a more comprehensive EAP system for talent retention. 5. Bridge the skill gaps of existing employees through systematic education and training. Enhance the competencies of existing personnel through relevant systems and training, with core functions (3Cs) and management functions (3Ms) as the focus of corporate system optimization, and conduct interviews during the recruitment process to optimize the effect of talent selection. |
| | Community Risk | Technical Gap Risk | <ol style="list-style-type: none"> 1. Implement job accommodation and increase the degree of equipment automation to reduce manpower requirements. 2. Build knowledge management (KM) and set up a Talent Cultivation section to strengthen experience inheritance and knowledge accumulation. 3. Implement job authorization and substitute management to cultivate interdisciplinary talent. |
| | | Community communication and mutual assistance | <ol style="list-style-type: none"> 1. Participate in neighborhood activities to demonstrate the Company's commitment to environmental protection and cleaner production. 2. The Kaohsiung Factory joins an industrial park mutual aid alliance to understand the immediate response to possible disasters. 3. The Kaohsiung Factory joins an industrial park water use coordination committee to ensure water supply. |

2.4.5 SFC's TCFD

Framework

Governance

The ESG Development Committee managed by the President is responsible for disclosing climate-related financial information and is divided into teams according to the Company's organizational functions. Under the leadership of the group of Vice Presidents, each team regularly adjusts strategies, identifies risks and opportunities, and sets goals. The progress of climate change management is also reported to the President on a regular basis, and then to the board of directors every year.

In 2023, the Company's Scope 1 + Scope 2 carbon emissions in Taiwan were reduced by approximately 37% compared to 2022.

Response strategies are formulated through cross-departmental discussion and assessment of the potential operational and financial impacts of material climate risks and opportunities on the Company. The strategic directions are as follows:

Short-term

Energy conservation and waste reduction: Set energy conservation and waste reduction targets and implement them at all operating locations of the Company to reduce energy consumption and mitigate the harm that waste causes to the environment.

Medium-term

Leading by example and integration of supply chain partners: Leading by example starts with the Company's actions and gradually extends to the carbon emission goals of the supply chain.

Long-term

Energy transition: Achieve the long-term net zero goal through energy transition.

Strategy

Internal Carbon Pricing

In response to the passage of the Climate Change Response Act in 2023, a carbon fee will be levied for every ton of carbon emitted in the future. Therefore, SFC will adopt a shadow price for internal carbon pricing. The current price of 1 ton of carbon is NTD 300, which will be applied to the assessment of carbon reduction actions for Scope 1 and 2 emissions. The financial impact brought by carbon costs will be considered for important investments such as capital investment for new projects and product operation in the future, and we will continue to make adjustments to the internal carbon price from time to time through internal and external carbon pricing and cost analysis. We hope that this can improve our company-wide carbon reduction efforts and help the Company to make decisions that are most favorable to operations and climate and respond to the expectations of stakeholders.

Practices

GHG Inventory

Since 2014, we have obtained an ISO14064-1: GHG Inventory Assurance Statement. The parent, namely the Kaohsiung Factory, completes the GHG inventory by the end of June each year. The 2023 (Scope 1 and Scope 2) inspection for which a third party is commissioned to conduct is expected to complete June 2024.

In-factory Energy Saving and Carbon Reduction Projects

1. Use natural gas as boiler fuel to replace heavy oil to reduce environmental pollution.
2. Replace traditional lighting fixtures with LED lighting fixtures for the process.
3. Replace traditional drive motors with inverter motors.
4. Recycle process water.
5. Reduce waste for the reduction of GHG generated from incineration.

Renewable Energy

1. Since January 1, the "Energy-heavy Industries" clause has been officially implemented to stipulate that users with a contracted capacity of 5,000 kW or above must have an installed renewable energy capacity of 10% of the contracted capacity within five years. We are actively cooperating.
2. 2022-2023 solar energy installation status:
Kaohsiung Factory's self-consumed solar energy: Installed capacity of 1,233 kWp, with an annual power generation of 874,962 kWh.
BaoLiang Factory's self-consumed solar energy: Installed capacity of 2,707 kWp, with an annual power generation of 2,715,000 kWh.
Vietnam Factory's purchased solar energy: Purchased electricity of 1,631,012 kWh.
Renewable energy certificates: The Indonesia Factory increased the purchase of I-RECs to 100%, with an annual power generation of 7,389,180 kWh.

Framework

Practices

Risk Management

The Company's current approach to risk and opportunity management is for the ESG Development Committee to identify risks and opportunities. In the future, we will review the impact and influence of physical risks, transition risks, and opportunities on various departments of the Company through climate risk and opportunity identification meetings. This can help us understand the type, impact period, and future financial impact of risks and opportunities based on the current operating conditions of each department. At the same time, short-, medium- and long-term response strategies are formulated taking into account existing products and services, industry trends, climate conditions, legal compliance, and stakeholders.

In addition to considering the impact period, future probability, risk severity, potential vulnerability, and exposure by 2030 and by 2050 when assessing climate change risks and opportunities, we also analyze the scope of future financial impacts based on international and domestic scenario analyses. Subsequently, we discuss and formulate corresponding climate strategies based on various factors to help the Company maintain stable and sustainable operations and create more revenues.

Preliminary identification of material risks and opportunities have been completed this year, and we have calculated future financial impacts based on the conditions of domestic and foreign entities and transition risks.

In 2023, the Company conducted the identification for the first time. In the future, we will discuss climate risks and opportunities with various departments for completeness and develop a climate matrix. Our aim is to improve the completeness and accuracy of the Company's climate risk response.

Metrics and Targets

1. In December 2023, SFC Group signed a commitment with SBTi to plan a science-based carbon reduction pathway through SBTi. We expect to inventory Scope 1, Scope 2, and Scope 3 emissions in 2024, set specific and feasible Scope 1, Scope 2, and Scope 3 emissions reduction targets, and submit the targets to SBTi in 2026, demonstrating the Company's determination to achieve the goal of net-zero emissions.
2. Data collection for the calculation of Scope 3 emissions in 2023 is expected to be completed by 2024 Q3.
3. Carbon reduction target: Reduce carbon by 18% by 2025, with 2018 as the base year.
Carbon reduction measures: Please refer to 4.4 GHG Reduction.
4. Water saving target: Reduce water consumption by 5% by 2025, with 2018 as the base year.
5. Waste reduction target: Reduce waste by 2% by 2025, with 2018 as the base year.



Reduce carbon
by **18%**



Reduce water
consumption
by **5%**



Reduce waste
by **2%**



In recent years, climate change issues have continued to simmer at home and abroad, and it is expected to produce material risks and opportunities to affect the climate in the future. Therefore, the Financial Stability Board released its recommendation report on climate-related financial information disclosure. In addition to the existing risk management framework, the Company thus discloses climate risks and opportunities based on the TCFD report to demonstrate the Company's responsibility and strategy for the environment, thereby controlling risks and amplifying operational opportunities.

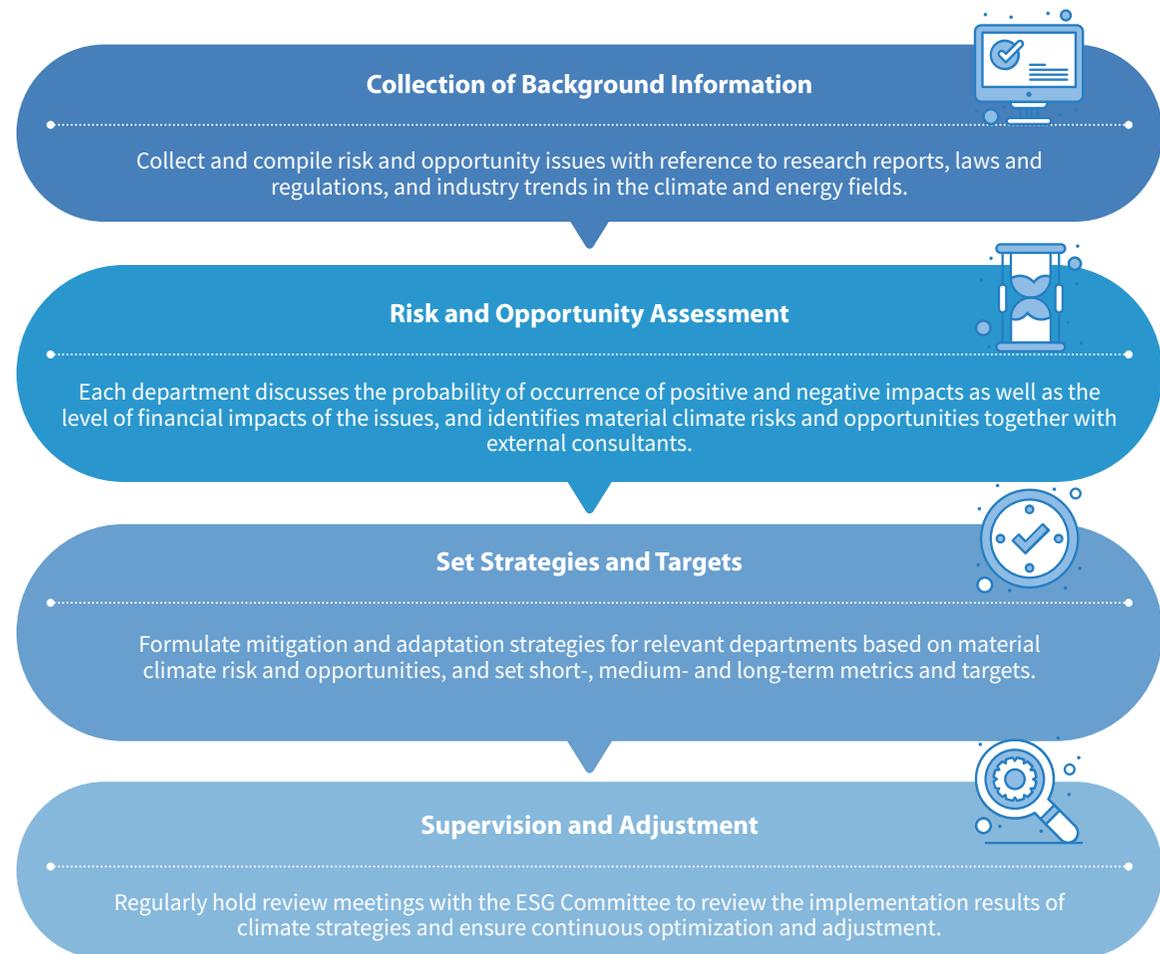
- In response to climate change risks, the Company promotes low-carbon transformation and climate adaptation in the following directions:
- The management team formulates climate change visions and countermeasures.
- We will implement specific strategies, take mitigation and adjustment actions, provide low-carbon artificial leather manufacturing technology, and lead the supply chain to enhance green competitiveness.

The Company will assess the severity of climate change, international trends, and brands' carbon reduction targets, set performance indicators and quantitative goals, regularly review progress, and track results.

The Company upholds the belief of corporate growth and environmental co-prosperity, and hopes to promote global sustainability by continuously implement the management of climate change, energy, water resources, and hazardous substances in daily operations through the practice of green manufacturing, the introduction of green innovation, and the profound execution of green management.

2.4.6 Climate Risk and Opportunity Management Process

In order to cope with the high degree of uncertainty of climate change and to grasp its positive and negative impacts to facilitate the formulation of future decisions and goals, the Company first assesses the risks and opportunities of climate issues, and discusses and analyzes trends such as existing laws and regulations, markets, and the frequency of climate disasters with sales departments and consultants to identify the Company's climate entities and transition risks as well as climate opportunities. This year, three material risks will be used for scenario analysis to estimate the financial impact.



2.4.7 Climate Change Risks and Financial Impacts

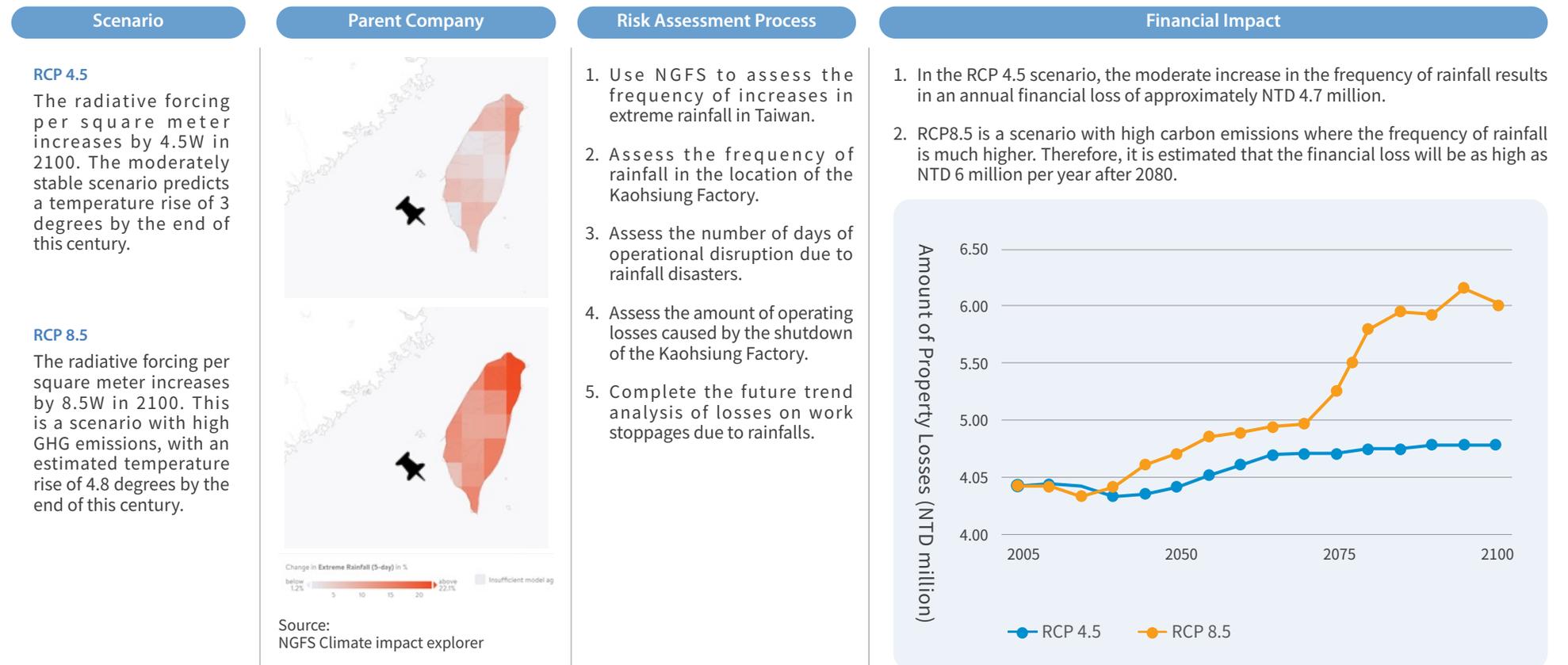
| Risk Category | Assessment Item | Risk Description | Category | Impact Period | Level | Responsive Management Practices |
|------------------|---|---|-------------------|---------------|---------------|--|
| Transition Risks | Implementation of carbon fees | According to the Climate Change Response Act, a carbon fee shall be levied on large carbon emitters with 25,000 tons or more of carbon emissions, leading to increased production costs and causing significant financial impacts. | Policies and Laws | Short-term | Material risk | The Company actively implements energy conservation and carbon reduction. In addition to the annual electricity conservation plans of factories, we continue to build renewable energy sources to reduce the use of purchased electricity. |
| | 1% electricity saving required by law | According to the Regulations on Setting Energy Conservation Objectives and Execution Plans for Energy Users, if the average annual electricity saving rate of energy users in the previous year was less than 1%, it is necessary to install new energy-saving equipment; otherwise, punishment will be given according to the law. | Policies and Laws | Short-term | Low risk | <ol style="list-style-type: none"> 1. Improve the energy-saving level of electrical equipment and replace power-consuming utility system equipment with new energy-saving equipment. 2. Average annual electricity saving rate: 1.11%. |
| | Installation of renewable energy as required by law | According to the "Renewable Energy Development Act," if the installed contracted capacity is more than 5,000 kW, renewable energy equipment or energy storage equipment with a capacity of 10% of the contracted capacity shall be installed or renewable energy certificates shall be purchased within five years; otherwise, a monetary substitution shall be paid. | Policies and Laws | Short-term | Medium risk | The Company has actively complied with the policy. In 2022-2023, the Kaohsiung Factory's self-consumed solar energy: Installed capacity of 1,233 kWp, with a power generation of 874,962 kWh. BaoLiang Factory's self-consumed solar energy: Installed capacity of 2,707 kWp, with a power generation of 2,715,000 kWh. Vietnam Factory's purchased solar energy: Purchased electricity of 1,631,012 kWh. |
| | Water conservation charge | According to the Regulations on the Water Conservation Charge, a water conservation charge is levied on large water users with a monthly water consumption greater than 9000 m ³ during dry seasons, which will increase production costs. | Policies and Laws | Short-term | Medium impact | Reduce water consumption. |
| | Industrial transformation (green products, green processes) | In response to international trends and supply chain requirements, it is necessary to develop green products. In addition to the high cost of raw materials, green process transformation requires capital investment due to a high technological threshold, increasing production costs. | Market | Medium-term | Medium risk | Develop green technologies and enhance the performance of green products. Actively increase the sales of green products with a view to increasing the sales of green products to more than 45% by 2023. |

| Risk Category | Assessment Item | Risk Description | Category | Impact Period | Level | Responsive Management Practices |
|----------------|----------------------------|--|-----------------------|---------------|--------------------|--|
| Physical Risks | Water resource shortage | In the event of water shortages or droughts due to abnormal climate, the boilers and equipment on the factory production line cannot operate, resulting in reduced output and increased costs and causing turnover losses. | Chronic | Short-term | Medium risk | <ol style="list-style-type: none"> 1. Monitor and record the water volume and consumption of each water storage basin. 2. Improve and replace water-consuming equipment, perform leak inspections on equipment and pipelines, and install water-saving controls. 3. Improve the wastewater recycling rate and increase the water storage capacity of the basin of each factory. |
| | Extreme rainfall | The increasing number of typhoons, heavy rains, and extreme rainfalls due to abnormal weather conditions leads to floods in factories, causing work suspensions and operational disruptions and resulting in turnover losses. Flooding can also lead to damage to factory equipment, increasing costs. | Acute | Long-term | Material risk | <ol style="list-style-type: none"> 1. Climate risks are incorporated into the design considerations for the site selection and construction of new factories to prevent the impact of climate disasters on production. 2. In 2023, the Company's newly built factory in Indonesia was designed for flood control and drainage as well as ventilation and cooling taking into account factors such as local climate characteristics and climate change. 3. A diesel generator set is available in each factory in case of temporary power outages. |
| | Extremely high temperature | Extremely high temperatures due to abnormal climate will not only increase the use of air conditioners in factories, leading to higher energy costs, but also may damage the working environment of employees due to thermal injuries, which will affect the production line. | Acute | Medium-term | Material risk | <ol style="list-style-type: none"> 1. Install solar panels to lower temperatures 2. Install powerful exhaust fans and carry out other related measures to improve working environment comfort |
| Opportunities | Renewable Energy | Continuous investment in the development of renewable energy can reduce the risk of energy interruption, and green power can enhance the corporate image and increase revenues. | Resilience | Medium-term | Medium opportunity | The Company actively increases the proportion of recycled PET, waste leather and reused packaging materials in order to lower carbon emissions and reduce possible disposal waste and related waste disposal costs. |
| | Recycled materials | Through the use of recycled materials, we will produce low-carbon emission products to reduce the cost of waste gas treatment and hopefully increase future revenue from recycled materials | Products and Services | Medium-term | Medium opportunity | Electricity is the main source of energy. With the popularity of renewable energy, solar power can help reduce carbon emissions and have the opportunity to cut the cost of long-term energy consumption. |

2.4.8 Physical and Transition Risk Scenarios

Extreme rainfall

In recent years, in response to the impact of climate change and threats such as floods caused by typhoons and extreme rainfalls, for the Company's operating location in Taiwan, the Company has taken into account NGFS's simulation of different changes in the global extreme rainfall and selected two scenarios, RCP 4.5 and RCP 8.5. Based on the number of work suspensions due to rainfall disasters in the location and the location's turnover, the Company has estimated the timing and amount of financial impacts on the Kaohsiung Factory as the global average extreme rainfall increases.

