

2024

# ESG Sustainability Report

San Fang Chemical Industry Co., Ltd.



## Message from the Chairman ||

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# Message from the Chairman

Dear friends who care about the sustainable development of San Fang

## Move Towards Sustainability with Innovation

The global situation continues to undergo drastic changes, from geopolitical risks and trade policy adjustments to the tangible impacts of climate change. The uncertainty and challenges faced by enterprises are unprecedented. For San Fang, these challenges are opportunities to actively review our operational foundation, carefully examine resource allocation and management strategies, and seek new growth opportunities through transformation.

We uphold the vision of "becoming the most trustworthy material supplier," and continue to adhere to our core management principles of "professionalism, integration, innovation, and service," implementing the effective use of resources and the R&D application of high-quality material technologies. We translate the concept of sustainability into concrete actions, focusing on the following key tasks, incorporating them into this year's ESG operational strategy and decision-making process:

First, in response to global economic, political, and social changes, we actively assess the potential financial impacts on the enterprise. Only by fully grasping risks and trends can we formulate more efficient countermeasures, ensuring financial stability and sustainable growth.

In social issues, we emphasize human rights, labor practices, as well as the Company's overall social impact and information disclosure. The Company actively fulfills its responsibilities to employees, the supply chain, and the community—not only in compliance with laws and regulations, but also with the ambition to set an industry benchmark, driving the Company and society toward shared growth.

Facing the challenges of climate change, we continuously strengthen risk and opportunity assessments, incorporate climate-related factors into our risk management framework, and apply innovative thinking to reduce potential impacts while exploring sustainable business opportunities. At the same time, we address the impact of climate change on biodiversity, actively formulating and implementing relevant countermeasures to ensure our operations contribute to a balanced and sustainable ecosystem.

We recognize the importance of strengthening internal controls and optimizing data collection processes to ensure the quality of ESG reporting. This year, we have begun enhancing corporate governance effectiveness, ensuring more accurate and transparent information disclosure so shareholders and stakeholders can fully understand the Company's performance.

We understand that sustainable development is not a goal to be achieved overnight, but a long-term journey requiring continuous investment and systematic management. We are grateful for the support and trust of all colleagues, customers, suppliers, and the wider community, which enable us to move forward steadily. Looking ahead, San Fang will respond to challenges with more resilient actions, create value, and move toward the vision of co-prosperity across the economy, environment, and society.

Chairman

Mun-Jin Lin

# 01 CHAPTER

## About This Report

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- 1.1 Editorial Principles
- 1.2 Sustainable Promotion Organizational Structure
- 1.3 Stakeholder Identification and Communication
- 1.4 Analysis of Material Issues



# 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 2024, 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, 2024 to December 31, 2024.



## Scope of Coverage

Taiwan

● San Fang Chemical Industry Co., Ltd.

Vietnam

● San Fang Vietnam Co., Ltd.

(Vietnam Factory)

Indonesia

● PT. San Fang Indonesia

(Indonesia Factory)

China

● BAL Materials Technology Co., Ltd.

(BAL Factory)



## 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](http://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

Previous issuance date: May 2024

Current issuance date: June 2025

Next expected issuance date: June 2026



## Contact Information

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

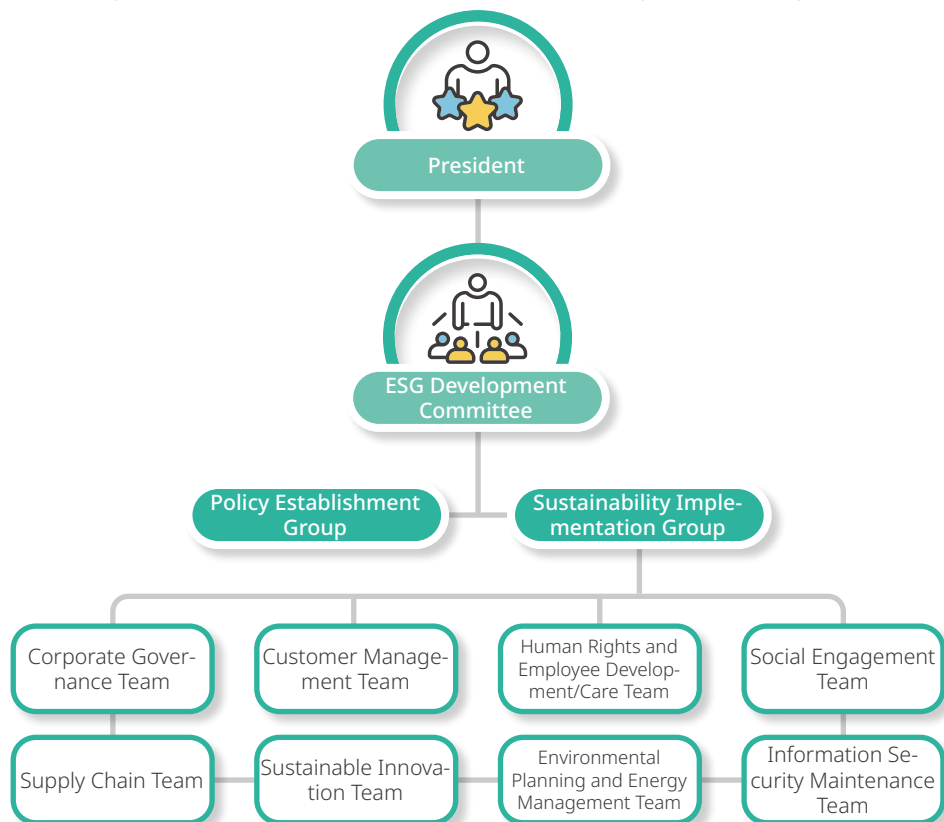
- San Fang Chemical Industry Co., Ltd.
- Address: No. 402, Fengren Road, Renwu District, Kaohsiung City
- Contact persons: Jui-E Chiang, Hsing-Hung Hsiao
- Telephone: (07) 371-2111 #31230
- Website: <http://www.sanfang.com>



## 1.2 Sustainable Promotion Organizational Structure

The Company has established the "ESG Development Committee" as the highest decision-making center in accordance with the "Sustainable Development Best Practice Principles." The committee is responsible for coordinating the environmental, safety, and health practices, labor relations, corporate governance, and risk management of its regional subsidiaries, and assisting the highest governance body in responding to stakeholder concerns and impacts.

The "ESG Development Committee Promotion Task Force" is composed of senior executives from diverse fields, who jointly review the Company's core operational capabilities, formulate short-, medium-, and long-term ESG development directions, and build San Fang's core advantages.



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

## 1.3 Stakeholder Identification and Communication

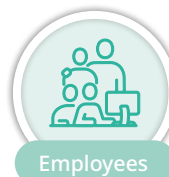
The Company has implemented stakeholder identification and communication with reference to the AA1000 Stakeholder Engagement Standard. The identification of key stakeholders facilitates internal and external company communication, and understanding the issues that are important to stakeholders is helpful 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,” and “tension,” we have evaluated the connection between stakeholders and corporate sustainable operations and identified 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.

In 2024, San Fang focused on stakeholders, and through communication with them, kept abreast of market trends, further using these insights as a reference for developing risk response mechanisms, crisis management protocols, and short-, medium-, and long-term development strategies. For details on our stakeholder contact persons, please refer to the Company's website at <https://reurl.cc/Ger9dA>.

In 2024, 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 2024 was reported to the board of directors on January 15, 2025.



### Stakeholders



### Communication Channel, Method and Frequency

1. Executive-employee communication meeting/at least once per quarter
2. Labor-management dialogue/from time to time
3. Education, training and dissemination/from time to time
4. Employee suggestion box, email, telephone, face-to-face interview, internal instant messaging platform/from time to time
5. Employee satisfaction survey/annual
6. Management meeting/monthly
7. New employee orientation and new employee care meeting/from time to time

### Issues of Concern

- Labor policy and human rights
- Employee salary and benefit policy
- Labor-management relations

### Communication Performance

1. The employee satisfaction survey was conducted in May 2024, and the average satisfaction rate was 72.4%. The satisfaction of production and administrative units increased mainly due to improvements in salaries and benefits; the R&D unit saw the greatest improvement in management systems, communication, and corporate image; and the sales unit experienced the largest gains in employee development. The deficiencies were discussed and improvement plans were formulated at the review meeting in July.
2. In 2024, the total hours for employee education and training reached 22,427.3 hours, with 24 new employees participating in training, accumulating 720 hours.
3. The Company holds monthly management meetings to report operational problems and obtain necessary support through communication and coordination.
4. The new employee factory internship program is held every six months, or arranged according to participant numbers. Sessions were held in March and August 2024.
5. Two seminars were held for foreign employees in July and October 2024.