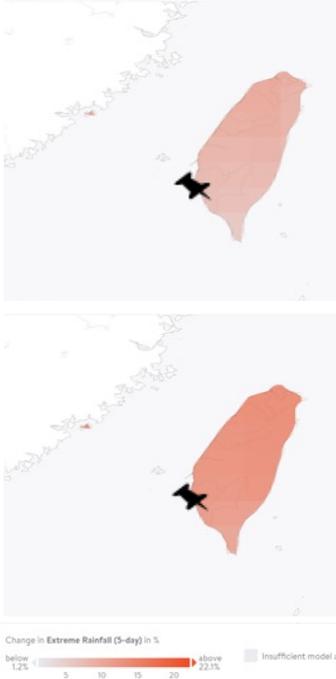
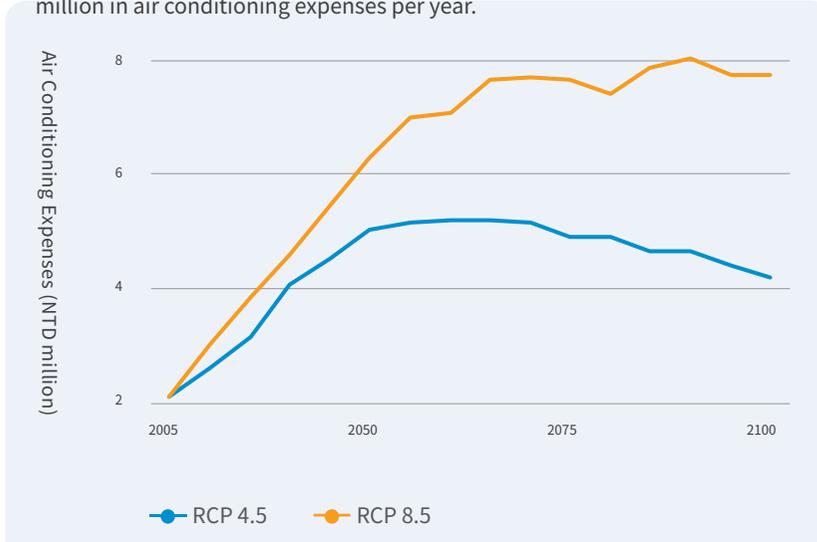


Response Strategy

Overall, this scenario does not consider the changes in turnover, and only takes into account the loss caused by future work stoppages. Therefore, increased rainfall frequency caused by climate change in the future may lead to an increase in the frequency of work stoppages, resulting in annual operating losses. In response to that, we will continue to implement daily energy conservation and carbon reduction measures and take more precautions against extreme rainfall and flooding to reduce other losses in the future.

Extremely high temperature

In recent years, due to the impact of climate change, the global temperature has soared and thus the cost of energy has risen. Therefore, for the Company's operating location in Taiwan, the Company has taken into account the simulation of different changes in the global average temperature of the Network for Greening the Financial System (NGFS) and selected two scenarios, RCP 4.5 and RCP 8.5. Based on the location's electricity usage, electricity price, and air conditioning usage, the Company has estimated the timing and amount of financial impacts of air conditioning energy sources as the global average temperature rises.

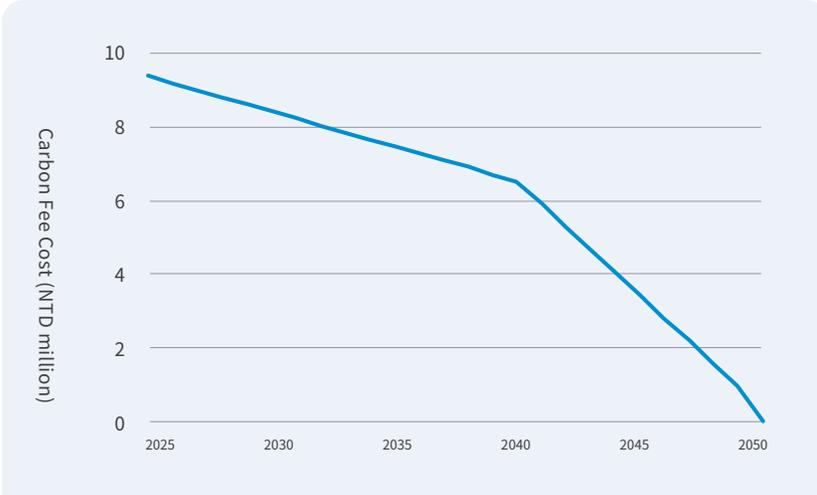
| Scenario | Parent Company | Risk Assessment Process | Financial Impact |
|---|--|---|--|
| <p>RCP 4.5</p> <p>The radiative forcing per square meter increases by 4.5W in 2100. The moderately stable scenario predicts a temperature rise of 3 degrees by the end of this century.</p> <p>RCP 8.5</p> <p>The radiative forcing per square meter increases by 8.5W in 2100. This is a scenario with high GHG emissions, with an estimated temperature rise of 4.8 degrees by the end of this century.</p> |  <p>Source: NGFS Climate impact explorer</p> | <ol style="list-style-type: none"> 1. Use NGFS to assess warming in Taiwan. 2. Assess the future temperature increase trend for the location of the Kaohsiung Factory. 3. Estimate the future electricity consumption and electric bill of the Kaohsiung Factory. 4. Estimate the increase in air-conditioning energy consumption due to temperature rises and the air-conditioning energy consumption as a percentage of total electricity consumption. 5. Complete the analysis of the future trend of increase in air-conditioning electricity costs. | <ol style="list-style-type: none"> 1. In the RCP 4.5 scenario, due to the moderate increase in the frequency of temperature rise, energy expenditure (NTD 5 million) peaks in 2050. Subsequently, the expenditure will decrease as the electric bill will no longer increase thanks to energy saving. 2. RCP 8.5 is a scenario with high carbon emissions where the frequency of temperature rise is much higher. Therefore, it is estimated that electricity expenses will continue to rise after 2060, resulting in a maximum of NTD 8 million in air conditioning expenses per year.  |

Response Strategy

In addition to physical warming scenarios and domestic net zero scenarios, this scenario uses existing data for air conditioning analysis without considering future technological innovations. The increase in the frequency of temperature rise caused by climate change may lead to an increase in air conditioning energy consumption, which in turn results in increased annual costs. Therefore, in the future, the Company will continue to implement the annual electricity conservation strategy and pay attention to air conditioning energy-saving technologies to reduce future risks. Please refer to 4.2.3 Promotion of Energy-saving Measures for relevant energy-saving measures.

Carbon Fee

In recent years, under the influence of climate change, countries around the world have begun to impose carbon fees on high carbon-emitting enterprises to force them to reduce emissions. Therefore, SFC has simulated a future GHG reduction pathway based on the 1.5° C scenario and the relevant laws and regulations in Taiwan, and projected the short, medium, and long-term future carbon prices to assess the temporal and financial impacts of future carbon prices.

| Scenario | Scenario Description | Risk Assessment Process | Financial Impact | | | | | | | | | | | | | | |
|--|---|---|--|------|-------------------------------|------|-----|------|-----|------|-----|------|-----|------|-----|------|---|
| <p>1.5°C Scenario</p> <p>In 2022, the Taiwanese government announced the goals and actions for net zero transformation by 2050 and proposed its 2030 Nationally Determined Contributions target. In addition, Taiwan passed the Climate Change Response Act in 2023 to clearly define the net zero goal and establish a carbon fee mechanism.</p> | <ol style="list-style-type: none"> 1. The Company's GHG emissions are estimated based on Taiwan's Pathway to Net-Zero Emissions in 2050. 2. The government will levy a carbon fee on enterprises. The estimated carbon fee is NTD 300 per ton of CO₂e in the short term, NTD 500 in the medium term, and NTD 750 in the long term. | <ol style="list-style-type: none"> 1. Refer to Taiwan's GHG emission targets by 2030 and 2050. 2. Estimate the future GHG emissions of the Kaohsiung Factory. 3. Refer to the current national short-, medium- and long-term carbon fee rates. 4. Complete the calculation of the financial impact of the carbon fee by 2050. | <ol style="list-style-type: none"> 1. According to the carbon reduction roadmap, carbon emissions will decrease by 24% by 2030 as compared to the base period and be reduced to 0 by 2050. Therefore, the initial carbon fee cost is quite high, with an impact of about NTD 9 million per year. In the medium and long term, as the increase in carbon fees will be lower than the reduction in carbon emissions, the annual carbon fee will be reduced accordingly to net zero by 2050.  <table border="1"> <caption>Carbon Fee Cost (NTD million)</caption> <thead> <tr> <th>Year</th> <th>Carbon Fee Cost (NTD million)</th> </tr> </thead> <tbody> <tr> <td>2025</td> <td>9.5</td> </tr> <tr> <td>2030</td> <td>8.5</td> </tr> <tr> <td>2035</td> <td>7.5</td> </tr> <tr> <td>2040</td> <td>6.5</td> </tr> <tr> <td>2045</td> <td>3.5</td> </tr> <tr> <td>2050</td> <td>0</td> </tr> </tbody> </table> | Year | Carbon Fee Cost (NTD million) | 2025 | 9.5 | 2030 | 8.5 | 2035 | 7.5 | 2040 | 6.5 | 2045 | 3.5 | 2050 | 0 |
| Year | Carbon Fee Cost (NTD million) | | | | | | | | | | | | | | | | |
| 2025 | 9.5 | | | | | | | | | | | | | | | | |
| 2030 | 8.5 | | | | | | | | | | | | | | | | |
| 2035 | 7.5 | | | | | | | | | | | | | | | | |
| 2040 | 6.5 | | | | | | | | | | | | | | | | |
| 2045 | 3.5 | | | | | | | | | | | | | | | | |
| 2050 | 0 | | | | | | | | | | | | | | | | |



Climate change policies will affect the economic direction of the world. As governments around the world continue to limit corporate carbon emissions through carbon fees and carbon taxes, future plans will focus on reducing carbon from major sources of carbon emissions. We will purchase renewable energy certificates and participate in domestic voluntary emission reduction projects to reduce the risk of carbon fees.



2.5 Cyber Security Maintenance

Cyber security has become an important issue for the Company's operations. In order to strengthen the management of cyber security, it is stipulated that the Company shall disclose cyber security policies, concrete management plans, and resources invested in cyber security management.

2.5.1 Cyber Security Policies and Objectives

Our objectives are to ensure the security management of various internal electronic, computer, server, and network communication equipment; avoid risks such as equipment service interruption or damage due to internal improper operation and external information security threats; and prevent data leakage, destruction, or damage from affecting the Company's normal operations. The Company implements information security management regulations to protect the rights and interests of customers and the Company and improve operational efficiency.

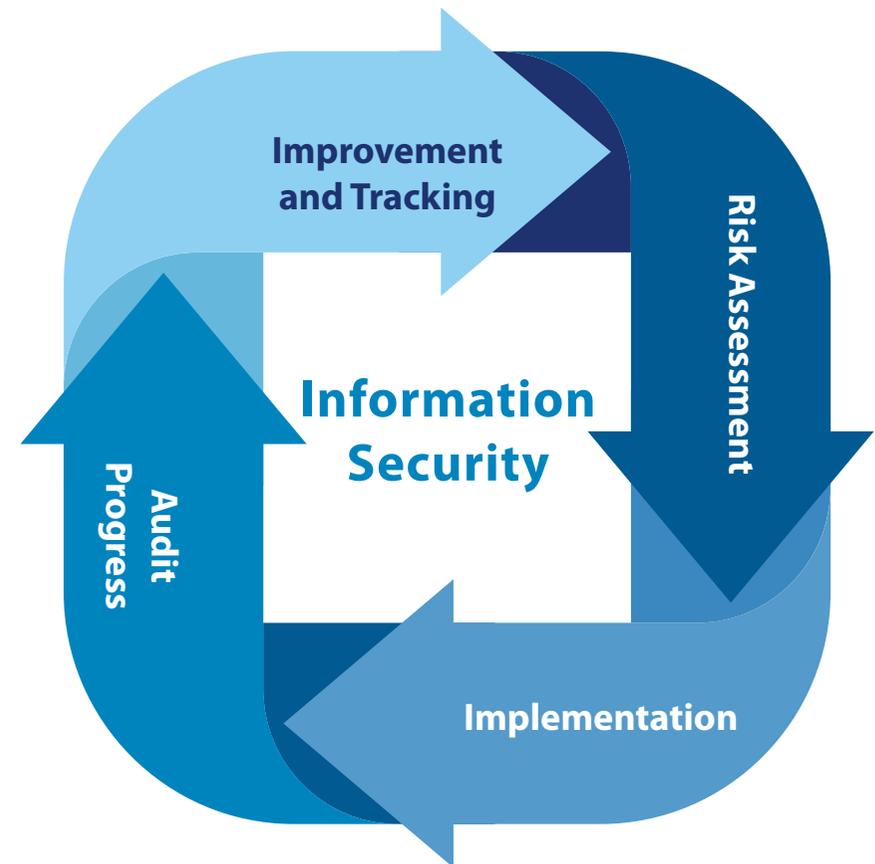
The information security policy has the following objectives

- Ensure the continuous operation of information processes and the stable operation of information services.
- Comply with information security laws and regulations, establish comprehensive information security measures, and maintain a secure information environment.
- Maintain the confidentiality, integrity, and availability of the organization's commercial assets.

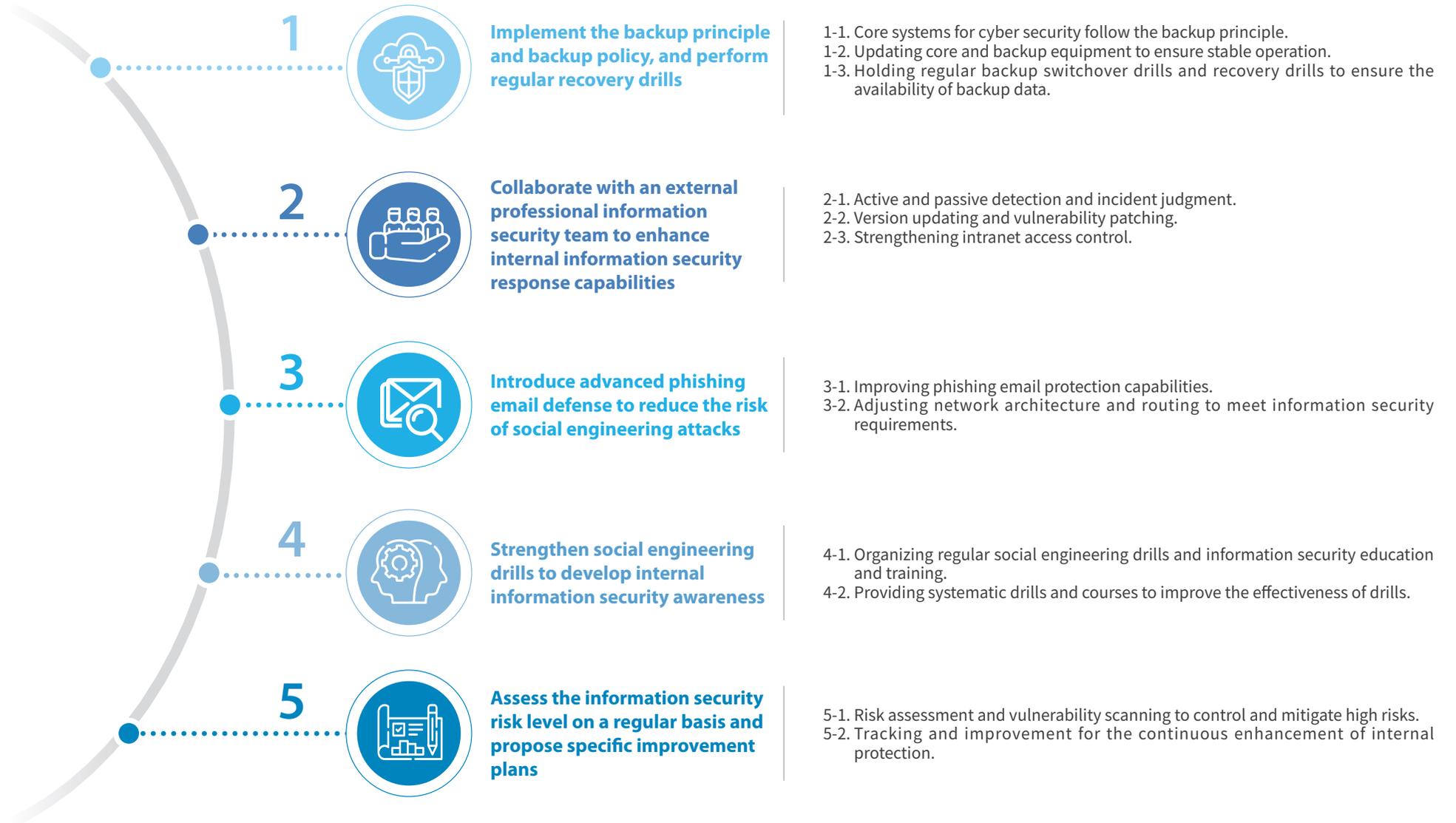
2.5.2 Cyber Security Management Plans

Concrete management plans

- External information security teams: Introduce a professional information security team for collaborative protection
- Internal proactive protection and detection: The Information Office conducts internal audits to assess the risk of human operations, natural disasters, and malicious cyberattacks to information assets and services.
- Employee information security training: Social engineering drills are held every year to raise internal information security awareness.



2.5.3 Implementation in 2023



3

Shared Value

- 3.1 Innovation and R&D
- 3.2 Quality Management
- 3.3 Customer Satisfaction and Product Services
- 3.4 Supply Chain Management



3.1 Innovation and R&D

3.1.1 R&D

Up to now, the Company has been involved in the production of artificial leather for nearly 50 years. In the journey from our early days of traditional manufacturing to today's research and technology-led business, we have taken making use of resources efficiently, providing clean and high-quality materials and technology, and creating a happy environment as our mission, with the hope of becoming the most trustworthy material supplier.

The Company's Kaohsiung Factory has set up the R&D Division with about 77 R&D engineers. It mainly focuses on the R&D of artificial leather, films, fibers, ball materials, clothing materials, automotive materials, etc. and actively enhances product diversification and vertical integration.

In 2018, a Production Technology Department was set up for the Company's overseas subsidiaries to assist in product technology transfer among the subsidiaries and provide product order services needed by customers nearby.

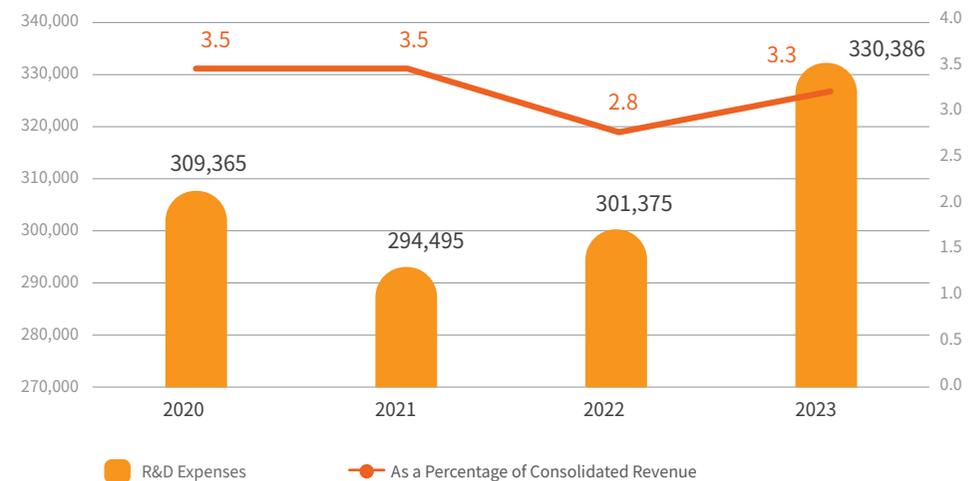
In 2023, the Production Technology Department had a total of 48 production engineers and 90 sample production personnel. The purpose is to cement the strategic partnerships with customers and suppliers and strengthen the connection of related technologies.