Stakeholders	Communication Channel, Method and Frequency
<p>Customers/ Brands</p>	<ol style="list-style-type: none"> <li>1. Email, telephone, physical meetings/from time to time</li> <li>2. Factory inspections and visits/from time to time</li> <li>3. Exhibitions/from time to time</li> <li>4. Product introduction/at least twice a year</li> <li>5. Customer satisfaction survey/annual</li> </ol>
Issues of Concern	Communication Performance
<ul style="list-style-type: none"> <li>• Customer communication and complaint management</li> <li>• Product quality and production efficiency</li> <li>• Innovative products and technologies</li> </ul>	<ol style="list-style-type: none"> <li>1. Major customers conduct an annual factory visit to verify product quality and environmental safety.</li> <li>2. In 2024, the Company held two briefings for new products.</li> <li>3. In 2024, six product improvement meetings were held to address products and R&amp;D that may lead to customer complaints, as well as the biotechnology of each facility.</li> <li>4. In 2024, two post-event surveys were conducted among customers, and follow-up adjustments were made based on the survey results.</li> <li>5. Two innovative products are launched each quarter, and a total of four new products were developed in 2024.</li> <li>6. In 2024, 13 new product and corporate image advertising campaigns were conducted via push notifications, serving as a communication channel with customers for material development.</li> <li>7. In 2024, the Company arranged one to two regular customer visits to Europe and the United States, along with participation in two exhibitions.</li> <li>8. Customer satisfaction surveys are conducted annually. Statistical analysis of 230 questionnaires was completed in November 2024, and improvements were made based on key customer feedback regarding delivery times and quality not meeting customer needs.</li> </ol>

Stakeholders	Communication Channel, Method and Frequency
<p>Shareholders/ Investors</p>	<ol style="list-style-type: none"> <li>1. Shareholders' meeting/annual</li> <li>2. Investor conference/at least once a year</li> <li>3. Market Observation Post System/as required by laws</li> <li>4. Company website/from time to time</li> <li>5. Scheduled visits with investors and corporates/from time to time</li> </ol>
Issues of Concern	Communication Performance
<ul style="list-style-type: none"> <li>• Business performance</li> <li>• Corporate Governance</li> <li>• Compliance with laws and regulations</li> <li>• Sustainable development</li> </ul>	<ol style="list-style-type: none"> <li>1. The shareholders' meeting was held in June 2024.</li> <li>2. In 2024, the Company held one investor conference to report on its business and financial performance.</li> <li>3. In the same year, 18 major announcements were released in both Chinese and English, along with monthly disclosures of operating revenue and quarterly financial reports.</li> <li>4. The Company also maintains an investor relations section on its website, providing the spokesperson's and shareholder contact information to facilitate communication.</li> <li>5. Irregular scheduled visits with investors and corporates.</li> </ol>



Stakeholders	Issues of Concern	Communication Channel, Method and Frequency
 Suppliers	<ul style="list-style-type: none"> <li>Supply Chain Management</li> <li>Supplier quality management and product liability</li> <li>Supplier environmental protection management and pollution control</li> </ul>	<ol style="list-style-type: none"> <li>Email, phone, correspondence, face-to-face interview/ from time to time</li> <li>Physical meetings, seminars/ from time to time</li> <li>Environmental safety and health management platform/real-time</li> <li>Supplier evaluation system/on-site random inspection once a year and quarterly supplier evaluation</li> <li>Supplier meeting/ from time to time</li> </ol>

Stakeholders	Issues of Concern	Communication Channel, Method and Frequency
 Government/authority	<ul style="list-style-type: none"> <li>Compliance with laws and regulations</li> <li>Environmental impact management and assessment</li> <li>Workplace safety and health</li> </ul>	<ol style="list-style-type: none"> <li>Market Observation Post System/as required by laws</li> <li>Regular reporting/as required by laws</li> <li>Telephone, official document, email, suggestion mailboxes on open government websites/ from time to time</li> </ol>

#### Communication Performance

- In 2021, the Company established its Environmental Safety and Health Management Platform (<https://contractor.sanfang.com:52101/>) through the Environmental Safety and Health Office. The platform offers online education and training, testing, and certification for contractors, which are required for plant access. As of December 31, 2024, the platform has been used by 52,751 individuals. The San Fang Plant's environmental safety and health concepts and related materials are also published on the platform for contractor reference.
- On-site audits of several suppliers are conducted annually. The average supplier audit score for 2024 was 97.7.
- Supplier evaluations are conducted quarterly. In 2024, there were 140 A-level suppliers in the first quarter, 135 in the second quarter, 136 in the third quarter, and 138 in the fourth quarter.
- Irregular supplier meetings

#### Communication Performance

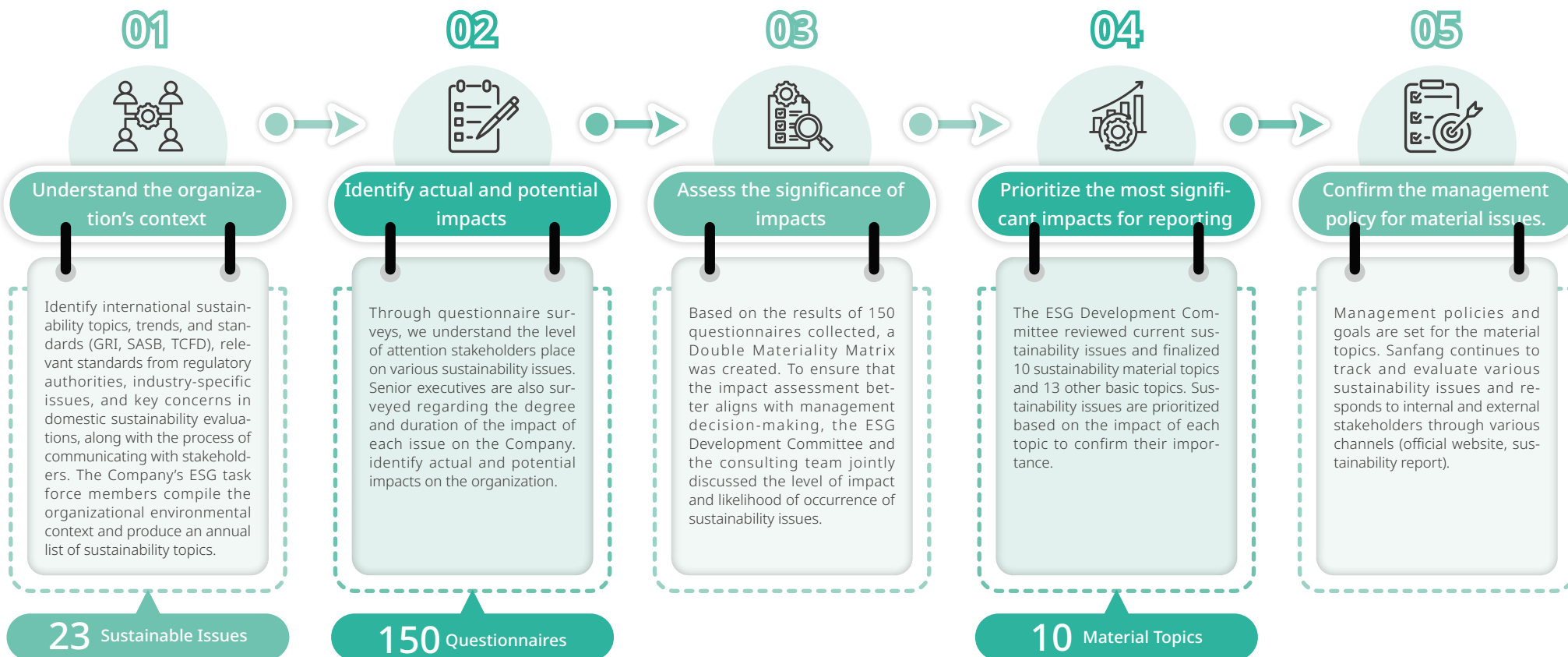
- Once a year, we report the implementation of the annual audit plan, education and training hours, internal control statement, and information of auditors in accordance with the regulations of TWSE.
- The Company complies with relevant regulations by submitting monthly occupational safety and health reports and quarterly environmental protection reports.
- In addition, the Company maintains communication channels through telephone and the website feedback form, enabling timely understanding of relevant issues and the implementation of improvements to ensure full compliance with applicable laws and regulations.