Looking into the future, the Company will continue to enhance raw materials, process technology, and manufacturing services in line with the trend of environmental protection and environmental impact reduction among various brands, and achieve carbon reduction and carbon negativity by implementing recycling, reducing waste gas, increasing efficiency, saving energy, and using eco-friendly biomass in product development.

The Company is committed to R&D and environmentally friendly development. In response to waste reduction, carbon reduction and waste reuse, the important products developed in 2023 are as follows:

-  DMF-free eco-friendly bio-artificial leather and film products
-  Recycled /bio-artificial leather, film, ball leather, backpack material products
-  Automotive interior products
-  Apparel film materials, waterstop products
-  Heating module products

R&D Expenses



3.1.2 Innovation

The fact that the Company values innovation is reflected in the Company's patent achievements. We develop a patent portfolio and file patent applications annually. In recent years, the cumulative number of innovation patents in artificial leather, films, fibers, ball materials, clothing materials, and automotive materials is as follows:



2020

407 global patent applications

A total of **222** patents worldwide have been approved.

2021

453 global patent applications

A total of **237** patents worldwide have been approved.

2022

480 global patent applications

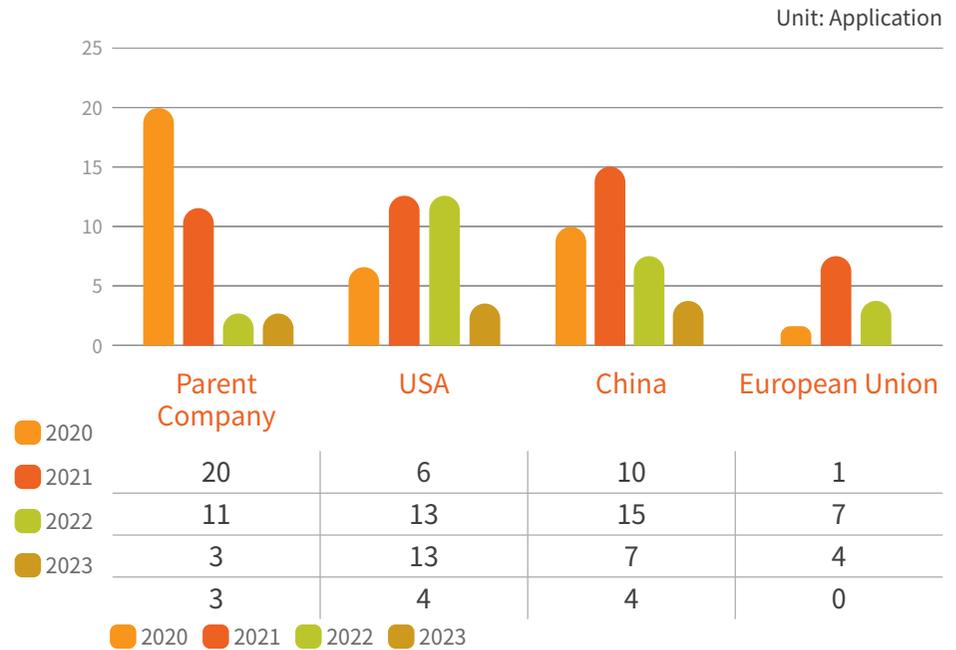
251 global patent applications have been approved

2023

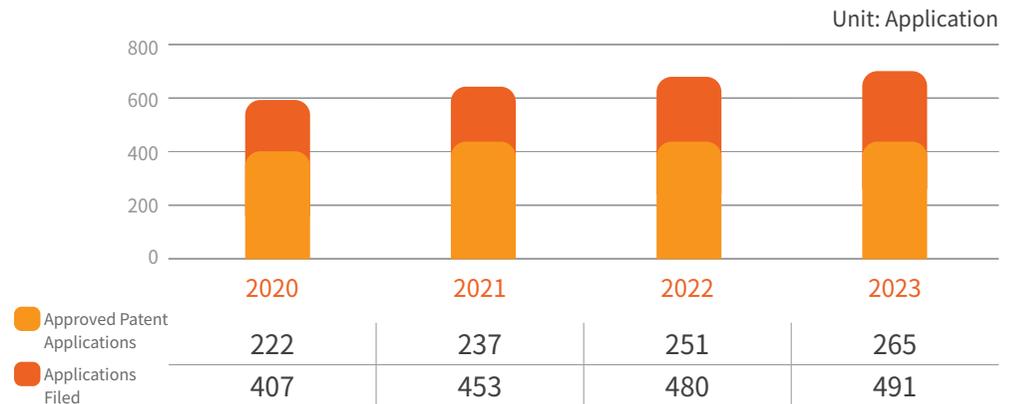
491 global patent applications

265 global patent applications have been approved

► Distribution of SFC's Global Patent Applications by "Country"



► Accumulated Number of Global Patent Applications Filed and Approved



3.2 Quality Management

Product Quality Management Policy "Professionalism, Integration, Innovative, Service"

- The Company's vision is to "become the most trustworthy material supplier." All employees implement the product quality management policy to meet customer needs and provide safe and secure products. We are also committed to pursuing environmental sustainability, fulfilling corporate responsibilities, and seeking coexistence and co-prosperity with society.

Product Quality Management System

- The Company was certified to the ISO 9001 Quality Management System for the first time in 1996, to the ISO 14001 Environmental Management System for the first time in 1998, and to the IATF 16949 Global Automotive Industry Quality Management System in 2012. Through continuous improvement over the past 50 years, we have established a systematic and comprehensive quality management system to ensure that the products produced by the Company are of high and stable quality and acceptable to all customers.
- In recent years, in order to strengthen the core philosophy of quality first, the Company successfully introduced the Toyota Production System (TPS) into the Kaohsiung Factory in 2022 and the Vietnam Factory in 2023, with the plan to expand to every corner of the Group. We apply these methods and techniques in quality improvement to enhance water conservation, electricity conservation, carbon reduction, and environmental friendliness while ensuring compliance with the spirit of environment, society and governance (ESG).

Safety of Products and Raw Materials

- From the development stage, all raw materials and finished products undergo written reviews and sampling and testing by the Restricted Substances List (RSL) Team to create a CIL (Chemical Information List). The R&D or production units are required to use only qualified raw materials listed in the CIL to ensure that all products are manufactured under conditions free of hazardous substances.

- The Company has a professional laboratory that has been certified by brand customers. In addition to introducing advanced equipment, we also regularly strengthen the education and training of testing personnel to ensure that testing methods and accuracy are consistent with those of brand customers. Furthermore, internal physical and chemical inspection standards are established to suit different purposes and usage environments and meet the requirements of brand customers and international regulations, strictly controlling the quality of shipments. When a non-conformity is found, shipment will be suspended immediately. Conforming and non-conforming products will be distinguished, and the causes of the non-conforming products will be investigated and analyzed. Externally, the sales unit will notify customers, and remedial measures will be taken immediately.

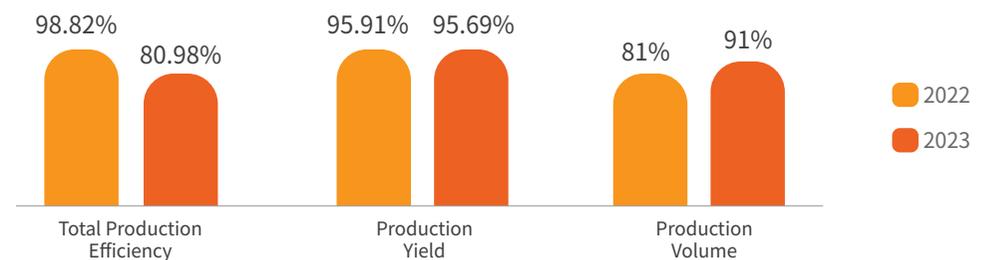
Product Quality Design

- For the development of each new product, the Company must follow a series of rigorous and sophisticated standard processes. From the initial stage of various advanced studies according to the design control procedure, through design, trial production, inspection, and mass production, the Company has thoroughly documented and archived relevant information at each stage to obtain the best production conditions as the foundation for stable production in the future. During the period, the sales, production, R&D, environmental safety and other departments cooperate and communicate in order to successfully manufacture products that meet customer needs, while taking into account environmental considerations and environmental protection policy requirements.

Product Quality Control

- The Company has continued to build automated production and testing equipment to reduce quality anomalies caused by human differences or over-reliance on empirical judgments. Meanwhile, we have introduced an online monitoring system to collect real-time data of various machines and generate charts through analysis with big data for supervisors to grasp first-hand production information for adjustment or control. Furthermore, the standard operating specifications of each machine highlight specific points of attention and safety matters, allowing the production personnel to unify techniques, reduce the error rate and industrial safety risks, and quickly obtain countermeasures once an abnormality occurs, minimizing losses. In 2023, the total production efficiency was affected by the decrease in orders, but the increase in production yield indicated that the improvement performance was getting better.

► 2022-2023 Quality KPI Run Chart



3.3 Customer Satisfaction and Product Services



Customer Management Method

A complete market is divided into

- A Source (brand location):** For example, NIKE is headquartered in Portland, Oregon, the USA
- B Production factories (T1):** For example, Feng Tay, Pou Chen, and other finished shoe manufacturers
- C Material suppliers (T2):** Refer to shoe materials manufacturers, not raw material suppliers
- D Formulate relevant environmental protection policies with reference to international regulations, and discuss solutions with customers.**

As a material supplier, the Company has discussions with source customers and formulates policies in response to changes in international environmental regulations, and implements close cooperation and communication with production factories to avoid unnecessary obstacles in the development process and significantly increase the probability of future improvements for better compliance with international environmental regulations. Fast and efficient communication is a unique feature of our business.



Listen to Customers

Customer voices come in two aspects

A Source customers:

The Company attaches great importance to the market information provided by source customers. Although we often encounter wildly imaginative design ideas, the capability to innovate and develop and the close and smooth communication channels between sales representatives and customers enable us to turn our customers' imaginations into tangible products in the shortest time. Such innovation capability and efficiency are our advantages often praised by customers.

B Manufacturers:

Manufacturers are customers who place physical orders. For such customers, we provide assistance for special projects, such as project delivery coordination for urgent orders, or special methods to cope with the differences between factory production machines. The Company always offers full assistance from customers' point of view.

- C Starting from 2024, we will provide more accurate and practical customer services based on development seasons and implementation deadlines.**



Real-time Provision of Information

We issue two fixed color swatches every year in the spring and summer and the autumn and winter seasons, respectively. Each color swatch provides customers with the most up-to-date design concepts and market information. We also present physical products as a reference for brands' design for the following season.

In addition, in the name of SFC Fashion Academy, we occasionally promote specific products or conduct market information inquiries. We also use this opportunity to conduct two-way communication with customers to ensure that our needs match theirs and vice versa. Therefore, the development of materials and customer needs are not two parallel lines.



We also take the opportunity of business visits to discuss market-related marketing information in order to formulate countermeasures in advance for changes (demands) in the overall market, thereby reducing the impact on both customers and the Company due to market changes. The Company's policy for the real-time provision of information allows customers to put high trust in SFC. Whenever customers have immediate needs, we will instantly contact them. In addition to communication with customers, the Company has also established relevant electronic databases to facilitate customers' real-time query and reduce the information delays caused by time differences.



One-stop Service from Branding to Market Planning

In addition to source brand customers, the Company has also set up a dedicated unit for production factories. Due to the different needs of brand customers and production factory customers, two corresponding units have been set up to effectively avoid misunderstanding and reduce production risks.

To meet the needs of brands, our sales unit will modify the details of the project in line with the internal units of the production factory to satisfy the production requirements of the production factory.

For special needs of production factories, e.g., project delivery coordination, the sales unit can also fully assist the factories in competing for orders to expand revenue sources for both the Company and the factories.



Customer Satisfaction Survey

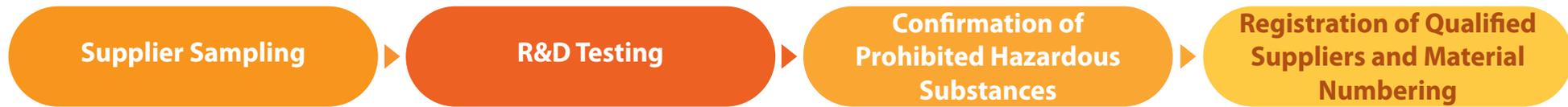
In order to provide excellent customer services and enhance customer satisfaction, for the biannual issuance of official color swatches, opinion surveys are conducted for specific customers on the color swatch content, issuance time, and the independently developed products required by customers to revise the issuance of swatches in the following quarter. In addition, a customer satisfaction survey is also conducted for all customers in the fourth quarter of each year. The survey covers the following topics: product category, product quality, product delivery time, shipping and packaging, after-sales service, and total satisfaction. We continue to review and make improvements based on the survey results by maintaining what customers are satisfied with and passing on customers' suggestions for improvement to various departments. While complying with environmental protection and related laws and regulations, we will spare no effort to meet customer requirements and strive to create a win-win performance for both customers and the Company.

| Year | Product Category | Product Quality | Product Delivery Time | Shipping and Packaging | After-sales Service | Total Satisfaction |
|------|------------------|-----------------|-----------------------|------------------------|---------------------|--------------------|
| 2020 | 72 | 70 | 67 | 71 | 71 | 72 |
| 2021 | 78 | 75 | 75 | 78 | 75 | 78 |
| 2022 | 79 | 76 | 74 | 77 | 72 | 79 |
| 2023 | 79 | 76 | 75 | 75 | 71 | 78 |

Note: 20 points represent extremely dissatisfied; 40 points represent very dissatisfied; 60 points represent no opinion; 80 points represent very satisfied; and 100 points represent extremely satisfied.

3.4 Supply Chain Management

The Company attaches great importance to the quality of the supplied materials, and gives priority to using materials produced by international brands. The Company's raw material selection process is as follows:



The supplier rating system is regularly evaluated. Suppliers are divided into Levels A, B, and C according to their rating. The scoring principle is based on the number of defective products, overdue delivery rate, coordination, excessive shipping costs, etc.



On-site supplier audits are conducted from time to time to confirm whether suppliers comply with the requirements. Any suppliers failing to comply with the requirements shall receive guidance on meeting the relevant standards.

Preference is given to suppliers with relevant certifications, such as MRSL 3.1, GRS, ISO 9001:2015, IATF 16949, ISO 14001, Oeko-Tex®, and Bluesign. Internally, we have also set up an RSL (prohibited hazardous substance) management team.

The Company has a total of **168** Tier 1 suppliers, which were the main counterparties and service providers of the Company in 2023.

We have **588** non-Tier 1 suppliers that conduct indirect transactions with the Company.



The Company works with supply chain partners to protect the environment, ensure labor and human rights, and reduce carbon emissions. Our key Tier 1 suppliers are required to sign a supplier code of conduct.

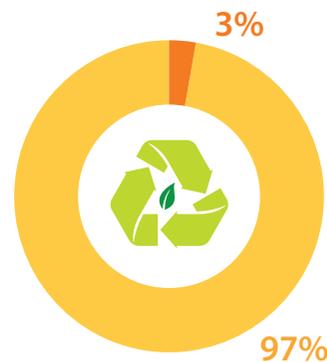
21 of our Tier 1 suppliers hold wastewater discharge permits, which is in accordance with local regulations.

For the sake of environmental protection and sustainable operations, we have become a member of NGOs such as ZDHC/HIGG/Oeko-Tex® to do our part to protect the environment and the earth.

3.4.1 Sustainable Raw Materials

The Company has developed environmentally friendly materials, water-based products, and GRS recycling systems to achieve the goal of environmental sustainability. In 2023, 1,521 tons of GRS recycled PET were used, and we also reduced the use of organic solvents in raw materials to cut VOCs.

| Sustainable Raw Materials | 2023 (tons) |
|---------------------------|-------------|
| PET | 46 |
| GRS Recycled PET | 1,521 |



3.4.2 List of Main Raw Materials

All critical raw materials must undergo tests in accordance with the ZDHC MRSL 3.1 or SFC's RSL specifications and meet the quality requirements before they can be approved for supply. Critical raw materials must be sourced from at least two different manufacturers and from different countries for risk control.

Out of the 23,717 tons of raw materials procured in 2023, PU resin-related raw materials accounted for 41.32%; water-based PU, TPU, PU, PET and other raw materials accounted for 50.98%; and other additives, pigments, etc. accounted for 7.7%.

| | 2021 | 2022 | 2023 |
|---|--------|--------|--------|
| Annual Procurement (tons) | 27,600 | 25,236 | 23,717 |
| PU Resin-related Raw Materials (%) | 33.73% | 36.00% | 41.32% |
| Water-based PU, TPU, PU, PET, and Other Raw Materials (%) | 59.59% | 56.50% | 50.98% |
| Other Additives, Pigments, etc. (%) | 6.68% | 7.50% | 7.70% |

3.4.3 Low-carbon Procurement

With the aim of protecting the environment, in addition to quality requirements, SFC and the supply chain prioritize materials that are bio-based (biomass) and GRS-certified (Global Recycling Standard) and have a TC (transaction certificate) in supply chain management. For raw materials, we give priority to using recycled materials to improve recycling efficiency and indirectly reduce the damage to the environment. Through the principle of low-carbon procurement, SFC's supply chain as a whole pays attention to the issue of low-carbon procurement.

To achieve the goal of low-carbon procurement, we prioritize local suppliers to establish local partnerships and reduce the impact of transportation on the environment. In terms of transportation management, the Company prioritizes land transportation over sea transportation, and electric vehicles over fuel-powered vehicles to reduce carbon emissions generated during transportation. We will continue to optimize our low-carbon procurement strategy and move toward the net zero goal.

Environmental Impact in the Supply Chain

In order to reduce supply chain risks, SFC regularly conducts supply chain impact assessments on the environmental side of the supply chain. The survey items include ISO14001, wastewater discharge, Higg FEM and other environmental data. Currently, 12.5% of our suppliers are qualified for wastewater treatment; 1.2% passed the Higg FEM assessment; and 44.0% passed the ISO14001 certification. In the future, the Company will continue to expand the environmental impact survey of the supply chain with the goal of building a green supply chain.



Percentage of Tier 1 suppliers that have completed the Sustainable Apparel Coalition's Higg FEM assessment and equivalent environmental data assessments and are qualified for wastewater treatment:

► Environmental Assessment

| Item | Obtained Higg FEM Certification | Obtained ISO 14001 Certification | Qualified for Wastewater Treatment |
|--|---------------------------------|----------------------------------|------------------------------------|
|  Tier 1 Suppliers | 168 | | |
|  Number of Suppliers Passing Certifications | 2 | 74 | 21 |
|  Percentage | 1.20% | 44.00% | 12.50% |

3.4.4 Risk Assessment

When developing materials, priority is given to companies that use bio-(biomass) materials or are certified to the Global Recycling Standard (GRS). We are actively searching for materials for which a TC (transaction certificate) can be issued. We are also actively replacing the currently used raw materials with the above two types of materials, which is a positive measure in the direction of sustainable development.

We have diversified our transportation modes. Our procurement policy is source directly from local suppliers, and ocean transportation is replaced by land trucks and trains. We shall also consider using more environmentally friendly transportation methods, such as electric vehicles and shared transportation, to further achieve environmental protection and carbon reduction.