Stakeholders	Issues of Concern	Communication Channel, Method and Frequency	Communication Performance
 Community Residents	<ul style="list-style-type: none"> <li>Environmental impact management and assessment</li> <li>Waste Management</li> <li>Water Resource Management</li> <li>Giving back to the community for social welfare</li> </ul>	<ol style="list-style-type: none"> <li>Unscheduled visits/ from time to time</li> <li>Appointment of contact persons for feedback from and communication with external units/ from time to time</li> <li>Sponsorship for community welfare activities/ from time to time</li> </ol>	<ol style="list-style-type: none"> <li>The Company conducts monthly neighborhood visits.</li> <li>In 2024, the Company received no complaints from residents.</li> <li>During the Typhoon Krathon in October, 2024, the Company collaborated with the industrial zone to share disaster prevention information, ensuring a stable supply of production water and electricity.</li> <li>The Company sponsors communities for resident care and hygiene promotion lectures every quarter.</li> <li>Supported the Renwu District tuition and fee sponsorship program in 2024, benefiting 230 children.</li> <li>Sponsored the Renwu District and National Sun Yat-sen University healthy walking event in 2024, with 500 residents participating.</li> <li>Sponsored after-school tutoring and Taekwondo courses for children at Zhuhou Elementary School in Renwu District in 2024.</li> <li>In August 2024, organized a cultural promotion activity—a private movie screening—attended by 253 employees and their families.</li> <li>In December 2024, held a "Meinong Fruit Picking" activity to support small farmers, rural economy, and ecological and cultural preservation, with 219 employees and their families participating.</li> <li>In May 2024, supported a public welfare group by purchasing handmade soap from the Heart to Heart Foundation as Mother's Day gifts for employees' mothers.</li> </ol>

# 1.4 Analysis of Material Issues

## 1.4.1 Identification of Material Issues

San Fang regularly reviews international trends and industry-specific sustainability issues, and conducts sustainability materiality analysis using the EU's Double Materiality principle. Through distributing sustainability questionnaires to stakeholders and internal senior executives, we seek to understand the actual and potential positive and negative impacts of sustainability issues on each stakeholder group. After a comprehensive evaluation of the organization's value and the impact on the economy, environment, society, and human rights, we identify and prioritize the material topics for 2024, completing the annual material topic matrix. Compared to the previous year, customer relationship management has been included as a new material topic for this year.



## 1.4.2 Materiality Analysis Results of Stakeholders' Concerns

### Corporate Governance



- Economic Performance and Operational Strategies
- Product Quality
- Product Technology Innovation and R&D
- Customer Relations and Management

### Environmental Protection



- Climate Change and Greenhouse Gas Management
- Waste Management
- Energy Management and Renewable Energy
- Water Resource Management

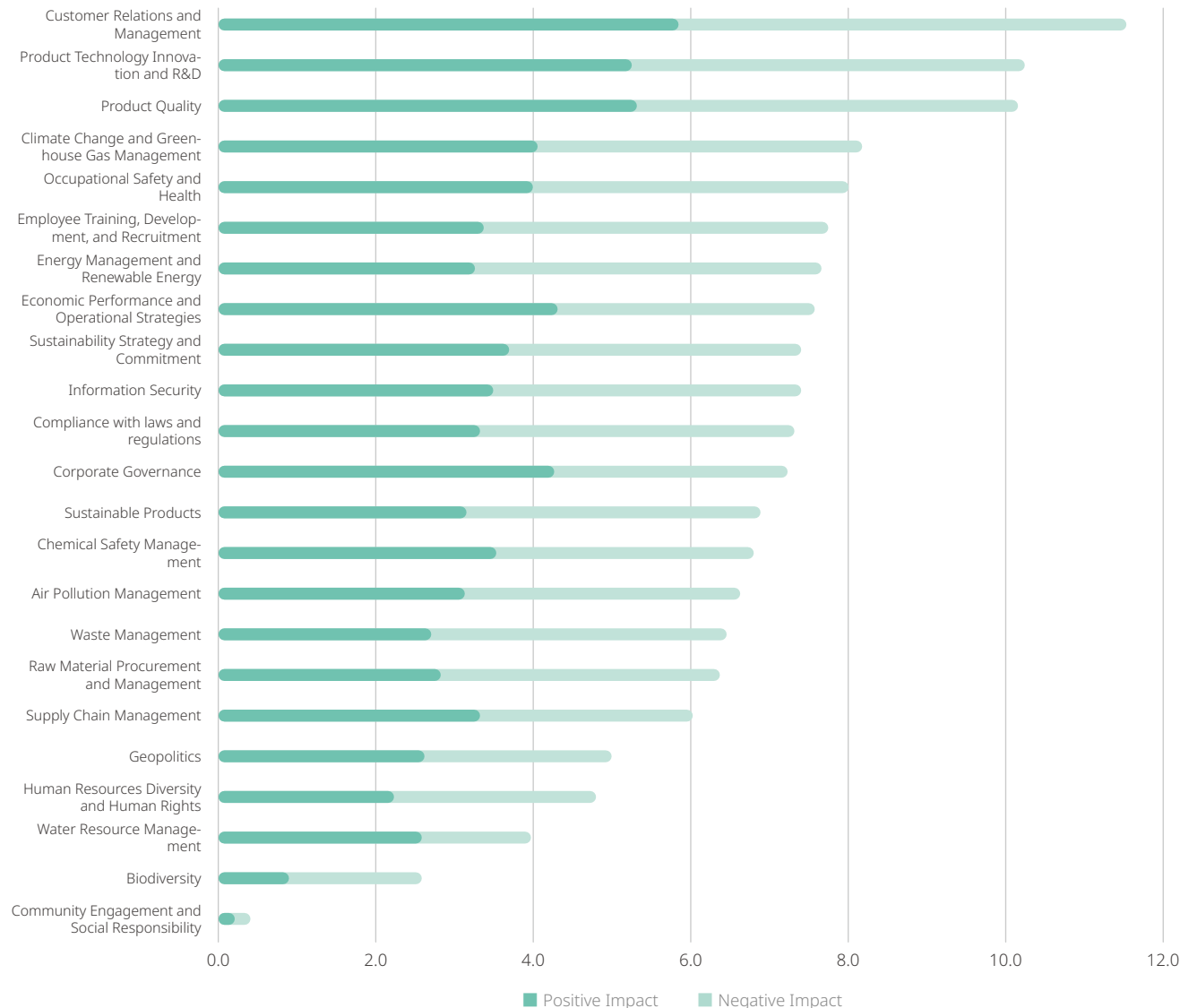
### Social Responsibility



- Employee Training, Development, and Recruitment
- Occupational Safety and Health



## Ranking of Sustainability Issue Impacts



This year, a positive and negative impact analysis was conducted on the material topics, assessing the degree of impact and influence of sustainability issues on Sanfang's operations and value chain.

Positive impacts indicate that the Company's current strategies and management policies are well executed, generating positive benefits for the economy, environment, and people (including their human rights).

Negative impacts arise when the organization fails to take action or does not implement practices properly in addressing sustainability issues, leading to an inability to prevent or mitigate negative consequences for the economy, environment, and people (including their human rights).

The results show that, whether in positive or negative impacts, the three issues with the most significant positive effects are customer relations and management, product technology innovation and R&D, and product quality. Continued advancement in these areas can further expand their positive influence. If environmental management is not actively implemented, it will generate the most significant negative impacts. The Company should strengthen management in order to mitigate these effects.



In addition, climate change and greenhouse gas management, along with occupational safety, are two issues of negative impact that require special attention, with future management and execution needing to focus particularly on these two areas. Otherwise, they may result in negative impacts and financial consequences.

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

In 2024, 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 9 sustainability topics from the previous year, Sanfang has added and renamed topics across the economic, environmental, and social dimensions for 2024. Customer relationship management has been newly included, bringing the total to 10 material topics, while the remaining 13 are categorized as general sustainability topics. The reasons for adjustment are as follows:








Changed Material Topic	Change	Reason for adjustment
Customer Relations and Management	Newly added	Transparent communication and green innovation to meet customer needs and build trust, ensuring long-term cooperation. Through effective customer management, Sanfang enhances brand value and fosters sustainable business growth.
Legal Compliance	Deleted	As regulatory frameworks become more comprehensive, the focus is shifting to proactive governance. Compliance is no longer just about avoiding violations but is internalized as a core strategy. Therefore, the material topic of legal compliance has been deleted.
Product Quality and Innovation R&D	Adjusted	Due to the increasing importance of the issue, the topic has been split into product quality and product technology innovation and R&D, enabling more detailed analysis and explanation.