I. Supplier Risk Assessment

1. Sign a guarantee issued by SFC.
2. Provide a MRSL/RSL test report from a testing company.
3. Approved as a qualified material supplier.
4. Purchase bulk raw materials from at least two suppliers to reduce the risk of material shortages.



II. Regular Supplier Audit

1. Internal audits - Analyze suppliers' delivery time, quality, and coordination for evaluation every quarter.
2. External audits - Select two suppliers for on-site audits, and conduct random audits on suppliers.



III. Supplier Evaluation

1. Issue a Corrective Action Sheet for on-site audits and provide guidance for improvement.
2. Hold a meeting with R&D technical personnel to discuss and evaluate inferior suppliers, find substitutes, and exclude the inferior suppliers from the list of qualified suppliers.

Evaluation Results

The supplier rating system is regularly evaluated. Suppliers are divided into the following three levels based on their score: 100-81 points: Level A; 80-60 (inclusive) points: Level B; below 60 points: Level C. The scoring principle is based on the number of defective products, overdue delivery rate, coordination, excessive shipping costs, etc. In the first quarter of 2023, 1,439 batches were delivered and there were 0 defective products, and all suppliers were rated as Level A; in the second quarter, 1,033 batches were delivered and there were 0 defective products, and all suppliers were rated as Level A; in the third quarter, 1,261 batches were delivered and there were 0 defective products, and all suppliers were rated as Level A; in the fourth quarter, 1,030 were delivered and there were 0 defective products, and all suppliers were rated as Level A.

| | 2023 Q1 | 2023 Q2 | 2023 Q3 | 2023 Q4 |
|-----------------------------|---------|---------|---------|---------|
| Number of Delivered Batches | 1,439 | 1,033 | 1,261 | 1,030 |
| Number of Defective Batches | 0 | 0 | 0 | 0 |
| Number of A-level Suppliers | 124 | 120 | 129 | 121 |
| Number of B-level Suppliers | 0 | 0 | 0 | 0 |
| Number of C-level Suppliers | 0 | 0 | 0 | 0 |

Every year, a cross-departmental audit team is set up from time to time to conduct on-site supplier audits to confirm whether a supplier has complied with the requirements. Any suppliers failing to comply with the requirements shall receive guidance on meeting the relevant standards and satisfy the requirements. In 2023, we conducted on-site audits for two suppliers, with an average score of 93.75%. If there are any deficiencies, an Audit Corrective Action Sheet will be issued and we will provide suppliers with guidance on making required improvements, and the suppliers shall make such requirements within the time frame. On-site supplier evaluation aim at performing on-site audits on suppliers based on the category of products. In 2023, two suppliers for film products and two suppliers for artificial leather products were selected evaluation.



Sustainable Corporate Responsibility

Our supply chain consists of Taiwanese suppliers, accounting for 77%, and suppliers from other regions, accounting for 23%. Through various mechanisms, such as supplier evaluation and signing a supplier code of conduct, supply chain manufacturers can integrate social responsibility requirements into their supplier management strategies and adhere to sustainability standards and responsibilities. Implementing supply chain management helps stabilize quality, diversify risks, and improve customer service and satisfaction. We expect to encourage relevant manufacturer partners to create sustainable value for the industry and implement sustainable development.

To maintain partnerships with the supply chain, suppliers must sign a supplier code of conduct and abide by the Company's Supplier Management Regulations, which include labor and human rights, prohibition of child labor, compliance with local laws and regulations on working hours, wages and benefits, and freedom of association and collective bargaining.

By issuing a supplier code of conduct and promoting it to suppliers, SFC pays attention to the fields of social responsibility, environmental protection, corporate ethics, and business management. The supplier code of conduct include five major parts: labor and human rights, health and safety, environmental standards, ethics, and management system standards.

Supplier Management Policy

1. Suppliers are required to implement the IATF 16949 quality management system, or at the very least, the ISO 9001 quality management system. We are committed to growing with our suppliers, fulfilling corporate social responsibilities, engaging in co-innovation, and improving quality.
2. Suppliers are required to comply with ISO 14001 for the control of water pollution, air pollution, noise, waste, and toxic substances, and to understand SFC's environmental advocacy policy.

Promote environmental awareness, comply with environmental laws and regulations, and reduce environmental impact.
Cherish resources, prevent pollution, and make continuous improvements to create a sustainable enterprise.

3. We take corporate social responsibility and supply chain human rights protection seriously.

Suppliers shall investigate the source of cotton in their products and avoid using cotton from controversial sources. For biomass raw materials, we do not use materials made from corn.

Contractors

To ensure a safe working environment, contractors are required to cooperate before contracting. According to the Company's environmental safety and health regulations, as well as the laws and regulations related to occupational safety and health, all contractors must finish and pass the education and training courses and assessments on the online environmental safety and health system to be issued an access pass to enter the factory for construction. The Company's environmental safety personnel also conduct inspections at any time to check the implementation of contractors in order to ensure the personal safety of construction workers and reduce the occurrence of industrial safety incidents. We hope to achieve the environmental safety and health goals of zero safety, hygienic, and health accidents and zero pollution for environmental protection.

In terms of project contracting, we adhere to the concept of sustainability and the principle of fair trade, and require suppliers and contractors to meet the requirements of environmental protection, industrial safety and human rights. For outsourcing, we always quote and negotiate prices with more than two vendors and avoid awarding projects to only a single contractor on the same quotation basis for raw materials and parts. After winning a bid, the contractor must sign to follow SFC's environmental philosophy and environmental policy. Starting from 2024, all contractors will be required to sign an integrity agreement and attach it to the contract.

Environmental Safety Management Platform

FINANCE REPORT

ACCOUNT REPORT

DASHBOARD > INCOME

DAILY WEEKLY MONTHLY

MON TUE WED THU FRI SAT SUN

TOTAL INCOME

37.91% 31.86% 30.23%

LINE ITEMS 16.15 M\$ LINE ITEMS 13.5 M\$ LINE ITEMS 13.00 M\$

SHIPPING 0.15 M\$ SHIPPING 0.2 M\$ SHIPPING 0 \$

TAXES 0% TAXES 0% TAXES 0%

TOTAL 16.3 M\$ TOTAL 13.7 M\$ TOTAL 13.00 M\$

到訪人次: 39,875

SAN FANG

承攬廠商專區

訪客入廠申請

員工經管專區

災害防治管理

ESG 管理

4

Environmental Sustainability

4.1 Environmental Sustainability Management

Policies and Objectives

4.2 Energy Management

4.3 Water Resource Management

4.4 GHG Reduction

4.5 Waste Management

4.6 Implementation of Chemical Management



4.1 Environmental Sustainability Management Policies and Objectives

The Company has long focused on issues such as environmental protection and introduced an environmental sustainability management system to move towards the goals of green design and clean energy use.

Regarding the common goal of net zero by 2050, the Company is also actively planning for reduction. With 2018 as the base year, all our production factories have formulated various environmental protection reduction goals and plans by 2025 to reduce the impact of production activities on the environment such as climate change so as to achieve the ultimate goal of environmental sustainability.

In addition, we are more actively involved in:

Green Design, Cleaner Production

We design and develop products based on the eco-friendly concepts of “green design” and “cleaner production” to reduce the impact of production activities on the environment and achieve a win-win situation for environmental protection and the economy.

Use of Clean Energy

We use natural gas, biomass, green electricity, and other clean energy sources to achieve high-quality production that reduces carbon and emissions, thereby mitigating the impact on the environment.

Participation in International Environmental Protection Issues

In response to international carbon neutralization and carbon trading issues, Our factories in Taiwan signed a letter of intent for cooperation on GHG offsetting with the Kaohsiung City Environmental Protection Bureau. The estimated annual GHG offsets will be about 4,140 tons CO₂e, of which 1% will be donated to the Kaohsiung City Government for social welfare. These offsets can also be used for carbon neutrality or in carbon trading in the future.

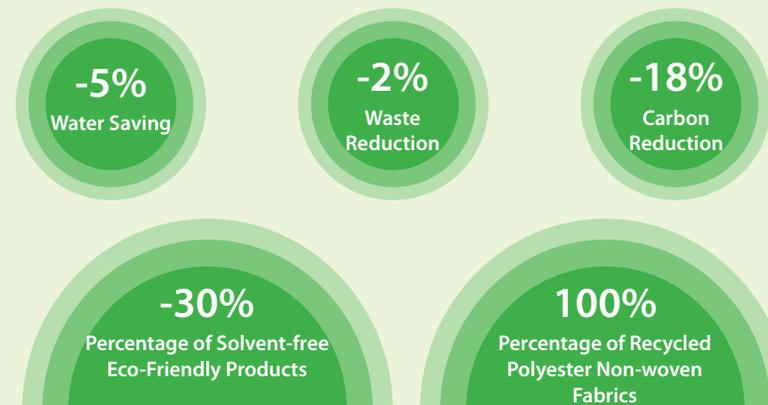
Participation in International Environmental Protection Issues

The Company actively participates in supply chain environmental protection-related issues, hoping to expand environmental protection horizons and fulfill the environmental responsibilities of supply chain members.

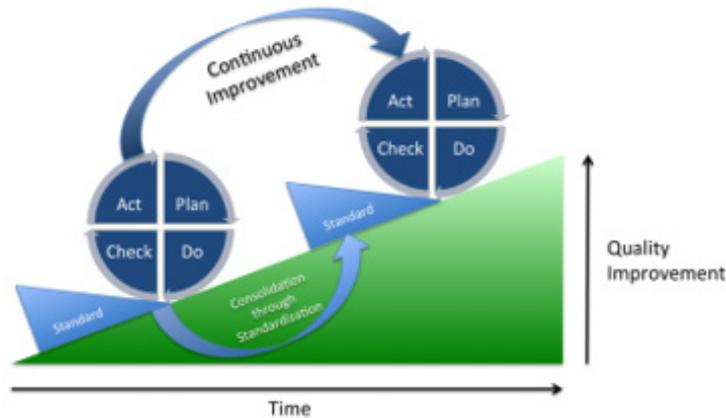


2025 Environmental Goals

In the next few years, we will achieve the following five goals through the improvement of products and processes



4.1.1 Overview of Sustainable Environment Development



The Company promotes the ISO 14001 environmental management system to continuously mitigate and reduce the impact of production on the environment. Based on the love for the earth and environmental protection, we have set our 2025 environmental goals related to energy, GHG, water resources, pollution discharge, waste, and other environmental protection issues.

The following measures will be adopted to achieve the set goals through continuous improvement in the coming years.

- Formulate various environmental goals/directions.
- Establish energy-consumption pollution baselines for water, electricity, and steam to increase control mechanisms.
- Promote the implementation of pollutant and waste management, reduce pollutant emissions, and protect the environment.
- Purchase MRSL-compliant raw materials and adopt environmentally friendly green material production processes.
- Organize education and training on emerging environmental management issues to improve talent capabilities

In terms of environmental management operations, the Company properly controls and treats waste gas, wastewater, and waste generated from the production process. All our production factories in various regions have obtained ISO environmental management system certifications and continue to improve the environment with the PDCA principle. The environmental goals for 2023 were reported to the board of directors in the first quarter and approved by the senior management.

| Major Operations | Responsible Unit | Estimated Timeline/Deadline | Progress Description |
|-------------------------------|--|---|---|
| Talent Training | The Sustainability Implementation Group and the Environmental Planning and Energy Management Team of the Company's ESG Development Committee | The personnel in charge of each subsidiary were listed in the organization chart at the ESG Development Committee meeting in January 2023 We expect to have the responsible units to plan education and training courses and provide education and training to the personnel in charge of each subsidiary in the third quarter of 2023 | Education and training have been timed to coincide with the 2022 internal GHG verification by a third party in May 2024 |
| Strategic Goal Setting | Policy Establishment Group of the Company's ESG Development Committee | Goals for carbon reduction, waste reduction, and water conservation were set at the ESG Development Committee meeting in February 2023 | Completed |
| Control Mechanism Development | The Sustainability Implementation Group and the Environmental Planning and Energy Management Team of the Company's ESG Development Committee | Starting from 2023, a review of the carbon reduction, waste reduction, and water conservation of each factory plant has been conducted at the monthly ESG meeting. | Ongoing |
| Inventory Scheduling | The Sustainability Implementation Group and the Environmental Planning and Energy Management Team of the Company's ESG Development Committee | We plan to complete the 2023 internal GHG inventory of all overseas subsidiaries by the third quarter of 2024 | The 2022 GHG activity data inventory of subsidiaries was completed and provided to a third-party verification company in February 2024, and the verification is expected to be conducted in May 2024. The 2023 GHG verification of subsidiaries is expected to be completed by December 2024. We expect to complete the registration of the 2023 GHG inventory of the parent with the Environmental Protection Administration by April 2024. |

4.1.2 Sustainability Initiatives



4.1.3 Environmental Fines

| Date of Punishment | Punishment Document No. | Provision Violated | Content of Violation | Amount of Fine/NTD in Thousands | Management Solution |
|--------------------|-------------------------|--|---|---------------------------------|--|
| 2023/01/03 | 20-112-010001 | Article 24, Paragraph 2 of the Air Pollution Control Act | The Company did not obtain a stationary pollution source operating permit and operated a stationary pollution source, which violated the Air Pollution Control Act. | 1,600 | A permit has been obtained by filing relevant applications in accordance with the regulations. |



Formulate a comprehensive management system, strengthen the operation and management mechanism of air pollution equipment, implement the regulations for pre-assessment and application for equipment installation, and enhance the education and training of relevant personnel on laws and regulations to prevent repeated occurrence.

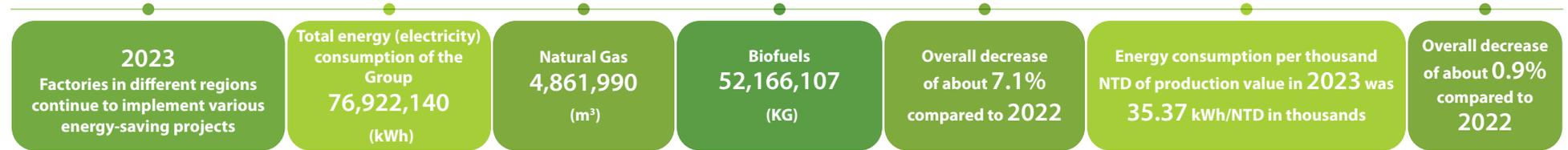
4.2 Energy Management

4.2.1 Management Outline

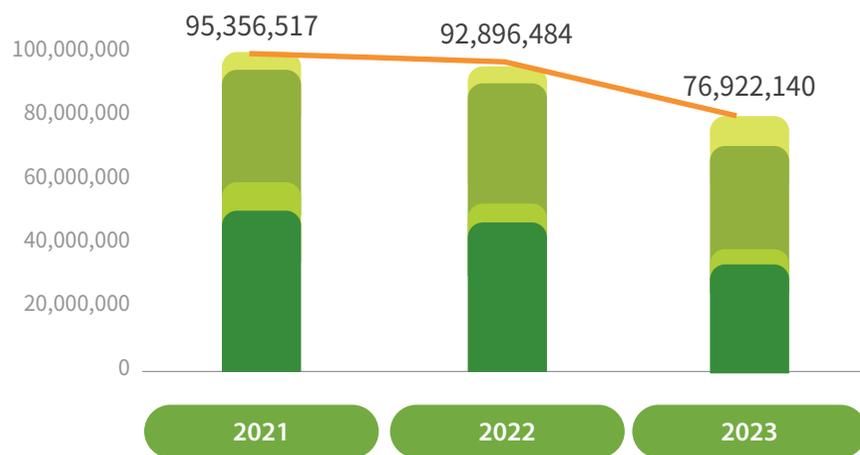
The key to energy conservation and carbon reduction lies in effective energy management. Energy management can not only reduce energy waste, but also improve energy efficiency to reduce carbon emissions, which will help enterprises achieve sustainable operations and development while contributing to the protection of the earth's environment. The Company has expanded into diverse markets through the development of critical basic raw materials and application technologies, and actively invested in environmentally friendly products, circular economy, recycling, and the manufacturing and application of functional leather, films, yarn, fibers, etc. with the aims of energy conservation, carbon reduction, and environmental protection. We also strive to fulfill our responsibilities on environmental protection issues. Energy-saving measures are promoted throughout the process from equipment procurement to production.

| Item | Content |
|---|--|
|  Procurement of new equipment and improvement of existing equipment | Assess the compliance of the functionality of equipment with production requirements and further evaluate the low-energy consumption and water-saving performance to achieve the goals of reducing GHG emissions and saving energy. |
|  Machine energy consumption control | Optimize production management scheduling to reduce waste from stand-by and rework, and maintain the integrity of the thermal insulation of machines to reduce heat loss. |
|  Ambient air conditioning | Use indoor air conditioners equipped with an inverter temperature control system. |
|  Exhaust ventilation systems | Regularly check the exhaust pipe for air leakage and install local exhaust ventilation devices according to system requirements to achieve the optimal effect. |
|  Power management | Install automatic power factor regulators in the high-voltage substations of all factories; turn off electrical equipment when not in use; monitor the operation efficiency of equipment and enhance its effectiveness; and collect power data to monitor the reasonableness of the power consumption curve. |
|  Motor systems | Replace all IE1 and IE2 motors in all factories of the Group with motors rated IE3 or higher, in combination with the installation of inverter systems, to reduce the power consumption of motors, and cut energy consumption by improving power efficiency. |
|  Renewable Energy | The use of green energy can significantly reduce GHG emissions and plays an important role in environmental protection and climate change. |
|  Lighting systems | Use energy-saving fluorescent lamps or LED light bulbs for the lighting equipment in production factories, and design the lighting for a whole area to provide local auxiliary lighting. |

4.2.2 Energy Consumption

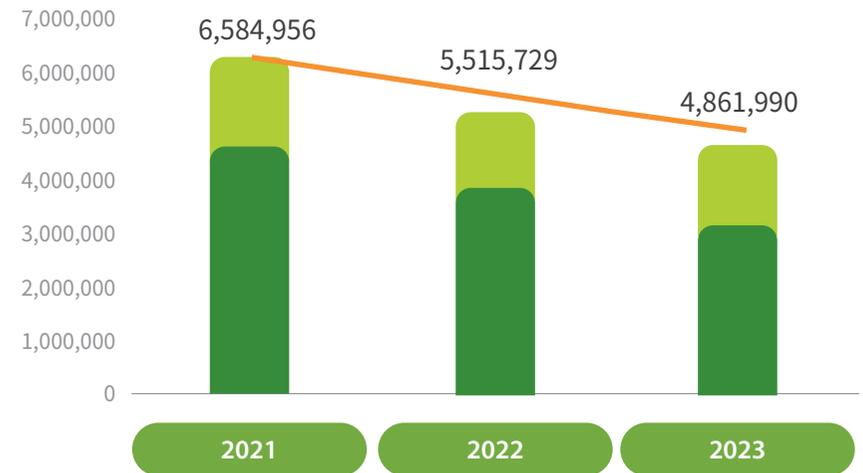


► Electricity Consumption (kWh)



| | 2021 | 2022 | 2023 |
|-------------------|-------------------|-------------------|-------------------|
| Indonesia Factory | 6,759,052 | 7,509,300 | 7,389,180 |
| Vietnam Factory | 34,743,192 | 35,654,600 | 32,152,800 |
| BaoLiang Factory | 7,119,473 | 5,982,584 | 5,209,560 |
| Kaohsiung Factory | 46,734,800 | 43,750,000 | 32,170,600 |
| Total | 95,356,517 | 92,896,484 | 76,922,140 |

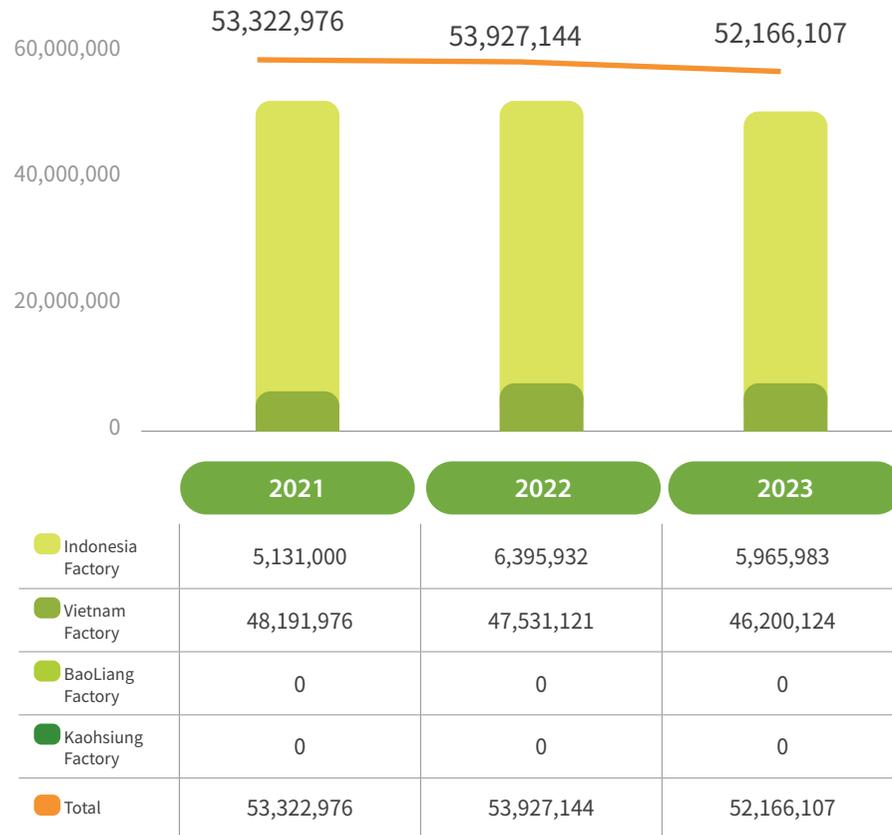
► Natural Gas (m3)



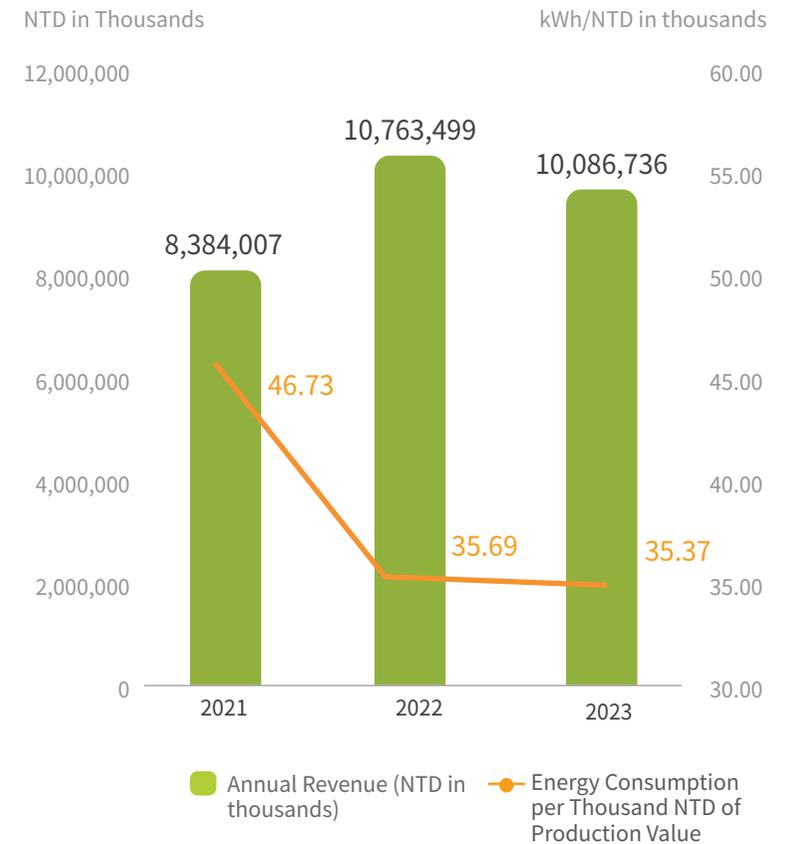
| | 2021 | 2022 | 2023 |
|-------------------|------------------|------------------|------------------|
| Indonesia Factory | 0 | 0 | 0 |
| Vietnam Factory | 0 | 0 | 0 |
| BaoLiang Factory | 1,735,717 | 1,686,014 | 1,778,978 |
| Kaohsiung Factory | 4,849,239 | 3,829,715 | 3,083,012 |
| Total | 6,584,956 | 5,515,729 | 4,861,990 |

Note: 1. SFC Group includes: Kaohsiung Factory in Taiwan; BaoLiang Factory in China; Meicun Factory in Vietnam; and Indonesia Factory.
2. The types of energy consumed included utility power, solar power, natural gas, biofuels, and vehicle fuels used for production.

► Biofuels (kg)



► Comparison of Revenue and Electricity Consumption



► Consumption of the Group by Region

| 2023 | Kaohsiung Factory | BaoLiang Factory | Vietnam Factory | Indonesia Factory | Total |
|--|-------------------|------------------|-----------------|-------------------|-------------|
| Energy Consumption by Factory (KWH) | 68,081,814 | 28,038,712 | 221,994,023 | 38,668,185 | 356,782,734 |
| Percentage | 19.08% | 7.86% | 62.22% | 10.84% | 100.00% |

2023

Biofuels account for the largest proportion of the Group's internal energy use, followed by electricity and natural gas.

2023

The Company has installed solar energy systems and purchased solar power. In addition, the proportion of biofuels in each factory has been increased to **61.53%**, greatly reducing the use of fossil fuels and cutting the Company's total carbon emissions.

Kaohsiung Factory
Self-consumed Solar Energy

Amount invested: NTD **47.95** million, Installed capacity: **1,233 kWp**, Annual power generation: **874,962 kWh**
(Renewable energy utilization rate: **100%**)

BaoLiang Factory
Self-consumed Solar Energy

Amount invested: NTD **52.52** million, Installed capacity: **2,707 kWp**, Annual power generation: **2,715,000 kWh**
(Renewable energy utilization rate: **100%**)

Vietnam Factory
Self-consumed Solar Energy

Purchased electricity **1,631,012 kWh**
[Purchased installed capacity: **3,595 kWp**]

| 2023 | Energy Consumption of the Group (GJ) | Percentage |
|------------------------------|--------------------------------------|-------------|
| Purchased Electricity | 276,917 | 21.59% |
| Natural Gas | 197,417 | 15.39% |
| Biofuels | 789,259 | 61.53% |
| Solar Energy (Self-consumed) | 12,924 | 1.01% |
| Solar Energy (Purchased) | 5,872 | 0.46% |
| Diesel Fuel | 206 | 0.02% |
| Total | 1,282,595 | 100% |

Distribution of the Group's Energy Consumption by Type



4.2.3 Promotion of Energy-saving Measures

Since 2011, SFC Group has implemented energy conservation improvement measures throughout the process from machine procurement to manufacturing and in the manufacturing environment in accordance with the energy conservation management principles.

A total of 28 power-saving measures and projects were implemented in 2023.

► Statistical Table of the Group's Annual Energy-saving Measures

| Item | Number of Measures |
|--|--------------------|
|  Procurement of new equipment and improvement of existing equipment | 2 |
|  Machine energy consumption control | 2 |
|  Exhaust ventilation systems | 7 |
|  Air compressor systems | 7 |
|  Power management | 8 |
|  Others | 2 |
|  Total investment amount | NTD 14.82 million |

Electricity Conservation

Every year, the Group can save about 8,033 thousand kWh of electricity, about 628,260 m³ of natural gas, and about 540 tons of biofuels. The main power-saving improvements are listed as follows:

Procurement of new equipment and improvement of existing equipment

With oxygen detectors, every 3% reduction in the oxygen content of the boiler exhaust can save fuel by 1%, contributing to a saving of about 29,634 kWh of electricity per year.

Power management

1. The extruder heater was replaced with an infrared heater, which can save about 128,621 kWh of electricity per year.
2. The lighting in all factories was updated and improved, and all the projection lamps of equipment were replaced to LED ones, which can save about 793,404 kWh of electricity per year.

Exhaust ventilation systems

The temperature control fan of the cooling tower in all factories was improved, which can save about 111,281 kWh of electricity per year.

Air compressor systems

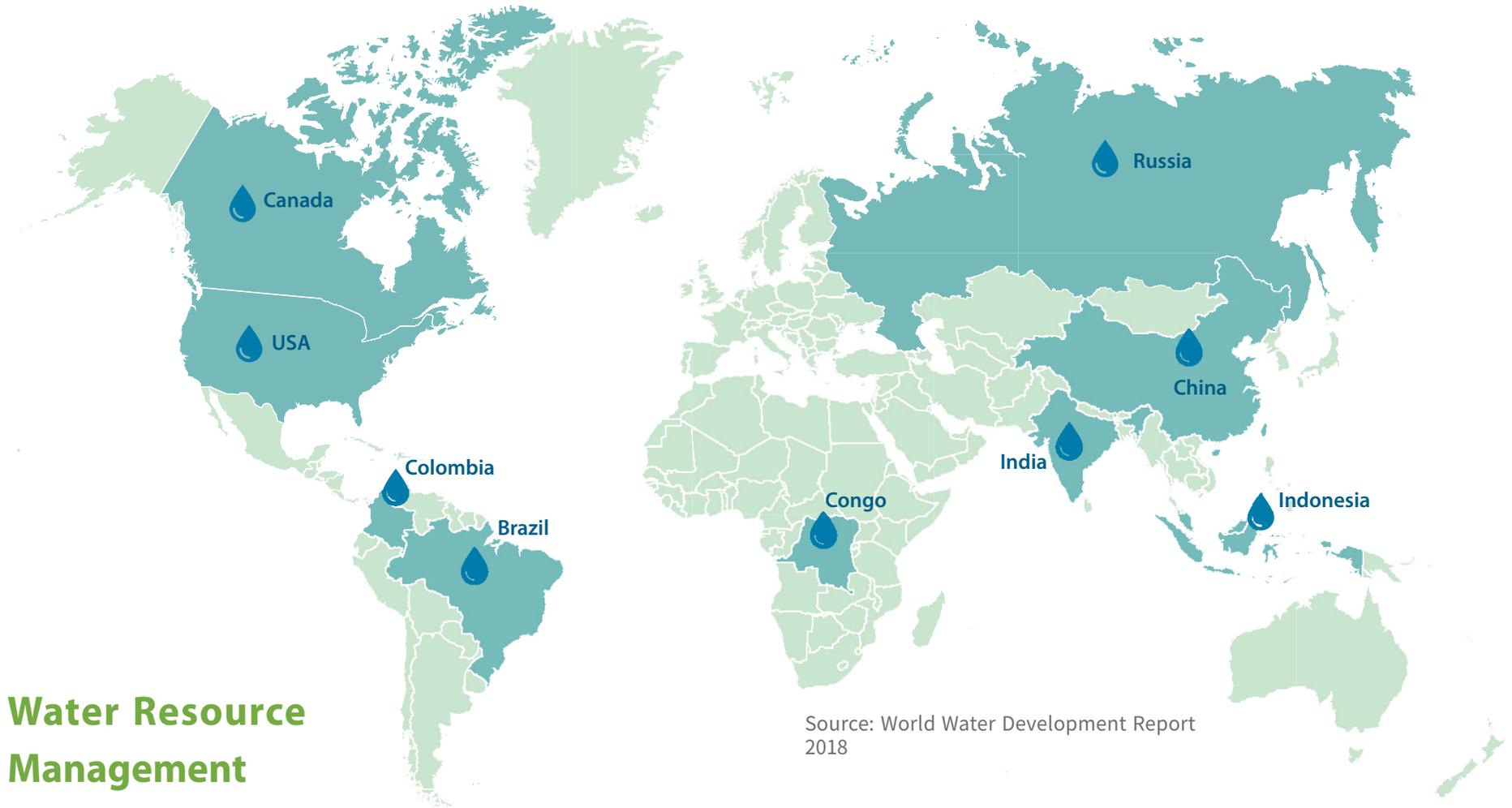
1. The traditional rotary screw compressors (100HP) were replaced with permanent magnet inverter compressors, which can save about 158,400 kWh of electricity per year according to test results.
2. Zero air loss drains were installed in air compressor systems to reduce the air compressor exhaust volume, reducing electricity costs by 3% and saving 153,090 kWh of electricity per year.
3. The factory-set air compressor system pressure was changed from 7kg/cm² to 6.2 kg/cm², which can save approximately 93,312 kWh of electricity per year.

Machine energy consumption control

The operating temperature of biomass boilers was reduced, which can save 540 tons of biofuels per year.

Motor system efficiency upgrade

A high-efficiency motor installation project was conducted to replace all the Group's IE1 and IE2 motors with motors rated IE3 or higher to improve motor performance and reduce operating electricity consumption, which can save about 391,437 kWh of electricity per year.



Source: World Water Development Report 2018

4.3 Water Resource Management

4.3.1 Water Resource Management Objectives

According to the "UN World Water Development Report 2018," the world's population is expected to increase from 7.7 billion in 2017 to between 9.4 billion and 10.2 billion by 2050, and the global gross domestic product is expected to grow by 2.5 times during the same period. With rapid population and economic growth, the report estimates that global water demand will increase by 20% to 30% from about 4.6 trillion m³ per year in 2017 to 5.5 to 6 trillion m³ per year by 2050.

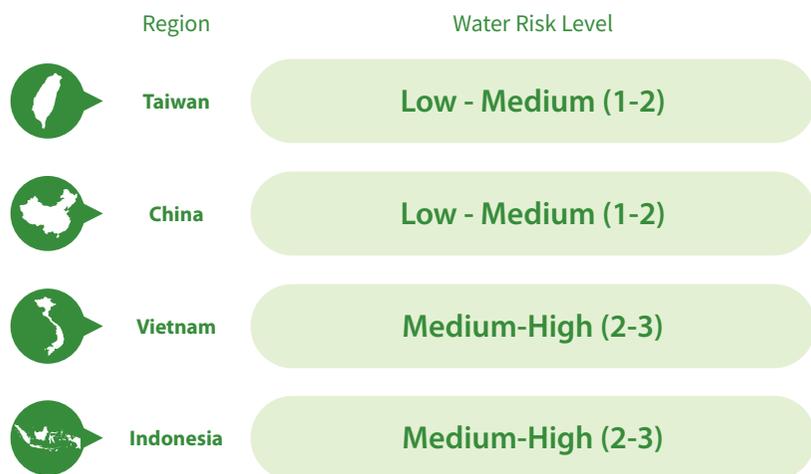
Freshwater resources are very scarce as they only account for less than 2.5% of the world's water resources. To make effective use of natural water resources, SFC has taken water resource reduction actions at all operating locations and hopes to achieve the target of reducing 5% of water consumption per unit of product by 2025, with 2018 as the base year.

4.3.2 Water Risk Assessment

Under the influence of global climate change, the hydrological characteristics of different parts of the world are changing accordingly, and the risk and management of water resources are becoming more and more important. The Company has set water resource management objectives, hoping to reduce water consumption in the production process.

To understand the water resource risks faced by our factories worldwide, we use the Aqueduct risk tool developed by the World Resources Institute (WRI) based on public databases to conduct water risk analysis and identify the baseline water stress levels of our factories around the world.

According to WRI's "Aqueduct Water Risk Atlas," the water risk level of our factories in each region is classified as low to medium.



Our operating locations are not located in national or international protected areas. For the withdrawal of water resources, we use the tap water provided by the government, mainly for product production, boilers, and cooling in process operation, as well as domestic use for employees.

4.3.3 Water Resource Management Solution

In response to the potential water shortage risk caused by climate change and the difficulties in saving water resources due to the fact that the Central Mountain Range serves as the main watershed of the rivers in Taiwan, making them short and flow into the sea on the east and on the west, water resource issues emerging from global climate change have been common concerns around the world.

Water Withdrawal and Consumption

Unit: Million Liters

| Year | Kaohsiung Factory | Vietnam Factory | Indonesia Factory | BaoLiang Factory | Total |
|------|-------------------|-----------------|-------------------|------------------|-------|
| 2019 | 249 | 208.9 | 20.2 | 73.6 | 551.7 |
| 2020 | 188.2 | 177.7 | 16.8 | 46.6 | 429.3 |
| 2021 | 165.9 | 202.7 | 15.6 | 38.8 | 423.0 |
| 2022 | 171.7 | 190.3 | 19.2 | 30.0 | 411.2 |
| 2023 | 140.8 | 196.4 | 24.5 | 41.4 | 403.1 |

For water resource projects that have environmental impact, the Company has set water reduction targets, improved water use awareness, and implemented various water-saving and recycling measures. With 2018 as the base year, we have set water performance indicators for each of the Group's production factories for water consumption reduction. The Group's overall water reduction target is to reduce water consumption by 5% compared to 2018. The Group's water consumption in 2023 must be 2% less than in 2022 and 27% less than in 2018 in 2023.





► Water Conservation Measures

● **Cooling Water**

Hang a tablet in the air conditioning cooling tower to reduce the amount of wastewater cleaned and discharged, and install a controller to reduce the volatilization of water vapor.

● **Boiler Water**

About 60% of the condensate used for boiler steam can recycled and reused.

● **Domestic water**

Use the water discharged from the RO machine as washing and cleaning water in the kitchen, and purchase sanitation facilities and faucets with water-saving labels.

● **Other Water Consumption**

Use the water discharged from drinking fountains for plant watering.



4.3.4 Industrial Wastewater Management Solution

We have well-established regulations for wastewater operations and abide by local wastewater discharge standards and regulations. In addition to the wastewater testing required by the laws and regulations, we also conduct wastewater testing in accordance with the Zero Discharge of Hazardous Chemicals (ZDHC) Wastewater Guidelines to ensure that the discharged water complies with the regulations.

In order for wastewater personnel to understand relevant external information and strengthen their capabilities, we collect and provide information on the latest wastewater-related laws and regulations from time to time, and organize treatment technology seminars, so that the personnel can keep improving themselves and enhance the stability of wastewater treatment.

► Water Discharge

Unit: Million Liters

| Year | Kaohsiung Factory | Vietnam Factory | Indonesia Factory |
|------|-------------------|-----------------|-------------------|
| 2019 | 127.8 | 25.5 | 11.5 |
| 2020 | 97.9 | 31.7 | 10.6 |
| 2021 | 89.0 | 41.7 | 10.8 |
| 2022 | 102.8 | 45.0 | 18.5 |
| 2023 | 77.8 | 49.0 | 18.7 |

- Note:
1. The Kaohsiung Factory discharges treated wastewater to the Houjin River whose basin does not cover an irrigation canal or a water quality protection area.
 2. The industrial wastewater from the Vietnam Factory and Indonesia Factory is transferred to the wastewater treatment plant in the industrial zone for treatment.

4.4 GHG Reduction

The Company collects and analyzes data on GHG emissions. We calculate emissions according to the United Nations Intergovernmental Panel on Climate Change (IPCC) and the international standards of ISO 14064-1. The generated GHG emissions are classified into the following three scopes for calculation:

Scope 1: Use of fossil fuels and consumption of refrigerants.

Scope 2: Purchased electricity.

Scope 3: Upstream and downstream transportation and distribution, employee commuting, purchased goods, disposal of solid and liquid waste.

Data collection for the Scope 3 emissions in 2023 is expected to be completed by 2024 Q3.

In terms of greenhouse gas inventory, the Company currently only has the Kaohsiung Factory in Taiwan undergo ISO14064-1 Scope 1 and Scope 2 verification according to the requirements of the Environmental Protection Administration, while the Vietnam/BaoLiang/Indonesia Factory calculates its internal GHG emissions based on electricity and fuel consumption.