### 1.4.3 Material Topics and their Boundaries

Material Topic	Significance to SFC	Potential Impact	Impact Boundary <sup>Note 1</sup>					GRI Topic Category	Corresponding SDG Goals	Corresponding Chapter
			Suppliers	Investors	Custom-ers	Employ-ees	Communi-ties			
Governance and Economic Aspects										
Economic Performance and Operational Strategies	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	 8.1 Maintain economic growth, underpinned by innovation, employment, and distribution.	2.2 Operations Management
Product Quality	Quality directly affects customer satisfaction, brand reputation, and market competitiveness. High-quality products establish long-term advantages by building customer trust and loyalty, and are the foundation of the Company's success and continuous development.	Product quality directly affects the Company's customers' willingness to place orders.	★		★			Industry Issues	 8.2 Increase the added value of the industry	3.2 Quality Management






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

Note 2: Social media, government agencies, and communities

Material Topic	Significance to SFC	Potential Impact	Impact Boundary <sup>Note 1</sup>					GRI Topic Category	Corresponding SDG Goals	Corresponding Chapter
			Suppliers	Investors	Customers	Employees	Communities			
Environmental Aspect										
Product Technology Innovation and R&D	For brands and different application markets, optimize the R&D team and production capabilities, transforming core technologies into scalable mass production and deriving application technologies to expand into various market fields.	By integrating industry trends, enhance the company's innovative application capabilities to meet customer needs and secure order sources.	★		★	★		Industry Issues	<div></div> <div>8.2 Increase the added value of the industry</div> <div>12.5 Significantly reduce waste generation through recycling and reuse.</div>	3.1 Innovation and R&D
Customer Relations and Management	Strengthen innovative cooperation with major brands, grasp early development opportunities, and provide differentiated products. Consolidate the deep cooperative relationship, establish a comprehensive sales and technical service system, and effectively expand brand sourcing while stabilizing order flow.	Maintaining customer relations directly affects customers' willingness to place orders.		★	★			Industry Issues	<div></div> <div>17 Strengthen implementation mechanisms and revitalize the global partnership for sustainable development.</div>	3.3 Customer Satisfaction and Product Services
Energy Management and Renewable Energy	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	<div></div> <div>7.2 Increase the sharing of renewable energy</div> <div>8.4 Gradually improve global energy use and production efficiency</div>	4.2 Energy Management
Water Resource Management	Establish a comprehensive environmental management system to reduce water pollution during operations and minimize environmental impacts.	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	<div></div> <div>6.3 Improve water quality and reduce pollution</div>	4.3 Water Resource Management

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

Note 2: Social media, government agencies, and communities

Material Topic	Significance to SFC	Potential Impact	Impact Boundary <sup>Note 1</sup>					GRI Topic Category	Corresponding SDG Goals	Corresponding Chapter
			Suppliers	Investors	Custom-ers	Employ-ees	Communi-ties			
Environmental Aspect										
Waste Manage-ment	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	 12.4 Properly handle waste	4.5 Waste Management
Climate Change and Greenhouse Gas 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	 13.1 Strengthen the ability of all countries to build back better and adapt to risks related to natural disasters and climate change.	4.4 GHG Reduction
Social Aspect										
Employee Training, Development, and Recruitment	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.	The cultivation of outstanding talent will directly affect the competitiveness of San Fang.					★	404 Education and Training	 8.5 Achieve full and productive employment	5.2 Employee Relations
Occupational Safety and Health	Occupational safety and health are the fundamental cornerstone of establishing a safety culture in an enterprise. Only by implementing the core value of putting people first can sustainable corporate development be ensured.	Proactive occupational safety and health management actions aim to prevent harm to personnel and property caused by accidents.	★				★	403 Occupational Safety and Health	 3.6 Reduce traffic accidents  3.8 Ensure comprehensive and productive employment health and well-being	5.3 Occupational Safety and Health Management

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

Note 2: Social media, government agencies, and communities

# 02 CHAPTER

## Operational Governance

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- 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 Mun-Jin 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. 2,771

### 2.1.1 Production sites in each region



Taiwan

513 employees



China

318 employees



Indonesia

638 employees



Vietnam

1,302 employees

China

BAL Materials Technology Co., Ltd.

Established in: 2000

Main products: shoe materials, transportation materials, and sports goods

Vietnam

San Fang Vietnam Co., Ltd.

Established in: 2003

Main Products: Shoe materials, sports goods

Indonesia

PT. San Fang Indonesia

Established in: 2010

Main Products: Shoe materials

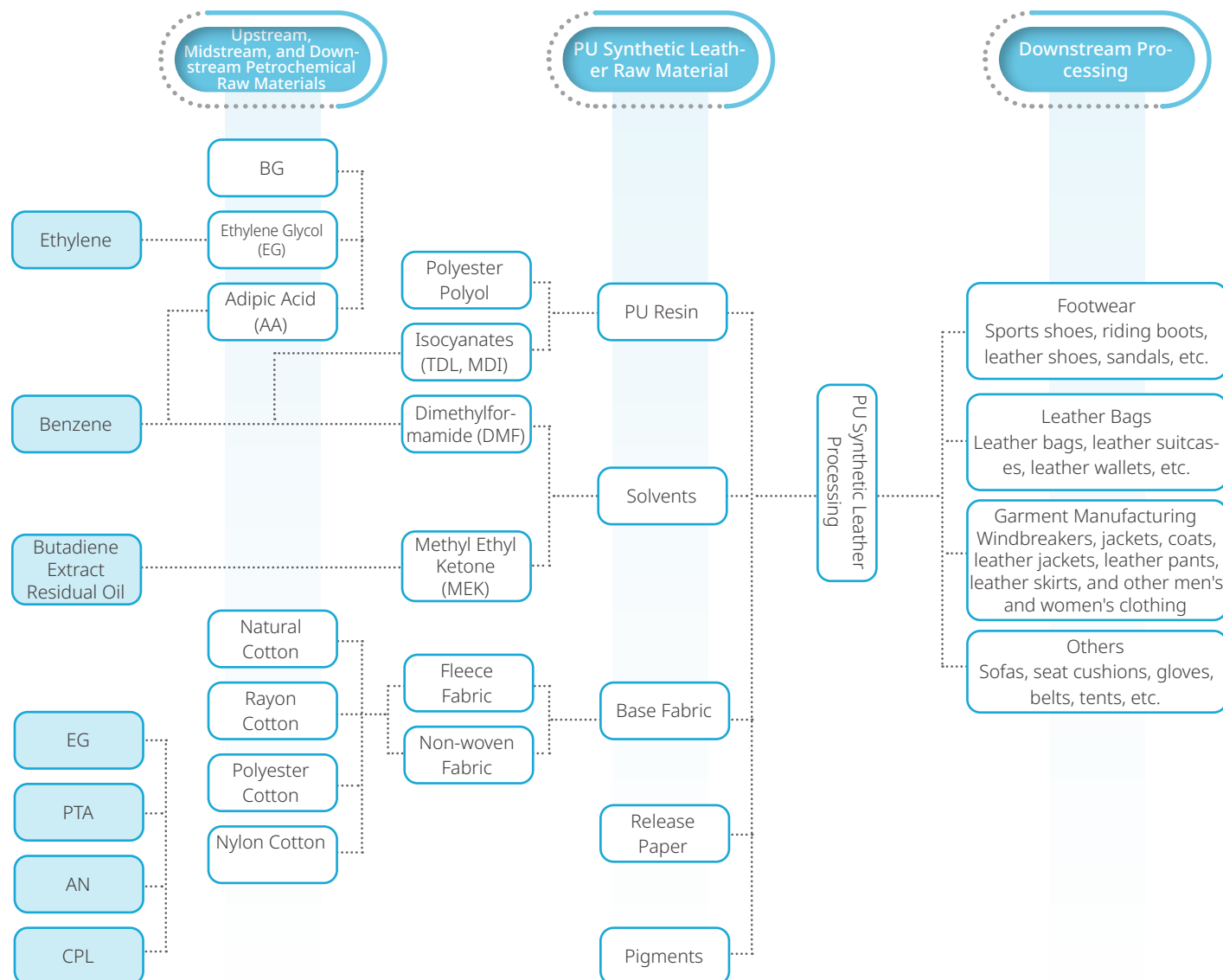
## 2.1.2 Industry Chain Diagram

For many years, the Company has focused on the sports and casual shoe markets, establishing strategic partnerships with international brands and expanding overseas production capacity to meet the needs of rapid development, flexible delivery times, and localized production. The Company has built a comprehensive sales and technical service system to strengthen brand origins and order channels. With years of process technology and product innovation capabilities, the Company develops new product series each season based on market trends to meet customer needs.

The Company maintains close cooperation with leading international brands, understanding their needs, providing innovative products, and enhancing customer trust. In 2024, the market will grow steadily, shifting from being dominated by major brands to being driven by the rise of new brands.

As a downstream processing sector of the petrochemical industry chain, the PU leather industry faces challenges in labor costs and resource supply, while also needing to comply with increasingly strict environmental regulations. The Company focuses on developing and supplying upstream raw materials with automated monitoring processes to improve product functionality, added value, and competitiveness.

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



## 2.2 Operations Management

### The Significance of Economic Performance and Operational Strategies to San Fang

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.

#### Impacts

**Positive impact:** Benefits shareholders' equity and operational stability, thereby enhancing customer satisfaction, increasing employee benefits, promoting community development, and creating a positive cycle that achieves mutual benefits for all stakeholders.

**Negative impact:** Operating performance directly affects the Company's costs and profitability, which may reduce investment willingness and employee benefits, creating a negative cycle and impacting stakeholders in different ways.

#### Policies and Commitments

Financial performance reflects the stability and efficiency of business operations. Sanfang strengthens its financial structure and implements cost control to steadily increase economic value and provide returns to stakeholders. The Company continues to pursue profit generation through activities that increase revenue and reduce costs. When annual profits are achieved, dividends will be distributed to shareholders under the premise of maintaining a stable financial structure, thereby building long-term investment value in the Company.

#### Metrics and Targets

Focus on the steady development of the two core businesses – footwear materials and film manufacturing – pursuing quality operational growth to achieve annual business objectives.

#### Actions

(I) Expanding international brands with growth potential.  
(II) Promoting green and sustainable business opportunities

(III) Establishing Strategic Partnerships.  
(IV) Accelerating Digital Upgrading.

#### Evaluation Method

**Internal mechanism:** Logistics units of each subsidiary are responsible for execution, under layered supervision and review by internal audit, the Audit Committee, and the Board of Directors.

**External audit:** Deloitte & Touche audits San Fang Chemical's 2024 consolidated financial statements.

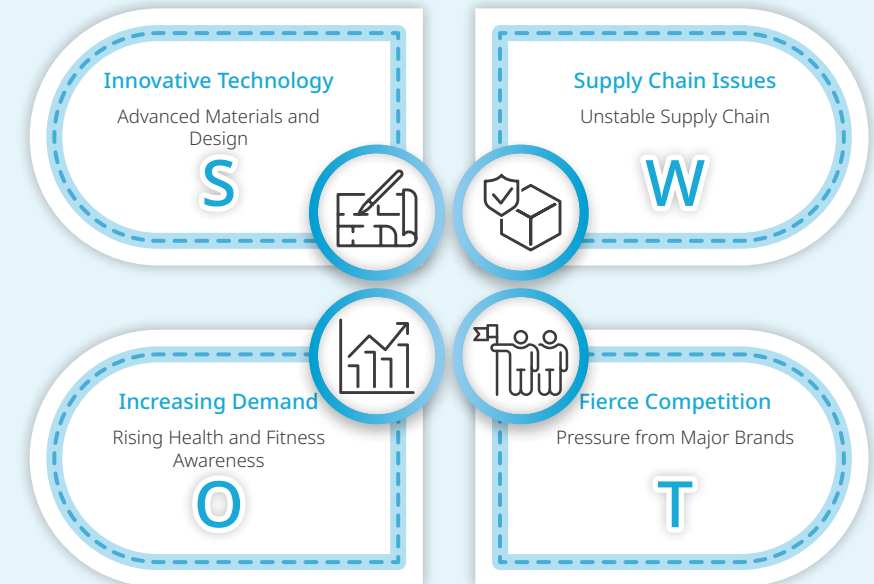
#### Stakeholder Engagemer

Tel: +886 (7)3712111 Ext.31230  
jui@sanfang.com.tw | www.sanfang.com

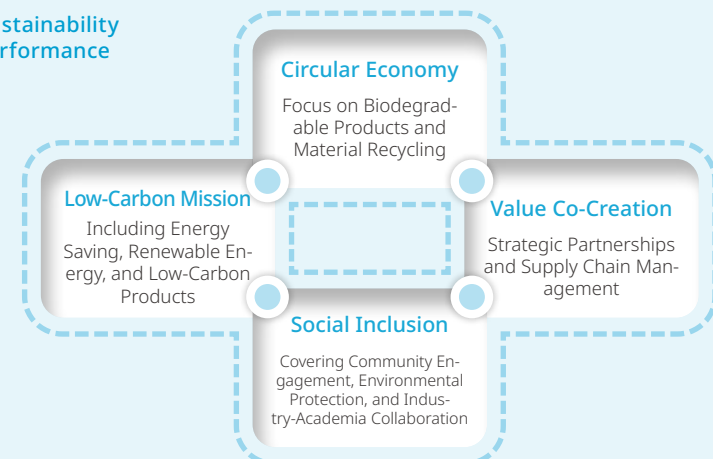
#### Corresponding Sustainability Indicators

201 Direct economic value generated and distributed

### ► Shoe Materials Market Analysis

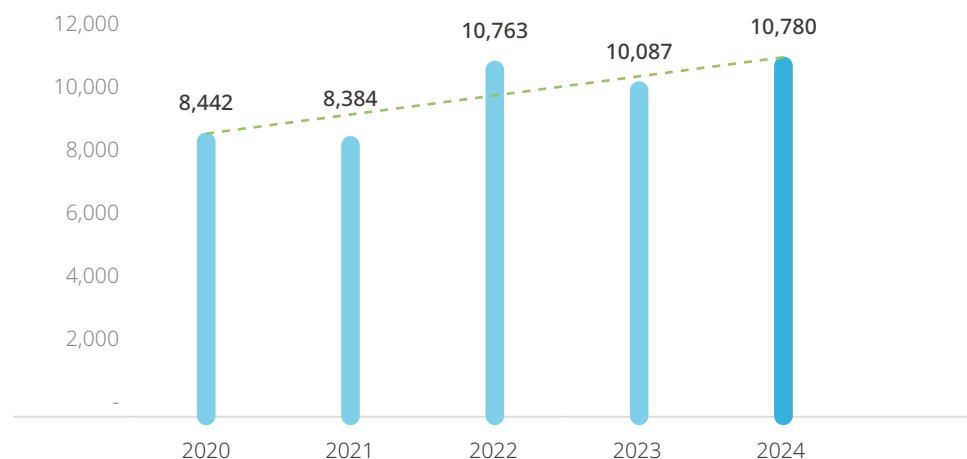


### ► Sustainability Performance



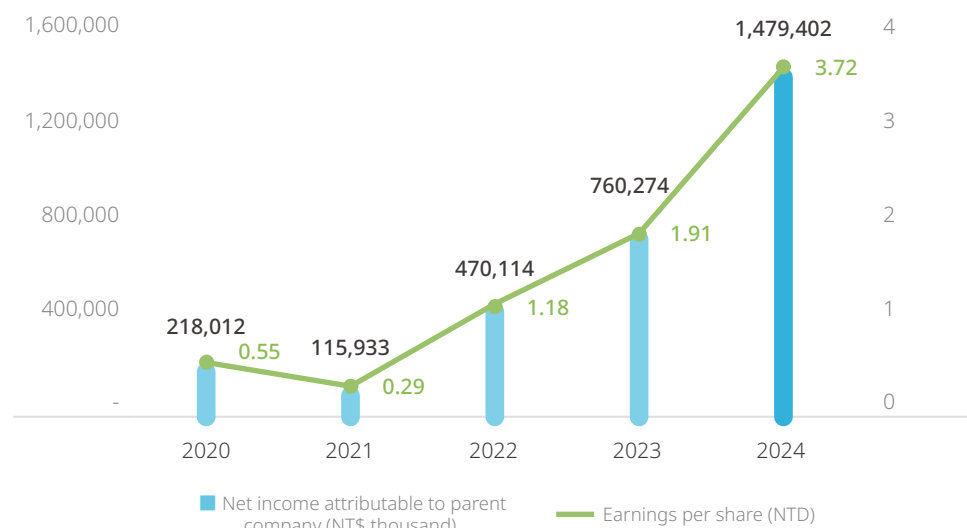
## 2.2.1 Turnover

Unit: NT\$ million



## 2.2.2 After-tax Net Income and Earnings per Share

Unit: Thousand Yards, NTD in Thousands



After inflation and interest rate fluctuations have affected the international financial situation, consumer desire has become more conservative, and the supply chain of the footwear industry has made inventory adjustments, resulting in a lack of operational momentum. With the interest rate cut in the U.S. in 2024, coupled with the positive impact of the Paris Olympics and the gradual recovery of international brands, the industry's supply and demand has returned to a relatively stable state, and the consumer environment in major operating regions has warmed up, resulting in growing order demand and a gradual growth in revenues since March. Benefiting from the growth in demand for some brands, the rebound in demand for artificial leather, the continued rise in the performance of film products, as well as the stabilization of raw material prices and the benefits of foreign exchange, the Company's operating efficiency improved significantly.