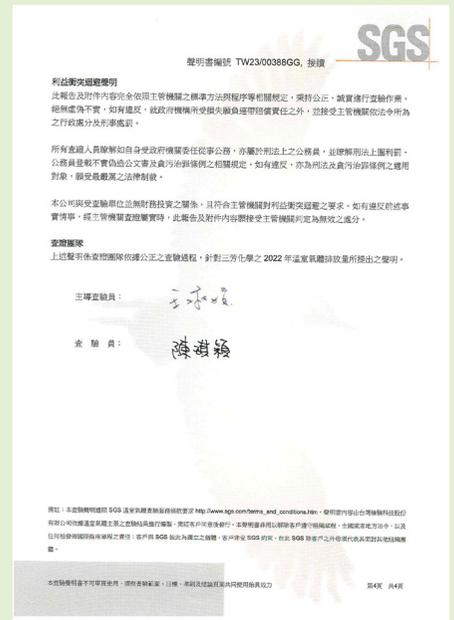
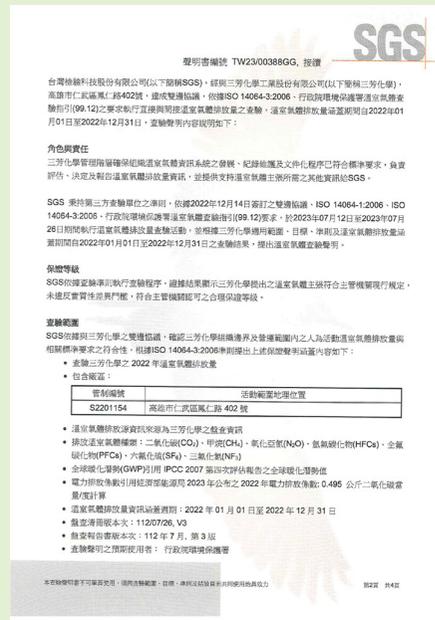
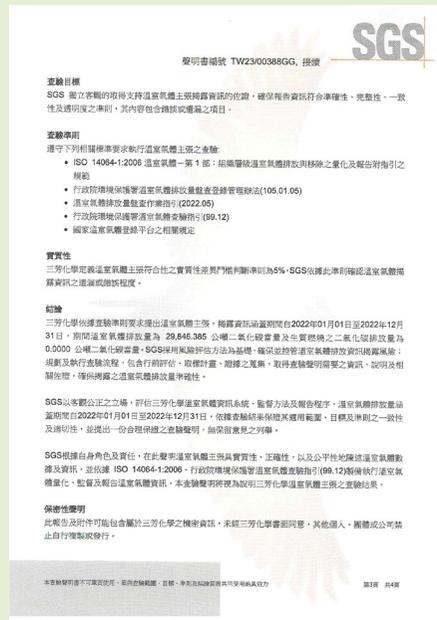
Unit: Tons

| ▶ Kaohsiung Factory' s GHG Emissions | 2021 | 2022 | 2023 |
|--|---------------------|---------------------|---|
| Scope 1 | 11,962.00 | 8,190.10 | 2,930.60 |
| Scope 2 | 23,788.00 | 21,656.30 | 15,924.40 |
| Total | 35,750.00 | 29,846.40 | 18,855.00 |
| Intensity = GHG emissions/Million NTD of revenue | 47.28 | 38.77 | 29.52 |
| Scope 3 | -- | 6,985,390.7 | Expected to be completed in July 2024 |
| Verification institution | TÜV NORD Taiwan | SGS | To be verified by SGS by the end of June 2024 |
| Statement and opinion issued by the verification institution | Unqualified opinion | Unqualified opinion | |

GHG Self-Inventory of Subsidiaries

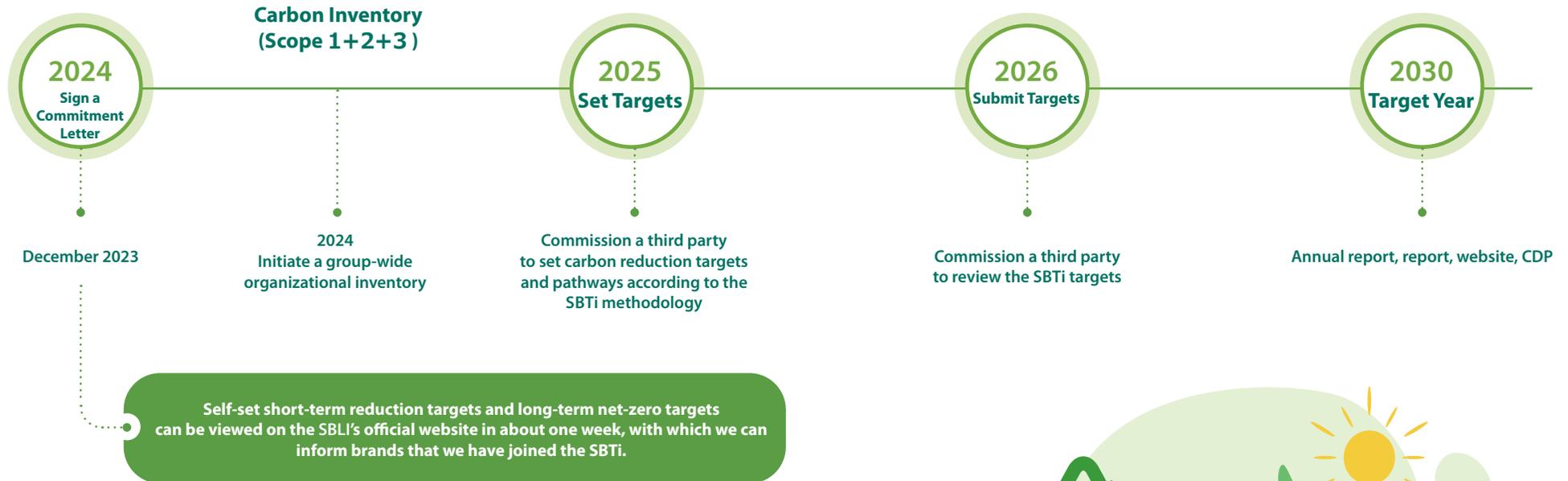
Unit: Tons

| Year | Subsidiary | PT. San Fang Indonesia | San Fang Vietnam | Dong Guan Bao Liang Materials Technology |
|------|------------|--|------------------|--|
| 2023 | Scope 1 | Subsidiaries' 2023 self-inventory of carbon emissions will be completed in the third quarter of 2024 | | |
| | Scope 2 | | | |
| | Scope 3 | | | |
| 2022 | Scope 1 | 10,629.20 | 75,216.60 | 3,467.80 |
| | Scope 2 | 6,533.10 | 25,669.90 | 3,311.50 |
| | Scope 3 | 3,571,667.20 | 590,915.30 | 6,441,993.50 |



Reduction Target Setting

SFC Group applied to join the SBTi in July 2023 for science-based carbon reduction. We expect to set concrete and feasible carbon reduction targets through carbon inventory for Scope 1, Scope 2, and Scope 3 emissions.



Reduction Strategy

The Climate Change Response Act requires enterprises to disclose and report their energy use for the purpose of GHG reduction in order to implement energy reduction control, which poses risks.

Therefore, it is necessary to replace and update products and equipment with high energy consumption to reduce energy consumption and GHG emissions.

Strategies for climate change response or GHG management

1. Reduce energy consumption and increase the recycling rate in the process.
2. Proactively develop products with low energy consumption and clean fuels.



Specific Reduction Actions



Achievement of Reduction Targets



- Base year: 2018
- The carbon emissions in 2018 were 52,926 tons, including 25,508 tons of Scope 1 emissions and 27,418 tons of Scope 2 emissions.
- The set carbon emissions management target is to achieve an 18% reduction in carbon emissions between the base year of 2018 and 2025.
- In 2023, the reduction was about 37% compared to 2022 and 64% compared to 2018 in 2023. The target has been achieved.
- Intensity comparison: 29.52 tons/million NTD of revenue in 2023 and 38.77 tons/million NTD of revenue in 2022; 24% less in 2023 than in 2022.

4.5 Waste Management

The basic requirement for waste disposal is to comply with local laws and regulations. The business waste of all factories of SFC in various regions is reported and disposed of in accordance with local laws and regulations.

► General Waste

Unit: Tons

| Year | Kaohsiung Factory | Vietnam Factory | Indonesia Factory | BaoLiang Factory | Total | |
|------|-------------------|-----------------|-------------------|------------------|----------|-----|
| | | | | | Quantity | % |
| 2019 | 3,356 | 1,818 | 1,099 | 399 | 6,672 | 78% |
| 2020 | 2,055 | 1,726 | 994 | 400 | 5,175 | 78% |
| 2021 | 2,035 | 1,704 | 1,047 | 510 | 5,296 | 80% |
| 2022 | 2,030 | 2,163 | 1,572 | 416 | 6,181 | 85% |
| 2023 | 639 | 1,413 | 1,328 | 398 | 3,778 | 72% |

► Hazardous Waste

Unit: Tons

| Year | Kaohsiung Factory | Vietnam Factory | Indonesia Factory | BaoLiang Factory | Total | |
|------|-------------------|-----------------|-------------------|------------------|----------|-----|
| | | | | | Quantity | % |
| 2019 | 567 | 742 | 404 | 182 | 1,895 | 22% |
| 2020 | 278 | 685 | 325 | 143 | 1,431 | 22% |
| 2021 | 333 | 570 | 304 | 133 | 1,340 | 20% |
| 2022 | 329 | 298 | 250 | 185 | 1,062 | 15% |
| 2023 | 257 | 641 | 357 | 206 | 1,461 | 28% |

We are reducing waste by improving processes to increase the yield rate and streamlining processes. With 2018 as the base year, we set waste management indicators for the Group for waste reduction. The total industrial waste output of the Group decreased by 2% compared to 2018.

Waste Management Policy

The Company's process waste management strategy focuses on legal waste transport, disposal, reduction and reuse. All waste must be transported and disposed of by qualified companies certified by the government in accordance with local laws and regulations. Recoverable waste is sorted out and transported by third parties.

Classification and Management

Factory waste is mainly classified into three categories: general business waste (industrial waste), hazardous business waste (hazardous waste), and recyclable waste (recoverable waste). The Company's general waste and general business waste are transported by qualified local transport companies. A storage area for hazardous business waste as defined by law and recoverable waste is set up in factories for centralized collection and classification. We also conduct the management of necessary measurement and reporting operations. Hazardous industrial waste is identified, sorted out, collected in a temporary storage area exclusive for hazardous waste according to the laws and regulations of the region or country where it is located, managed by responsible personnel, and then transported and disposed of by an environmental protection company with a hazardous waste disposal license in the region.

► Waste Disposal Method

Unit: Tons

| Disposal Method | 2020 | | 2021 | | 2022 | | 2023 | |
|--------------------|----------|------|----------|------|----------|------|----------|------|
| | Quantity | % | Quantity | % | Quantity | % | Quantity | % |
| Incineration | 5,548 | 88.9 | 5,744 | 94.0 | 1,424 | 60.1 | 3,007 | 74.5 |
| Physical Treatment | 431 | 6.9 | 342 | 5.6 | 628 | 26.5 | 683 | 16.9 |
| Reuse | 262 | 4.2 | 23 | 0.4 | 317 | 13.4 | 348 | 8.6 |

In 2023, the hazardous waste recycling rate was **8.6%**

4.6 Implementation of Chemical Management

4.6.1 Future Goals and Policies to Achieve

SDG

Implement an effective chemical management system to ensure compliance with the Restricted Substance List, create a safer working environment for employees, ensure that products comply with laws and regulations, and reduce environmental pollution.

Policies

- Meet the requirements of the Restricted Substance List.
- Ensure suppliers' understanding of chemical management to protect personnel and the environment.

4.6.2 Exposure Control during Chemical Use and Source Management

To ensure employee workplace health and environmental protection, the Company has established a chemical control list based on credible international databases and control conventions to

conduct a thorough health, safety, and environment assessment before introducing a new chemical. We also perform registration and review procedures before chemical introduction to achieve the goal of reducing environmental impact.



► Hazardous Substance Management Process



**Identify International Regulations
and Customer Requirements**



**SFC Hazardous Substance
Management Regulations**



**Suppliers Provide Compliance
Documents and Reports**



**Procurement after Review and
Approval**





5

Happy Career and Social Prosperity

5.1 Company Workforce Structure and Employment

5.2 Employee Relations

5.3 Occupational Safety and Health Management

5.4 Social Assistance



5.1 Company Workforce Structure and Employment

5.1.1 Company Workforce Structure

In 2023, the Company had a total of 577 employees in Taiwan, of which 481 were male (83%) and 96 were female (17%) due to on the characteristics of the industry. In terms of age distribution, there were a total of 212 employees aged 40 - 50 (inclusive), accounting for 37% of all employees.

| Gender | Age Distribution | 2021 | 2022 | 2023 |
|--------|-------------------------------|------|------|------|
| Male | 30 years old and below | 91 | 83 | 88 |
| | 30 - 40 years old (inclusive) | 207 | 161 | 152 |
| | 40 - 50 years old (inclusive) | 158 | 156 | 173 |
| | 50 - 60 years old (inclusive) | 69 | 52 | 55 |
| | Over 60 years old | 9 | 12 | 13 |
| | Subtotal | 534 | 464 | 481 |
| | Percentage % | 80% | 80% | 83% |
| Female | 30 years old and below | 13 | 15 | 13 |
| | 30 - 40 years old (inclusive) | 38 | 30 | 27 |
| | 40 - 50 years old (inclusive) | 48 | 43 | 39 |
| | 50 - 60 years old (inclusive) | 32 | 27 | 17 |
| | Over 60 years old | 0 | 1 | 0 |
| | Subtotal | 131 | 116 | 96 |
| | Percentage % | 20% | 20% | 17% |
| Total | | 665 | 580 | 577 |

5.1.2 Employment

The Company adheres to fair, open, and impartial procedures and recruits employees through multiple recruitment channels, such as job search sites, campus recruitment campaigns, government employment service stations, and industry-academia collaboration. We do not discriminate against employees due to age, race, gender, sexual orientation, religion, party affiliation, marriage, appearance, physical and mental disabilities, etc. In response to the Company's development needs and the need for workforce mobility, an average of about 60 new employees were hired during 2021-2023.

| Year | Joined in 2021 | | Joined in 2022 | | Joined in 2023 | |
|--------------|----------------|--------|----------------|--------|----------------|--------|
| Total Number | 71 | | 72 | | 39 | |
| Gender | Male | Female | Male | Female | Male | Female |
| Number | 70 | 1 | 64 | 8 | 35 | 4 |
| Percentage | 98.6 | 1.4 | 88.9 | 11.1 | 89.8 | 10.2 |

The Company also complies with Article 38 of the People with Disabilities Rights Protection Act, which stipulates the statutory quota for the employment of people with disabilities to fulfill the social responsibility of hiring people with disabilities. We also assign employees with disabilities appropriate duties according to the limitations resulting from work-related disabilities to ensure that they can work without difficulties. The Company's employment of persons with disabilities in the most recent three years is summarized as follows:

| Year | 2021 | 2022 | 2023 |
|--|--------|------|------|
| Number | 665 | 580 | 577 |
| Statutory Employment Quota | 6 | 5 | 5 |
| Number of Employees with Disabilities Hired | 8 | 6 | 4 |
| Applicable Quota | 10 | 8 | 5 |
| Number of Employees with Disabilities in Excess of Quota | 4 | 3 | 0 |
| Excess Percentage | 66.60% | 60% | 0% |

5.2 Employee Relations

5.2.1 Employee Remuneration

To pursue operational performance and the stable financial growth of employees, the Company makes regular salary adjustments in every July taking into account the Company's profit, price index level, and each functional unit's contribution to the Company's output value. In addition, over the years, the Company paid out an average year-end bonus equivalent to 2-4 months of salary before the Spring Festival depending on the Company's profit. In 2023, the supply chain stabilized in the post-pandemic era. Although the economic recovery was slowed, the Company made a profit better than in 2022, and a year-end bonus equivalent to 2.5 months of salary was distributed. The number, average annual salary, and annual median salary of full-time non-managerial employees in the most recent three years are summarized as follows:

► Number, Average Annual Salary, and Median Annual Salary of Full-time Non-managerial Employees in Taiwan

Currency: NTD in Thousands

| | 2021 | 2022 | 2023 |
|--|------|------|------|
|  Average Number (persons) | 660 | 654 | 519 |
|  Average Annual Salary (NTD in thousands) | 627 | 731 | 848 |
|  Median Annual Salary (NTD in thousands) | 600 | 694 | 808 |

Note: The above statistics do not cover managerial employees (namely, managers registered with the Company) in accordance with the regulations of the Taiwan Stock Exchange.

5.2.2 Employee Bonus

To ensure the link between employee performance and the Company's monthly and annual profits, the Company has established the Efficiency Bonus Payment Regulations and a mechanism for distributing performance bonuses (efficiency bonus and operating bonus). The Finance Office distributes performance bonuses to the personnel of each functional unit every month based on the Company's monthly operating performance. To motivate production, sales, and R&D units, the Company provides quarterly bonuses for promoting and contributing to new business performance to encourage key performance personnel to devote themselves to seeking higher market performance. Furthermore, in order to ensure the concrete link between employee engagement and annual performance, SFC has formulated the "Implementation Guidelines for the Distribution of Year-end Bonuses," "Employee Remuneration Payment Regulations," and "Implementation Guidelines for Profit Calculation by Factories" to make sure that the Company's overall operating profit results can be effectively linked with the long-term contributions of employees. We also objectively distribute year-end bonuses and employee remuneration based on individual contribution.

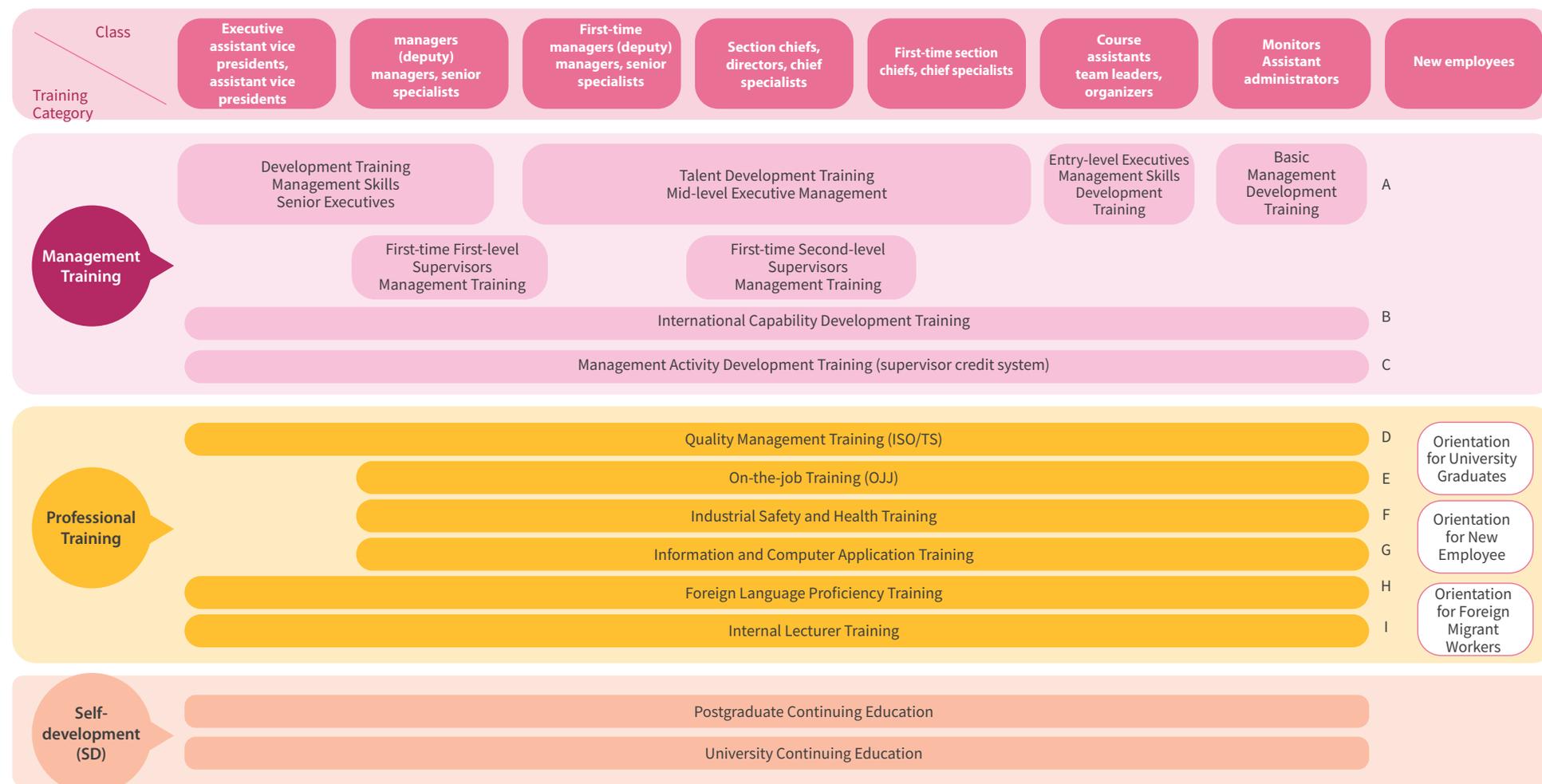
5.2.3 Talent Cultivation

In the face of rapid changes in the world economy, the accumulation of human capital is an important cornerstone for us to build competitive advantages. According to the Company's "Education and Training Implementation Guidelines," the talents of personnel at each management level and in each functional department are improved through a systematic human resource training system. In addition to the improvement of their own functional expertise, we also plan cross-functional training to develop key talent into π talent. SFC's education and training system is divided into three major aspects: OJT, OFF-JT, and self-development (as shown in the education and training system diagram below) and divides the training into hierarchy-based training and function-based training. Appropriate and complete training is provided for each employee based on which stage they are in their career development. The Company develops the basic expertise of employees with the learning by doing approach at work. We also provide management associates at different stages of development with management training, so that in addition to functional expertise, talent at each stage of development can also gain required management competencies.

In 2023, when a post-COVID-19 era was opened, the average training hours of all employees were 60.3 hours, which remained at the same level as in 2022. The Company continues to invest in talent cultivation and strengthens functional management in various systems. Our management training is planned with core and management functions as the basis.

| Year/Category | All Employees | Level 2 and Higher Supervisors | Non-managerial Employees |
|---------------|---------------|--------------------------------|--------------------------|
| 2021 | 49.5 | 53 | 48.6 |
| 2022 | 61.3 | 74.4 | 58.1 |
| 2023 | 60.3 | 74.3 | 56.7 |

► SFC Chemical Education and Training System Diagram



5.2.8 Social and Labor Convergence Project

In response to brands' requests, we have participated in the third-party verification of the Social and Labor Convergence Project since 2020. This process integrates various social responsibility verification processes to make it easier for brand partners to grasp the Company's labor conditions and status. This also helps us achieve the promotion of continuous improvement. At present, the Company's SLCP verification results have been shared with brands such as Nike, adidas, New Balance, Columbia, and so on.

5.2.9 Care for Foreign Employees

The Company has built a foreign employee dormitory in the factory with air conditioning equipment. Every year, we hold a symposium and a Meal Committee meeting from time to time. We also hire an interpreter to understand the needs of foreign employees living in the dormitory in real time. Every year, we provide Spring Festival red envelopes and travel subsidies, and hold meal gatherings and various ball games from time to time to take care of our foreign employees working hard in a foreign land. The Company has implemented a zero-fee policy for foreign employees in response to brand requirements, and has complied with the employment regulations of brands every year.



5.2.10 Complaint System

To prevent workplace sexual harassment and uphold gender equality at work and personal dignity, SFC has implemented the "Sexual Harassment Prevention Management Guidelines" since 2002 and announced it in accordance with the law. We have provided training and education to all employees for them to understand that they can report any incidents of sexual harassment through the complaint system to the Company's Human Resources Arbitration Committee, and the investigation, handling, review, and closure of sexual harassment incidents shall be completed within three months in accordance with the law. To protect employees' right to work, we provide an employee suggestion box to encourage employees to report injustice or damage to their rights to the human resources unit in writing or by email. The review, investigation and response mechanisms will be activated according to the procedures. The Company has established the "Ethical Management Best Practice Principles." Through new employee orientation and announcements on the external public website, we encourage all stakeholders, including suppliers, employees, and customers, to report illegal activities to jointly ensure the proper operations of the Company and reduce risks.

5.2.1 1 Freedom of Association

The Company supports the free organization of labor unions by the employees and encourage them to negotiate with the Company over the rights and interests of employees through different committees to jointly ensure and protect the rights of employees. Our Employee Welfare Committees, labor-management meetings, Pension Supervisory Committee, work safety meetings, and general meeting of labor union members to name a few are all platforms for communicating operational and internal management issues and fostering mutual trust and cooperation. Union funds are allocated from the salaries of employees who voluntarily join the union. The Company provides various training resources for labor education to equip union members with better knowledge and ability of labor laws. This not only enhances the supervision ability of the labor union, but also demonstrates the Company's efforts to labor-management harmony, coexistence and co-prosperity. In 2023, a total of 281 employees joined the labor union, accounting for 48.7%.

5.2.12 Collective Bargaining

As of December 31, 2023, no collective agreement has been formed and executed mainly because the Company's labor union has not yet requested the Company for collective bargaining. Thus, no collective agreement has been signed.

5.2.13 Employee Welfare Committee

We have set up an Employee Welfare Committee in Taiwan. In addition to the management representatives appointed by the Company, labor representatives are appointed by the labor union to serve as welfare members in accordance with the law. The funds of the Welfare Committee mainly come from the Company's operating revenue, scrap income, and monthly welfare payments made by employees. Welfare funds are mainly used for employee meal subsidies, payment of cash gifts for three main festivals, birthday gift vouchers, medical care for employees and their family members, funerals, marriages, and scholarships. In addition, to ensure the work-life balance of employees, the Employee Welfare Committee holds various recreational activities such as parent-child hiking, barbecues, employee badminton games, softball games, and domestic and foreign travel activities for employees every year. As the pandemic eased in 2023, the committee organized parent-child barbecue activities, travel subsidies for employees, basketball, badminton, and bowling games, and movie watching to allow employees to resume daily leisure and entertainment and rejuvenate their body and mind in the post-pandemic era.

To improve the health of employees, we encourage cross-departmental interaction among employees, and provide subsidies for club activities to support the development of after-work clubs. In addition to regular activities for mountain climbing and badminton clubs, there are also team practices and exchange activities for the softball clubs from time to time.



► The expenditures of the Employee Welfare Committee in the most three years are summarized in the table below

| Year | Amount |
|------|---------------|
| 2021 | NTD 7,887,821 |
| 2022 | NTD 8,134,857 |
| 2023 | NTD 8,919,309 |



5.2.14 Parental Leave and Leave without Pay for Employees

According to the Act of Gender Equality in Employment, female employees are entitled to menstrual leave. In addition, the Company also provides convenient motorcycle parking spaces for pregnant female employees to facilitate their commuting. Furthermore, the Company's Personnel Management Regulations stipulate that a female employee may apply to her unit supervisor for a transfer to easier work during pregnancy in consideration of maternal and child protection and return to her original position after the end of her maternity leave. The application of pregnant employees to work overtime is strictly controlled, and female employees are reminded to evaluate the necessity of working overtime during pregnancy.

In addition, to help employees strike a balance between work and childcare, both male and female employees are entitled to apply for unpaid parental leave according to law. With their positions reserved, they may take care of their family and young children before returning to the workplace. During 2021-2023, 3-6 employees applied for unpaid parental leave, and the average number of days of unpaid parental leave was 879 days.



► Employees' Applications for Parental Leave and Leave without Pay

| Year/Item | Total Days of Unpaid Leave | Number of Days of Unpaid Leave of Female Employees | Number of Days of Unpaid Leave of Male Employees |
|--------------|----------------------------|--|--|
| 2021 | 1,161 | 1,070 | 91 |
| 2022 | 1,139 | 794 | 345 |
| 2023 | 338 | 338 | 0 |
| Total | 2,638 | 2,202 | 436 |

5.2.15 Retirement System

- The Company complies with the laws and regulations of the government. For employees applicable to the retirement system under the Labor Standards Act (old system), 4% of the total monthly salary is contributed to the employee retirement fund in a special account held in Bank of Taiwan, and the fund will be paid when the employees retire. For all employees (including non-regular employees) who have chosen the new retirement system under the Labor Pension Act (new system), 6% of their monthly salary is allocated to their personal pension account in the Bureau of Labor Insurance.
- In addition, the Company has reported to government agencies that we have established the Labor Pension Reserve Supervision Committee to be responsible for the allocation of labor pension funds.
- The Company has formulated the Employee Retirement Management Regulations which shall apply to full-time employees from the date they are hired. The criteria and procedures for employees to apply for retirement are briefly described as follows:
 - The Company's employees may apply for voluntary retirement under any of the following circumstances:**
 - Having worked for more than 15 years and aged 55.
 - Having worked for more than 25 years.
 - Having worked for more than 10 years and aged 60.
 - The Company may force an employee to retire under any of the following circumstances:**

Aged 65 or above. The Company may apply to the central competent authority for adjustments to jobs that are dangerous and physical strength-demanding.

Workers who are physically or mentally handicapped and unfit for work.

C Employee pension payment standards:

Two bases are given for each year of service under the retirement system of the Labor Standards Act (old system). For 15 or more years of service, one basis is given for each year, and the total number of bases is limited to 45. Any periods of service less than half a year are treated as half a year; any periods of service more than half a year are treated as one year. However, an additional 20% shall be paid for employees who are subject to mandatory retirement according to the regulations and whose disabilities were caused by the performance of their duties.

For employees to whom the retirement system under the Labor Pension Act applies (new system), the Company contributes an amount equal to 6% of the employee's salary to the employee's personal pension account according to the salary scale on a monthly basis. Employees may voluntarily make an additional pension contribution limited to 6% of their monthly salary.

D Pension payment procedure:

The Company shall pay pensions compliant with the Labor Standards Act to employees within 30 days from the date of their retirement. Employees may open a special account with a financial institution by presenting supporting documents for the purpose of depositing their pension funds.

- (4) The Company's overseas subsidiaries adopt a defined contribution plan and make pension contributions in accordance with local laws and regulations.
- (5) As of the end of 2023, the cumulative amount of labor pension funds for workers with years of service under the retirement system of the Labor Standards Act (old system) reached NTD 27,826 thousand. For employees applicable to the retirement system under the Labor Pension Act (new system), the Company made pension contributions totaling NTD 23,222 thousand in 2023.
- (6) As of 2023, three employees of the Company might apply for voluntary retirement under Article 53 of the Labor Standards Act, and have completed the departure process in accordance with relevant retirement regulations.

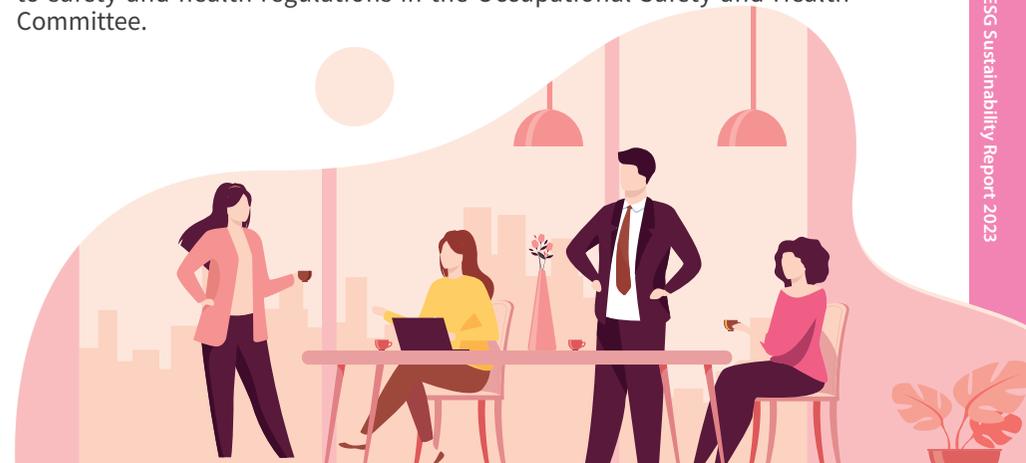
5.3 Occupational Safety and Health Management

5.3.1 Occupational Safety Policy and Objectives

We are committed to developing a "Friendly Workplace" by analyzing operational risks and equipment safety impacts. Starting from intrinsic safety management, we progressively review and implement engineering improvement, administrative management (personnel safety awareness), and provide protective equipment or safety protection devices to reduce hazards and risks.

5.3.2 Occupational Safety and Health Committee

The Company strives to reduce the occurrence of occupational disasters for employees. Therefore, the Company established the "Occupational Safety and Health Committee" in accordance with the law, with Management Representative and Vice President Wei-Chu Chen as the chairperson. The committee's members include occupational safety and health personnel, management department heads, supervisors and commanders, and labor representatives. Regular meetings are held every quarter. Labor representatives account for more than 1/3 of all committee members and can jointly discuss, coordinate, and plan management matters related to safety and health regulations in the Occupational Safety and Health Committee.



5.3.3 Promotion of Occupational Safety and Health



I. Workplace Safety

In order to grasp the status of employees' working environment and assess their exposure, we have established and implemented a working environment monitoring plan. Every six months, we commission a working environment monitoring institution approved by the Ministry of Labor for testing in order to maintain the safety of employees in the working environment.



II. Safety and Health Implementation

The Company regularly implements workplace abuse prevention and hazard identification for strenuous work every year to identify and assess hazards and take improvement measures accordingly, such as providing personal protective equipment and personal safety protection.



III. Safety Awareness Education

We have made and posted safety slogans on the bulletin board of each unit, and printed the Occupational Safety and Health Work Rules in the form of a QR code for employees to download for reference. In 2023, a total of 485 employees viewed the work rules.



IV. Contractor Management

Since the "Contractor Management System" was launched in 2020, 175 suppliers have joined, with an average of 39,615 visits per month. Before contractors enter the factory, they must receive online occupational safety education and training and will be issued an access pass after passing the assessment. The education and training rate is 100%, contributing to reinforced contractor management. The Company's contractor management is targeted at long-term contractors, project contractors, transportation & non-construction contractors.



V. Workplace Disaster Management

We take our employees seriously and treats them as family members. With a focus on safety, we have purchased safe production machinery and equipment and provided employees with personal protective equipment (such as safety shoes and cut-resistant gloves). We also regularly activate the work safety analysis mechanism to reduce work-related injuries.



VI. Education and Training

1. Internal education and training: To strengthen the occupational safety awareness of employees, we organize internal education and training to remind employees of the importance of safety and health, disaster prevention, labor laws and other precautions, and workplace safety. A total of two sessions were held in 2023.
2. External education and training: On-the-job education and training are provided to enhance the safety and health knowledge of workers.
3. The fire safety management personnel arranges two fire drills and two evacuation training sessions every year to equip employees with more fire protection knowledge and familiarize them with equipment use.



5.3.4. Occupational Accident Statistics

1. The statistics about the occupational disasters in 2023 which were employee traffic accidents on the way to or from work and accidents that occurred on the job are as shown on the right:
2. There was no occupational disaster for contractors and other workers during the year.
3. No occupational disease occurred to the Company's employees during the year.

| Type/Year | 2021 | 2022 | 2023 |
|--|------|------|------|
|  Traffic accidents during commuting | 8 | 8 | 6 |
|  Accidents on the job | 2 | 11 | 7 |

| Type/Year | 2021 | 2022 | 2023 |
|---|--------|-------|-------|
|  Number of employees suffering from occupational accidents | 10 | 19 | 13 |
|  Percentage of employees suffering from occupational accidents | 1.5% | 3.3% | 2.3% |
|  Disabling injury frequency rate (FR) | 7.81 | 15.34 | 10.8 |
|  Disabling injury severity rate | 215.42 | 71.05 | 100.2 |
|  Average number of days lost due to disabling injuries | 27.60 | 4.63 | 9.23 |
|  Number of work-related fatalities (excluding commuting traffic accidents) | 0 | 0 | 0 |

5.4 Social Assistance

Corporate development is closely tied to the local community. Therefore, SFC has adhered to the corporate spirit of "taking from and giving back to society" since its establishment. We have assisted government agencies in disaster relief, organized various community activities, and provided care for schools. Without causing any negative impact on society, we coexist and share with the community.

5.4.1 Giving Back to the Community

By adhering to the concept of giving back to society, we spare no effort in care for the community and local groups, maintain good interaction and establish a good relationship with the local community, proactively provide resources for it, and work closely with it to promote development.



Vietnam Factory: In the nursing home elderly care activity home on the Mid-Autumn Festival, the factory donated VND 5,000,000 and a set of mooncakes and daily necessities.



Kaohsiung Factory: The factory donated 1,000 fire alarms to the 2nd Battalion, 4th Corps of the Fire Bureau to distribute them for free to disadvantaged families in the neighborhood.



Kaohsiung Factory: We worked with the township office, the Renwu Development Association, and local enterprises to organize a walking campaign to encourage people to enjoy the warmth of nature and sunshine after the pandemic, indirectly promoting the physical and mental health of the community residents.

5.4.2 Educational Resources

By adhering to the concept of giving back to society, we spare no effort in care for the community and local groups, maintain good interaction and establish a good relationship with the local community, proactively provide resources for it, and work closely with it to promote development.



Kaohsiung Factory: To promote education, the factory has subsidized the tuition and incidental fees of students in the village to reduce the burden of their families so that they can study in the neighboring elementary and junior high schools in Renwu.



We pay attention to the lack of resources in community elementary schools, and have worked closely with the schools for a long period of time to provide supplies for school activities in order to improve the quality of education. We sponsored after-school taekwondo activities to provide more opportunities for school children from disadvantaged families to participate in talent courses, improving their physical and mental health and mitigate the problem of families' after-school care.

5.4.3 Medical and Health Care



Kaohsiung Factory: In order to continue the promotion of social welfare, the Company also organized a blood donation campaign called "Fivefold Spiritual Renaissance" as a factory celebration in 2023 at the Kaohsiung Factory. A total of 146 bags of blood were collected, and the employee participation rate reached 21%, demonstrating the enthusiasm and passion of our employees.

5.4.4 Environmental Protection

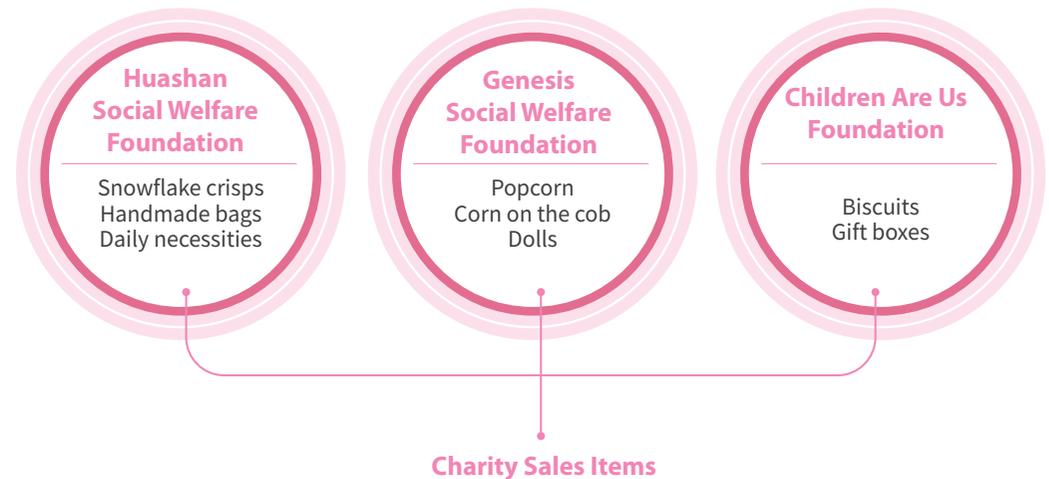


Kaohsiung Factory: SFC joined hands with the I Plant for Life Corporation Aggregate to organize an afforestation activity in Kaohsiung City Qieding Wetland Park under the leadership of the Chairman. The “I Plant for Life Corporation Aggregate” assisted in follow-up care. At the end of the year, we received a report that the survival rate was 77%.