### ► Overview of the Business Plan and Implementation Results

Currency: NTD in Thousands

Item \ Year	2022		2023		2024	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Net operating revenue	10,763,499	100%	10,086,736	100%	10,779,822	100%
Operating costs	9,029,397	84%	7,561,009	75%	7,481,145	69%
Gross profit	1,734,102	16%	2,525,727	25%	3,298,677	31%
Net income	293,331	3%	987,075	10%	1,560,465	14%
Pre-tax net income	595,297	6%	1,029,077	10%	1,876,098	17%
After-tax net income	470,114	4%	760,274	8%	1,479,402	14%
Basic earnings per share (NTD)	1.18		1.91		3.72	

## 2.2.3 Government Subsidies/Incentives

### ► 2024 Subsidy

Region	Item	Amount of Subsidy
China	High-Tech Enterprise Recognition Award	RMB 30,000.00
	2024 Unemployment Insurance – Job Stabilization	RMB 93,114.95
	Others	RMB 44,326.35

Region	Item	Amount of Subsidy
Taiwan Parent Company	Industry Development Administration, Ministry of Economic Affairs – Industrial Innovation Subsidy	NTD 9,923,508
	Government exhibition subsidies	NTD 245,000
	Youth Internship Matching Subsidy	NTD 15,000
	Others	NTD 32,876

## 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	2022	2023	2024
Pre-tax net income (A)	595,297	1,029,077	1,876,098
Monthly income tax expense (B)	125,183	268,803	396,696
Effective tax rate (B/A)	21.00%	26.12%	21.14%

Note: For relevant tax information, please refer to the Company's 2024 consolidated financial statements

## 2.2.5 Products and Sales

Unit: Thousand Yards, NTD in Thousands

	2023		2024	
	Production Volume	Production Value	Production Volume	Production Value
PU Synthetic Leather	19,531	3,813,012	17,238	3,391,991
Eco-friendly Synthetic Leather	17,129	3,132,115	21,255	3,932,135
Films	15,685	1,380,672	23,090	1,842,882
Others		5,150,159		5,153,009
Total	52,345	13,475,958	61,583	14,320,017

## 2.2.6 External Engagement

### Active Participation in Industry Associations



Taiwan Regional Association of Synthetic Leather Industries

Taiwan Nonwoven Fabrics Industry Association

Taiwan Sporting Goods Manufacturers Association

Kaohsiung Chamber Of Industry

Kaohsiung City General Industry Association

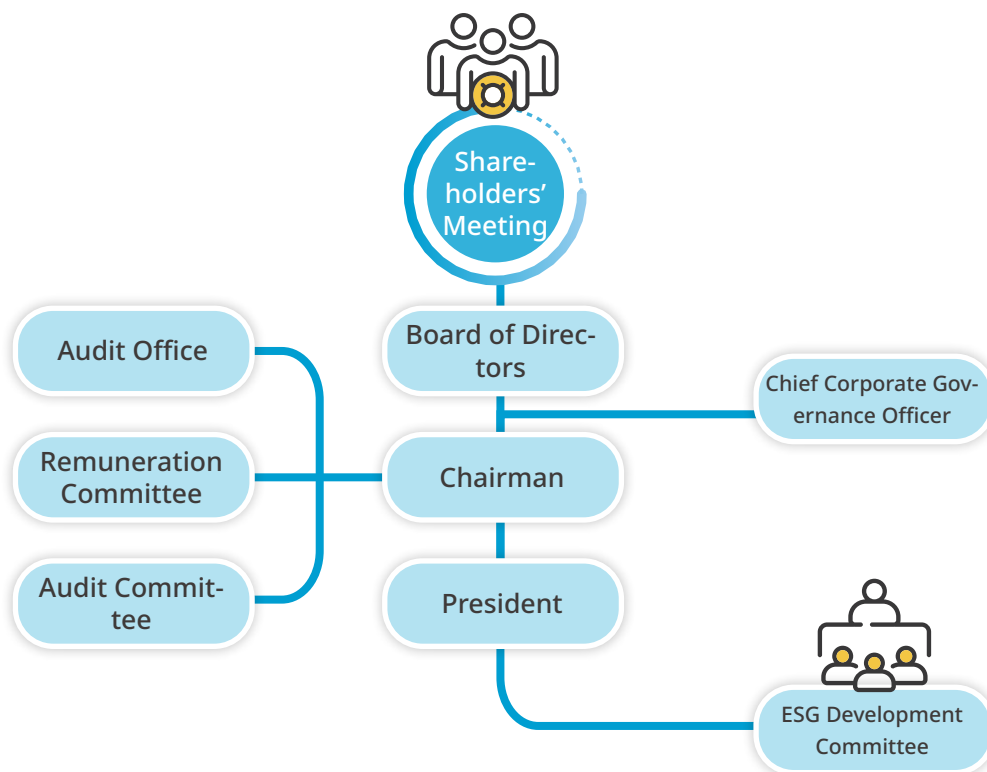
### Participation in Public Affairs

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 Contribution of this Report.

## 2.3 Corporate Governance

### 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 Corporate Management Best Practice Principles," "Codes 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 Company has stipulated in Article 23 of the "Corporate Governance Best Practice Principles" a board diversity policy, which specifies that the composition of the board of directors should consider members' basic qualifications and values (such as gender, age, nationality, and culture), as well as professional knowledge and skills (such as law, accounting, industry, finance, marketing, or technology). To achieve the ideal objectives of corporate governance, the board as a whole should possess capabilities including operational judgment, business management, crisis management, industry knowledge, and financial accounting expertise.

The Company's specific management objectives, achievement status, and implementation of the board diversity policy are as follows: The board diversity goal requires at least two directors with accounting and audit expertise, which has already been achieved.





Core Diversity Item Name of Director	Gender	Age	Term of Office/Years of Service of Independent Directors	Main Education Background	Areas of Expertise
San Fang Investment Enterprise Co., Ltd. Representative: Mun-Jin Lin	Male	60~69		National Sun Yat-Sen University PhD Johns Hopkins University Master's Degree	Corporate management, strategic planning, and corporate development
POU CHIEN TECHNOLOGY CO., LTD. Representative: Jin-Chu Lu	Male	70~75		National Chung Hsing University College of Management Master's Degree	Production management, business management, and corporate development
POU CHIEN TECHNOLOGY CO., LTD. Representative: Jia-Hui Tang	Male	60~69		Accounting New York University, USA Master's Degree	Business administration, accounting auditing, and corporate development
POU CHIEN TECHNOLOGY CO., LTD. Representative: Wang-Jin Lin	Male	50~59		Tunghai University Philosophy Master's Degree	Human resources and business administration
Independent Director Li-Hsuan Lin	Male	60~69	9-10 years	California State University Master's degree	Finance
Independent Director Chih-Lung Chou	Male	50~59	6-7 years	Financial Management National Kaohsiung First University of Science and Technology Master's degree	Accounting auditing
Independent Director Yi-Ching Lin	Female	40~49	0-1 years	Tunghai University Department of Accounting, Tung Hai University	Accounting auditing

## 2.3.3 Operation of the Board of Directors

### ► 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
<b>Mun-Jin Lin</b> Chairman	<ol style="list-style-type: none"> <li>Has been the Company's President for about 12 years, with the work experience required for the Company's business.</li> <li>Equipped with expertise in business administration, strategic planning, and corporate development.</li> <li>None of the circumstances in Article 30 of the Company Act apply.</li> </ol>	N/A	0
<b>Jin-Chu Lu</b> Director	<ol style="list-style-type: none"> <li>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.</li> <li>Equipped with expertise in production management, business management, and corporate development.</li> <li>None of the circumstances in Article 30 of the Company Act apply.</li> </ol>	N/A	0
<b>Wang-Jin Lin</b> Director	<ol style="list-style-type: none"> <li>Has been the Executive Assistant Vice President of Pou Chen Corporation, formerly Deputy General Manager and Human Resources Director of Pou Sheng International (Holdings) Limited., and is currently serving as Director of Top Units Developments Ltd. and Ka Yuen Rubber Factory Ltd., with the work experience required for the Company's business.</li> <li>Equipped with expertise in industry knowledge, human resources, and business management.</li> <li>None of the circumstances in Article 30 of the Company Act apply.</li> </ol>	N/A	0
<b>Jia-Hui Tang</b> Director	<ol style="list-style-type: none"> <li>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.</li> <li>Expertise in business administration, corporate development, and accounting auditing.</li> <li>None of the circumstances in Article 30 of the Company Act apply.</li> </ol>	N/A	0