We hope to increase coastal windbreaks and improve the habitats of animals and plants, enhance ecological sustainability and biodiversity, and create a sustainable green environment.

5.4.5 Participation in Social Welfare Groups

The Company’s 50th anniversary celebration was held grandly in June 2023 at Oil Refinery Elementary School. The Children Are Us Foundation, Genesis Social Welfare Foundation, and Huashan Social Welfare Foundation were invited to participate in the factory celebration fair, and were ranked the top three vendors in terms of total sales that day. The total sales on the day were NTD 39,460, which were used for charitable purposes.



6

Appendix

6.1 GRI Standards Index Table

6.2 Sustainability Accounting Standards Board (SASB)
Reference Table

6.3 Task Force on Climate-Related Financial Disclosures
(TCFD Standards) Reference Table

6.4 Reference Table for Climate-related Information
Required by Competent Authorities

6.5 Sustainability Disclosure Indicator Reference Table



6.1 GRI Standards Index Table

► GRI Index

| Disclosure Indicator | Corresponding Report Chapter | Remarks |
|--|--|---|
| 2-1 Organizational details | 1.1 Editorial Principles | |
| 2-2 Entities included in the organization's sustainability reporting | 1.1 Editorial Principles | |
| 2-3 Reporting period, frequency and contact point | 1.1 Editorial Principles | |
| 2-4 Restatements of information | 1.1 Editorial Principles | |
| 2-5 External assurance | 1.1 Editorial Principles | No external assurance is provided at this time. |
| 2-6 Activities, value chain and other business relationships | 2.1.2 Industry Chain Diagram | |
| 2-7 Employees | 5.1 Company Workforce Structure and Employment | |
| 2-8 Workers who are not employees | The Company has no non-employee workers. | |
| 2-9 Governance structure and composition | 2.3.1 Structure of the Corporate Governance Organization | |
| 2-10 Nomination and selection of the highest governance body | 2.3.3 Operation of the Board of Directors | |
| 2-11 Chair of the highest governance body | 2.3.3 Operation of the Board of Directors | |
| 2-12 Role of the highest governance body in overseeing the management of impacts | 1.3 Stakeholder Identification and Communication | |
| 2-13 Delegation of responsibility for managing impacts | 2.3.3 Operation of the Board of Directors | |
| 2-14 Role of the highest governance body in sustainability reporting | 1.1 Editorial Principles | |
| 2-15 Conflicts of interest | 2.3.8 Ethical Management | |

| Disclosure Indicator | Corresponding Report Chapter | Remarks |
|---|---|---------|
| 2-16 Communication of critical concerns | 2.3.8 Ethical Management | |
| 2-17 Collective knowledge of the highest governance body | 2.3.3 Operation of the Board of Directors | |
| 2-18 Evaluation of the performance of the highest governance body | 2.4.1 Risk Management Policy | |
| 2-19 Remuneration policies | 2.3.3 Operation of the Board of Directors | |
| 2-20 Process to determine remuneration | 2.3.3 Operation of the Board of Directors | |
| 2-21 Annual total compensation ratio | 5.2.1 Employee Remuneration | |
| 2-22 Statement on sustainable development strategy | Message from the Chairman | |
| 2-23 Policy commitments | 1.2 Structure of the Corporate Sustainable Development Organization | |
| 2-24 Embedding policy commitments | 1.2 Structure of the Corporate Sustainable Development Organization | |
| 2-25 Processes to remediate negative impacts | 2.3.8 Ethical Management 5.2 Employee Relations | |
| 2-26 Mechanisms for seeking advice and raising concerns | 2.3.10 Complaint Mechanism and Management | |
| 2-27 Legal Compliance | 2.3.9 Implementation of Legal Compliance 4.1.3 Environmental Fines | |
| 2-28 Membership associations | 2.2.6 External Engagement | |
| 2-29 Approach to stakeholder engagement | 1.3 Stakeholder Identification and Communication | |
| 2-30 Collective bargaining agreements | 5.2.15 Collective Bargaining | |

► GRI Material Issues

| Issue | GRI Topic and Indicator | Corresponding Report Chapter |
|--|--|--|
| Economic Performance GRI 201 (2016) | 201-1 Direct economic value generated and distributed | 2.2.2 After-tax Net Income and Earnings per Share |
| | 201-2 Financial implications and other risks and opportunities due to climate change | 2.4 Risk Management |
| | 201-3 Defined benefit plan obligations and other retirement plans | 5.2.12 Retirement System |
| | 201-4 Financial assistance received from government | 2.2.3 Government Subsidies/Incentives |
| Energy GRI 302 (2016) | 302-1 Energy consumption within the organization | 4.2 Energy Management |
| | 302-3 Energy intensity | |
| | 302-4 Reduction of energy consumption | |
| Water and Effluents GRI 303 (2018) | 303-1 Interactions with water as a shared resource | 4.3 Water Resource Management |
| | 303-3 Water withdrawal | |
| | 303-4 Water Discharge | |
| | 303-5 Water consumption | |
| Emissions GRI 305 (2016) | 305-1 Direct (Scope 1) GHG emissions | 4.4 GHG Reduction |
| | 305-2 Energy indirect (Scope 2) GHG emissions | |
| | 305-4 GHG emissions intensity | |
| | 305-5 Reduction of GHG emissions | |
| Waste GRI 306 (2020) | 306-3 Waste generated | 4.5 Waste Management |
| | 306-5 Waste directed to disposal | |
| Training and Education GRI 404 (2016) | 404-1 Average hours of training per year per employee | 5.2.3 Talent Cultivation |
| | 404-2 Programs for upgrading employee skills and transition assistance programs | |
| Freedom of Association and Collective Bargaining GRI 407: (2016) | 407-1 Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk | 3.4.4 Risk Assessment 5.2.14 Freedom of Association |

6.2 Sustainability Accounting Standards Board (SASB) Reference Table

| SASB Material Topics | No. | Accounting Metric | Corresponding Report Chapter |
|--|--------------|--|---|
| NA | CG-AA-000.A | Number of Tier 1 suppliers and suppliers beyond Tier 1 | 3.4 Supply Chain Management |
| Environmental Impact in the Supply Chain | CG-AA-430a.1 | Percentage of (1) Tier 1 supplier facilities and (2) supplier facilities beyond Tier 1 in compliance with wastewater discharge permits and/or contractual agreement | 3.4 Supply Chain Management |
| | CG-AA-430a.2 | Percentage of (1) Tier 1 supplier facilities and (2) supplier facilities beyond Tier 1 in compliance with wastewater discharge permits and/or contractual agreement | |
| Labor Conditions in the Supply Chain | CG-AA-430b.1 | Percentage of (1) Tier 1 supplier facilities and (2) supplier facilities beyond Tier 1 that have been audited to a labor code of conduct, (3) percentage of total audits conducted by a third-party auditor | 3.4 Supply Chain Management |
| | CG-AA-430b.2 | Priority non-conformance rate and associated corrective action rate for suppliers' labor code of conduct audits | 3.4 Supply Chain Management |
| | CG-AA-430b.3 | Description of the greatest labor and environmental, health, and safety (EHS) risks in the supply chain | 3.4 Supply Chain Management |
| Raw Materials Sourcing | CG-AA-440b.3 | (1) List of priority raw materials; for each priority raw material (2) environmental and/or social factor(s) most likely to threaten sourcing (3) description of environmental and/or social risks and opportunities associated with raw materials sourcing (4) management strategy for addressing business risks and opportunities | 3.4 Supply Chain Management |
| | CG-AA-440b.4 | (1) Amount of priority raw materials purchased (by material) (2) amount of each priority raw material that is certified to a third-party environmental and/or social standard (by standard) | 3.4 Supply Chain Management |
| Management of Chemicals in Products | CG-AA-250a.1 | Description of compliance with restricted substance regulations | 4.6 Implementation of Chemical Management |
| | CG-AA-250a.2 | Discussion of processes to assess and manage risks and/or hazards associated with chemicals in products | 4.6 Implementation of Chemical Management |

6.3 Task Force on Climate-Related Financial Disclosures (TCFD Standards) Reference Table

| Aspect | Recommended Disclosures | Corresponding Report Chapter | Remarks |
|---------------------|---|---|--|
| Governance | Board's oversight of climate-related risks and opportunities | 2.4.3 Risk Management Organization and Its Responsibilities | |
| | Management's role in assessing and managing climate-related risks and opportunities | 2.4.4 Risk Management Mechanism | |
| Strategy | Climate-related risks and opportunities identified over the short, medium, and long term | 2.4.5 SFC's TCFD | |
| | Impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning | | |
| | Resilience of the organization's strategy, taking into consideration different climate-related scenarios (including a 2° C or lower scenario) | 2.4.8 Physical and Transition Risk Scenarios | Scenario analysis is conducted only for the entity parent in Taiwan first. |
| Risk Management | Processes for identifying and assessing climate-related risks | 2.4.1 Risk Management Policy | |
| | Processes for managing climate-related risks | 2.4.4 Risk Management Mechanism | |
| | Integration of processes for identifying, assessing, and managing climate-related risks into the organization's overall risk management | 2.4.2 Risk Management Scope 2.4.4 Risk Management Mechanism | |
| Metrics and Targets | Metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process | 2.4.5 SFC's TCFD | |
| | Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks | 2.4.7 Climate Change Risks and Financial Impacts 4.4 GHG Reduction | |
| | Targets used by the organization to manage climate-related risks and opportunities and performance against targets | 4.4 GHG Reduction | |

6.4 Reference Table for Climate-related Information Required by Competent Authorities

Risks and Opportunities Caused by Climate Change and the Related Countermeasures Taken by the Company

| Aspect | Recommended Disclosures | Remarks |
|---|--|---------|
| 1. Describe the board and management's oversight and governance of climate-related risks and opportunities | 2.4.4 Risk Management Mechanism | |
| 2. Describe how the identified climate risks and opportunities will affect the Company's business, strategy, and finance (short-, medium-, and long-term) | 2.4.5 SFC's TCFD | |
| 3. Describe the financial impact of extreme climate events and transformation actions | 2.4.7 Climate Change Risks and Financial Impacts | |
| 4. Describe how climate risk identification, assessment, and management processes are integrated into the risk management system | 2.4.6 Climate Risk and Opportunity Management Process | |
| 5. If scenario analysis is used to assess resilience to climate change risks, explain the scenarios, parameters, assumptions, analysis factors, and major financial impacts used | 2.4.8 Physical and Transition Risk Scenarios | |
| 6. If there is a transition plan for managing climate-related risks, describe the plan, and the metrics and targets used to identify and manage physical and transition risks | 2.4.7 Climate Change Risks and Financial Impacts | |
| 7. If internal carbon pricing is used as a planning tool, describe the basis for pricing | 2.4.7 Climate Change Risks and Financial Impacts 2.4.8 Physical and Transition Risk Scenarios | |
| 8. If climate risk-related targets are set, explain the activities covered, the scope of GHG emissions, the planned schedule, and the progress achieved each year. If offsets or renewable energy certificates (RECs) are used to achieve the targets, explain the source and quantity of the offsets or the quantity of the RECs | 4.2.2 Energy Consumption 4.4 GHG Reduction | |
| 9. GHG Inventory and Assurance | 4.4 GHG Reduction 6.4.1 GHG Inventory and Assurance | |

6.4.1 GHG Inventory and Assurance

6.4.1-1 The Company's GHG Inventory and Assurance in the Most Recent Two Years

Basic Information of the Company

- Companies with capital of less than NTD 5 billion

Disclosures Required by the Sustainable Development Roadmap for Listed Company

- Inventory of entities in the parent
- Assurance of entities in the parent
- Inventory of subsidiaries in the consolidated financial statements
- Assurance of subsidiaries in the consolidated financial statements

| Scope 1 Direct GHG Emissions | Total Emissions (tons CO ₂ e) | Intensity (tons CO ₂ e/NTD million) | Description of Assurance | | | |
|-----------------------------------|--|--|--------------------------|-----------------------------|--|---------------------|
| | | | Assurance Institution | Assurance Scope | Assurance Standards | Assurance Opinion |
| 2023 Self-inventory by the parent | 2,930.60 | 4.59 | | | <ul style="list-style-type: none"> The 2023 verification for the entity parent is expected to be conducted by SGS at the end of June 2024 Complete assurance information will be disclosed on the MOPS according to the statement of assurance | |
| Parent in 2022 | 8,190.10 | 10.64 | SGS | Kaohsiung Factory in Taiwan | <ul style="list-style-type: none"> ISO 14064-1: 2006 Greenhouse Gases - Part 1: Specification with guidance at the organization level for quantification and reporting of greenhouse gas emissions and removals Regulations Governing the Greenhouse Gas Emission Inventories and Registration of the Environmental Protection Administration, Executive Yuan (2016.1.05) Guidelines for Greenhouse Gas Emission Inventory (2022.05) Guidelines for Greenhouse Gas Emission Verification of the Environmental Protection Administration, Executive Yuan (2010.12) Relevant regulations of the national greenhouse gas registration platform | Unqualified opinion |

| Scope 1 Direct GHG Emissions | Total Emissions (tons CO ₂ e) | Intensity (tons CO ₂ e/NTD million) | Description of Assurance | | | |
|-----------------------------------|--|--|--------------------------|-----------------------------|--|---------------------|
| | | | Assurance Institution | Assurance Scope | Assurance Standards | Assurance Opinion |
| 2023 Self-inventory by the parent | 15,924.40 | 24.93 | | | <ul style="list-style-type: none"> The 2023 verification for the entity parent is expected to be conducted by SGS at the end of June 2024 Complete assurance information will be disclosed on the MOPS according to the statement of assurance | |
| Parent in 2022 | 21,656.30 | 28.13 | SGS | Kaohsiung Factory in Taiwan | <ul style="list-style-type: none"> ISO 14064-1: 2006 Greenhouse Gases - Part 1: Specification with guidance at the organization level for quantification and reporting of greenhouse gas emissions and removals Regulations Governing the Greenhouse Gas Emission Inventories and Registration of the Environmental Protection Administration, Executive Yuan (2016.1.05) Guidelines for Greenhouse Gas Emission Inventory (2022.05) Guidelines for Greenhouse Gas Emission Verification of the Environmental Protection Administration, Executive Yuan (2010.12) Relevant regulations of the national greenhouse gas registration platform | Unqualified opinion |

6.4.1-2 GHG Reduction Targets, Strategies, and Concrete Action Plans

Reduction Strategies and Concrete Actions

Specify the GHG reduction base year and its data, reduction targets, strategies, and concrete action plans, and the achievement of the reduction targets.

- For greenhouse gas offsetting, the Kaohsiung Factory has changed boiler fuel from crude oil to natural gas to apply for a greenhouse gas offset project with the Environmental Protection Administration. The factory has been verified by DNV to reduce an average of 4,140 tCO₂e/year.
- To generate solar energy for self-consumption, the Kaohsiung Factory and the BaoLiang Factory installed solar power systems for self-consumption in 2022, and have maintained a stable power supply since 2023.
- For the purchase of I-RECs, the Indonesia Factory purchases I-RECs accounting for 50% of its electricity consumption from a local PLN power plant. In 2023, the percentage was increased to 100%.
- The Vietnam Factory purchased green power from green power providers in 2023 to comply with the GHG reduction measures.
- Replace traditional lighting fixtures with LED lighting fixtures for the process.
- Replace traditional drive motors with inverter motors.
- Improve the temperature control fan of the cooling tower in all factories.
- Reduce waste for the reduction of GHG generated from incineration.
- Carbon reduction benefits brought by products or services to customers or consumers: To reduce the GHG emissions generated during transportation, the Company will conduct production in a production site closer to the location where a customer places an order for a product, and prioritize land transportation over sea transportation taking into account the raw material supplier's place of supply to reduce the GHG emissions generated by the long-distance transportation of products and by the vehicles used for providing business services.

Achievement of Reduction Targets

Entity
Parent

Base year: 2018

The carbon emissions in 2018 were 52,926 tons, including 25,508 tons of Scope 1 emissions and 27,418 tons of Scope 2 emissions.

The set carbon emissions management target is to achieve an 18% reduction in carbon emissions between the base year of 2018 and 2025.

In 2022, the reduction was about 17% compared to 2021; in 2023, the reduction was about 37% compared to 2022 and 64% in 2023 compared to 2018. The target has been achieved.

Intensity comparison: 24% less in 2023 than in 2022.

6.5 Sustainability Disclosure Indicator Reference Table Plastics Industry

| No. | Indicator | Indicator Type | Annual Disclosure | Unit | Remarks Corresponding Report Chapter | | | | | | | | | | |
|-----------------------|---|----------------|---|---|--|-----------------------|--------|-----------------------|--------|-------|--------|-------|--------|------------------------|--------------------------|
| I | Total energy consumption, percentage of purchased electricity, renewable energy utilization rate, and total self-generated and consumed energy (Note 1) | Quantitative | Total energy consumption: 1,282,595 Percentage of purchased electricity: 21.59% Renewable energy utilization rate: 100% Total self-generated and consumed energy: 12,924 | GJ, percentage (%) | 4.2.2 Energy Consumption | | | | | | | | | | |
| II | Total water withdrawal and consumption | Quantitative | Total water withdrawal: 403,100 Total water consumption: 403,100 | Thousand cubic meters (m ³) | 4.3.3 Water Resource Management Solution | | | | | | | | | | |
| III | Weight of hazardous waste generated and percentage recycled | Quantitative | Weight of hazardous waste generated: 1,461 Percentage recycled: 8.6% | Tons (t), percentage (%) | 4.5 Waste Management | | | | | | | | | | |
| IV | Description of the number and percentage of people suffering from occupational accidents | Quantitative | Number and percentage of people suffering from occupational accidents: 13, accounting for 2.3% | Percentage (%), Quantity | 5.3.4. Occupational Accident Statistics | | | | | | | | | | |
| V | Output of main products by product category | Quantitative | <table border="1"> <thead> <tr> <th>Main Products</th> <th>Yield/Thousand Yards</th> </tr> </thead> <tbody> <tr> <td>Wet synthetic leather</td> <td>25,801</td> </tr> <tr> <td>Dry synthetic leather</td> <td>10,022</td> </tr> <tr> <td>Films</td> <td>15,685</td> </tr> <tr> <td>Total</td> <td>51,508</td> </tr> </tbody> </table> | Main Products | Yield/Thousand Yards | Wet synthetic leather | 25,801 | Dry synthetic leather | 10,022 | Films | 15,685 | Total | 51,508 | Varies by product type | 2.2.5 Products and Sales |
| Main Products | Yield/Thousand Yards | | | | | | | | | | | | | | |
| Wet synthetic leather | 25,801 | | | | | | | | | | | | | | |
| Dry synthetic leather | 10,022 | | | | | | | | | | | | | | |
| Films | 15,685 | | | | | | | | | | | | | | |
| Total | 51,508 | | | | | | | | | | | | | | |

Note 1 to Table 1-5: Total self-generated and consumed energy is as defined in the "Renewable Energy Development Act," "Implementation Regulations Governing Renewable Energy Certificates," or related supplementary laws.



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