## ► 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
<b>Li-Hsuan Lin</b> Independent Director	<ol style="list-style-type: none"> <li>Former President of King's Town Bank.</li> <li>Former Vice President of Chase Bank.</li> <li>Executive Director of Acosta Ventures (BVI) Limited.</li> <li>Serving as a member of the Audit Committee, equipped with expertise in finance.</li> <li>Current Independent Director of FONG CHIEN CONSTRUCTION CO., LTD.</li> <li>None of the circumstances in Article 30 of the Company Act apply.</li> </ol>	<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"> <li>The independent director is an employee of the Company or its affiliates.</li> <li>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.</li> <li>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.</li> <li>The independent director serves as a director, supervisor, or employee of a company with which the Company has a specific relationship.</li> <li>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.</li> </ol>	1
<b>Chih-Lung Chou</b> Independent Director	<ol style="list-style-type: none"> <li>Certified Public Accountant of Wushi Accounting Firm.</li> <li>Serving as a member of the Audit Committee, equipped with expertise in accounting auditing.</li> <li>Former Supervisor of St.Shine Optical Co., Ltd..</li> <li>None of the circumstances in Article 30 of the Company Act apply.</li> </ol>		0
<b>Yi-Ching Lin</b> Independent Director	<ol style="list-style-type: none"> <li>Practicing Accountant of Jing Cheng Accounting Firm.</li> <li>Current Independent Director of Contrel Technology Co., Ltd.</li> <li>Current Independent Director of CHANG WAH TECHNOLOGY CO., LTD.</li> <li>Current Independent Director of SUN RISE E&amp;T CORPORATION.</li> <li>None of the circumstances in Article 30 of the Company Act apply.</li> </ol>		3

## ► Board of Directors' Group Knowledge

Name of Director	Date of Continuing Education	Organizer	Course Title	Training hours	2024 Training hours
Mun-Jin Lin	October 30, 2024	The Institute of Internal Auditors-Chinese Taiwan	Audit Practice Seminar on Annual Operational Plan and Budget Preparation	6	15
	October 29, 2024	The Institute of Internal Auditors-Chinese Taiwan	Production Cycle Practices and Audit Focus	6	
	July 11, 2024	Securities & Futures Institute	Industry Transformation Trends with ChatGPT Chatbot	3	
Jin-Chu Lu	August 14, 2024	Taiwan Corporate Governance Association	How the Board Oversees ESG Risks and Workplace Gender Equality Disputes and Prevention	3	6
	April 12, 2024	Taiwan Academy of Banking and Finance	Corporate Governance and Sustainability Workshop	3	
Jia-Hui Tang	July 03, 2024	Taiwan Stock Exchange	2024 Cathay Sustainable Finance and Climate Change Summit	6	6
Wang-Jin Lin	November 18, 2024	Taipei Foundation of Finance	Corporate Governance – Sustainable Finance	3	12
	September 06, 2024	Securities & Futures Institute	2024 Insider Trading Prevention Seminar	3	
	July 03, 2024	Taiwan Stock Exchange	2024 Cathay Sustainable Finance and Climate Change Summit	6	
Li-Hsuan Lin	October 26, 2024	Accounting Research and Development Foundation	Analysis of Legal Responsibilities and Practices in Corporate Control	3	6
	October 24, 2024	Securities & Futures Institute	New Trends in ESG Labor Relations – Practical Discussion on Labor Rights Management in Sustainable Supply Chains	3	
Chih-Lung Chou	November 29, 2024	CPA Associations R.O.C. (Taiwan)	AML/CFT International Standards and Domestic Legal Frameworks	3	6
	April 02, 2024	CPA Associations R.O.C. (Taiwan)	Trends and Case Analysis in Anti-Money Laundering	3	
Yi-Ching Lin	July 19, 2024	Accounting Research and Development Foundation	Common Deficiencies in Financial Statement Reviews and Practical Analysis of Key Internal Control Regulations	6	9
	April 02, 2024	CPA Associations R.O.C. (Taiwan)	Trends and Case Analysis in Anti-Money Laundering	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 2024. The board members actively attended the meetings, with a personal attendance rate of 95%, 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 Operation of the 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 2024, 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.

## 2.3.5 Operation of the 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 four Remuneration Committee meetings were held in 2024, 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.



## 2.3.6 Performance Evaluation of the Board of Directors and Functional Committees

In 2024, 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.

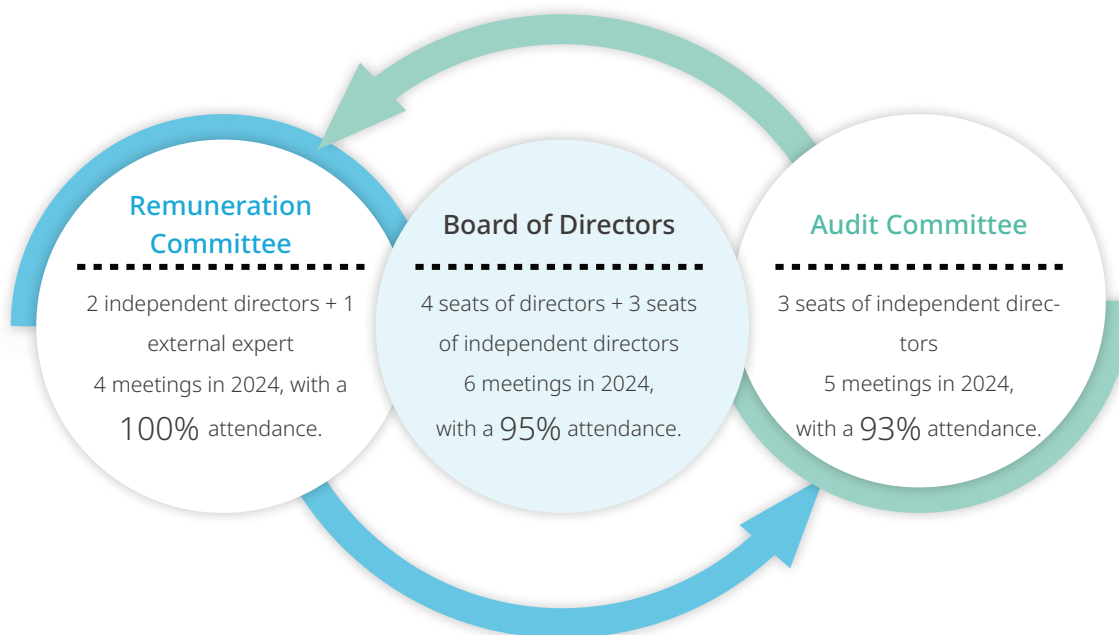
Scope of Evaluation	Assessment Method	Evaluation Content	Evaluation Results
<input checked="" type="checkbox"/> Overall Board of Directors <input type="checkbox"/> Individual Directors <input type="checkbox"/> Functional Committees	<input checked="" type="checkbox"/> Board Self-Evaluation <input type="checkbox"/> Director Self-Evaluation <input type="checkbox"/> Peer Evaluation <input type="checkbox"/> External Evaluation	A. Participation in the Company's operations B. Enhancement of the quality of Board decision-making C. Composition and structure of the Board D. Election and continuing education of directors E. Internal control	Items for Improvement: 1. Strengthen the Board of Directors' control over risks. Improvement Plan: 1. Enhance the Board's control over various risk management practices to improve the Company's ability to respond to crises. Implement risk monitoring and risk analysis to supervise and improve the precision of risk management, thereby increasing the overall operational efficiency of the Board.
<input type="checkbox"/> Overall Board of Directors <input checked="" type="checkbox"/> Individual Directors <input type="checkbox"/> Functional Committees	<input type="checkbox"/> Board Self-Evaluation <input checked="" type="checkbox"/> Director Self-Evaluation <input type="checkbox"/> Peer Evaluation <input type="checkbox"/> External Evaluation	A. Understanding of the Company's goals and missions B. Awareness of directors' responsibilities C. Participation in the Company's operations D. Management of internal relations and communication E. Directors' professionalism and continuing education F. Internal control	Items for Improvement: 1. Increase attendance at meetings of the Board of Directors and shareholders. 2. Continue implementing the Board's diversity policy. Improvement Plan: 1. One month before each meeting, proactively contact directors to confirm the date of the upcoming Board meeting to facilitate attendance. 2. Continue arranging diverse training programs for directors to improve decision-making quality, fulfill supervisory responsibilities, and strengthen Board functions. Plan to achieve one-third female directors at the 2027 shareholders' meeting re-election.
<input type="checkbox"/> Overall Board of Directors <input type="checkbox"/> Individual Directors <input checked="" type="checkbox"/> Remuneration Committee <input checked="" type="checkbox"/> Audit Committee	<input type="checkbox"/> Board Self-Evaluation <input checked="" type="checkbox"/> Director Self-Evaluation <input type="checkbox"/> Peer Evaluation <input type="checkbox"/> External Evaluation	A. Participation in the Company's operations B. Awareness of committee responsibilities C. Enhancement of the quality of committee decision-making D. Composition of committees and selection of members E. Internal control	Items for Improvement: 1. Enhance the expertise required for the Remuneration Committee's decision-making process. 2. Ensure that the Audit Committee effectively evaluates and supervises the Company's existing and potential risks, and assesses the effectiveness of internal control systems and risk management. Improvement Plan: 1. Provide more comprehensive and complete information to Remuneration Committee members, and invite relevant professionals to attend when necessary. 2. Strengthen monitoring and accuracy of risk management through risk detection and analysis, thereby enhancing oversight of risk management activities.

## 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.



## Information Transparency

The Company has a Chinese/English website to disclose the business progress and regularly update the financial information and corporate governance status



Proposals for shareholders' meetings are voted on by electronic means and on a case-by-case basis, and the voting results are announced on the "Market Observation Post System" after the meetings.



English versions of the financial statements, annual report for the shareholders' meeting, and ESG report.



Diverse communication channels and media for information disclosure are provided to continuously improve CSR performance.



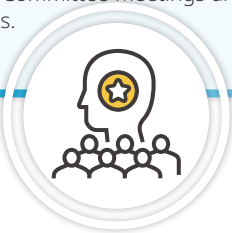
Information Transparency Disclosures Made

## 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 Corporate Management Best Practice Principles" and the "Codes 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 Corporate Management Best Practice Principles" and the "Codes 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 persons, 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 Corporate Management Best Practice Principles" and "Codes 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.
- In 2024, a total of 487 individuals – including the Chairman, General Manager, supervisors at all levels, and employees – participated in online education and training on integrity and ethical conduct and completed the related assessments.
- The Company's supervisors participate in the "Awareness Course on the Ethical Corporate Management Best Practice Principles and the Codes 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 2024

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 2024 implementation status of ethical management was reported to the board of directors on January 15, 2025. 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
 <b>Suppliers' Commitments</b>	<ol style="list-style-type: none"> <li>1. The Company's integrity policy is propagated to suppliers.</li> <li>2. The Company adheres to compliance with laws, ethics, environmental, and quality standards, and expects all suppliers to follow the same standards. In 2024, a total of 83 suppliers signed the Supplier Code of Conduct.</li> </ol>
 <b>Education and Training</b>	<ol style="list-style-type: none"> <li>1. In 2024, 39 new employees received training on the integrity policy.</li> <li>2. In 2024, a total of 487 individuals – including the Chairman, General Manager, supervisors at all levels, and employees – participated in online education and training on integrity and ethical conduct and completed the related assessments.</li> <li>3. In 2024, the Company invited the Investigation Bureau to conduct training on trade secret protection practices, with 177 participants from the R&amp;D, sales, procurement, IT, and production departments.</li> </ol>
 <b>Regulatory Propagation</b>	<p>The Company uploaded promotional materials on integrity and ethical conduct to the KM education and training section, continuously reinforcing employees' awareness of integrity and confidentiality responsibilities through the platform.</p>
 <b>Commitments</b>	<p>In 2024, 39 employee confidentiality agreements were signed by new employees.</p>
 <b>Periodic Inspection</b>	<p>The Company has established a risk evaluation mechanism for ethics, integrity, conflict of interest avoidance, and anti-corruption in the operational activities of important operating sites. In 2024, all units (including subsidiaries) submitted 95 "Unit Organizational Context and Risk Evaluation Forms" to identify material risks and related departments, followed by internal surveys and audits to actively prevent the occurrence of such risks.</p> <p>There was no corruption or anti-competitive behavior in 2024.</p>
 <b>Whistleblowing System and Whistleblower Protection</b>	<p>The Company has set up multiple open reporting channels for raising concerns to relevant departments:</p> <p>Spokesperson: Accept reports made by shareholders, investors, and other stakeholders.</p> <p>Chief Auditor: Accepts reports from internal employees, customers, suppliers, and contractors. The Company handles reports with strict confidentiality, and ensures the whistleblower's identity is absolutely protected through independent verification. If the whistleblower is an employee, the Company guarantees that no adverse action will be taken as a result of the report. To safeguard the rights of the person being reported and to prevent improper retaliation, the Company also provides an appeal mechanism, and when necessary, convenes a personnel evaluation committee hearing.</p>

### 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. In 2024, there were 23 amended laws and regulations and 3 newly added laws and regulations that the Company complied with, for which the relevant units conducted regulatory identification and operational compliance evaluations.

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.



Total number of violations of the Labor Standards Act found by the Kaohsiung City Labor Standards Inspection Office in the 2024 labor standards inspection: 0



Total number of incidents where employees were dismissed or received disciplinary action for corruption in 2024: 0



Total number of contracts with business partners terminated or not renewed due to corruption and violations in 2024: 0



Total number of lawsuits and legal actions resulting from the Company's involvement in anti-competitive behavior in 2024: 0

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**Records of Environmental Protection and Occupational Safety Penalties in 2024, see Section 4.1.3 Environmental Fines.**

### 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 to report any illegal behavior or violations of ethical management to the Chief Auditor or spokesperson. The Company treats all reported information with strict confidentiality.

#### Complaint Process and Record Retention

1. The complainant must complete the "Employee Complaint Form" with accurate and complete information. If the form is incomplete or contains incorrect information, the receiving department or Human Resources Office may return it for correction before acceptance.
2. To maintain caution and objectivity, anonymous or malicious complaints will generally not be accepted.
3. However, if an anonymous complaint is found to contain specific and clear details that may impact the Company's operations, it may be escalated for special investigation.
4. Complaints not accepted for investigation will be forwarded to the Human Resources Office for compilation and reporting, and will be centrally managed as confidential documents.

5. The “Employee Complaint Form” may be submitted in writing or via email directly to the department’s superior or the Human Resources Office head.
6. Upon receipt, the responsible supervisor or HR head must maintain confidentiality, not disclosing the complainant’s identity or complaint details, and promptly assign a designated investigator. During and after the investigation, investigators are strictly prohibited from disclosing case details to unrelated parties. Even when discussions with relevant personnel are required, they must be limited only to the aspects directly related to that individual.
7. Investigators must promptly interview the complainant to understand the case in detail and, if necessary, interview the accused party.
8. If the complaint involves Company rules or regulations, investigators must consult the responsible department to understand standards and intent as a basis for legality.
9. If the complaint involves legal matters, investigators must coordinate with the HR head to seek advice from the Company’s appointed legal counsel to clarify legal issues.
10. Investigations must begin within two weeks of case acceptance and be completed within thirty days. A written report must be submitted for approval, after which the findings are recorded in the “Employee Complaint Handling Form.” The original is filed with HR for confidential storage, and a copy is provided to the complainant.
11. All complaint reports must be processed as confidential documents, with all approval authorities maintaining strict secrecy. If confidentiality requirements are not met or details are improperly disclosed to unrelated individuals, HR will report the case for disciplinary action to protect complainants’ rights.
12. After closure, complaint files or handling forms may not be accessed without authorization, nor may they be scanned, photocopied, duplicated, or shared with other units.

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 2024, with the risk assessment mechanism, we identified material risks and the departments exposed to the risks through the 95 “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
 <b>Anti-corruption</b>	0	0	0
 <b>Environmental Issues</b>	0	0	0
 <b>Social Issues</b>	0	0	0

In 2024, 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 Company has been deeply rooted in the artificial leather industry for many years, and has established a strong position in the global market through its exceptional technical expertise and strong brand partnerships. However, the Company has faced multiple and complex business challenges in recent years. These challenges stem not only from price competition, unstable raw material fluctuations, and increasingly strict environmental regulations, but also from industry trends toward green transformation, the uncertain global economic environment, the impact of U.S.-China trade frictions slowing global demand and orders, and fluctuations in the NT\$ exchange rate, all of which have posed significant pressures on the Company's operations.

In order to effectively manage these internal and external risks and ensure the Company's long-term competitiveness and sustainable development, the Company has established a comprehensive risk management framework. The "Risk Management Policy and Procedures" serves as the Company's highest guiding principle for risk management. It emphasizes systematic risk identification, rigorous risk assessment, rapid and effective risk response, continuous risk monitoring, and transparent risk reporting mechanisms, embedding risk management into every aspect of daily operations to achieve the organization's overall objectives. Through an integrated approach to risk management, the Company strives to transform potential risks into controllable factors, enabling us to seize opportunities amid uncertainties and continuously strengthen the Company's adaptability and resilience.



### 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:

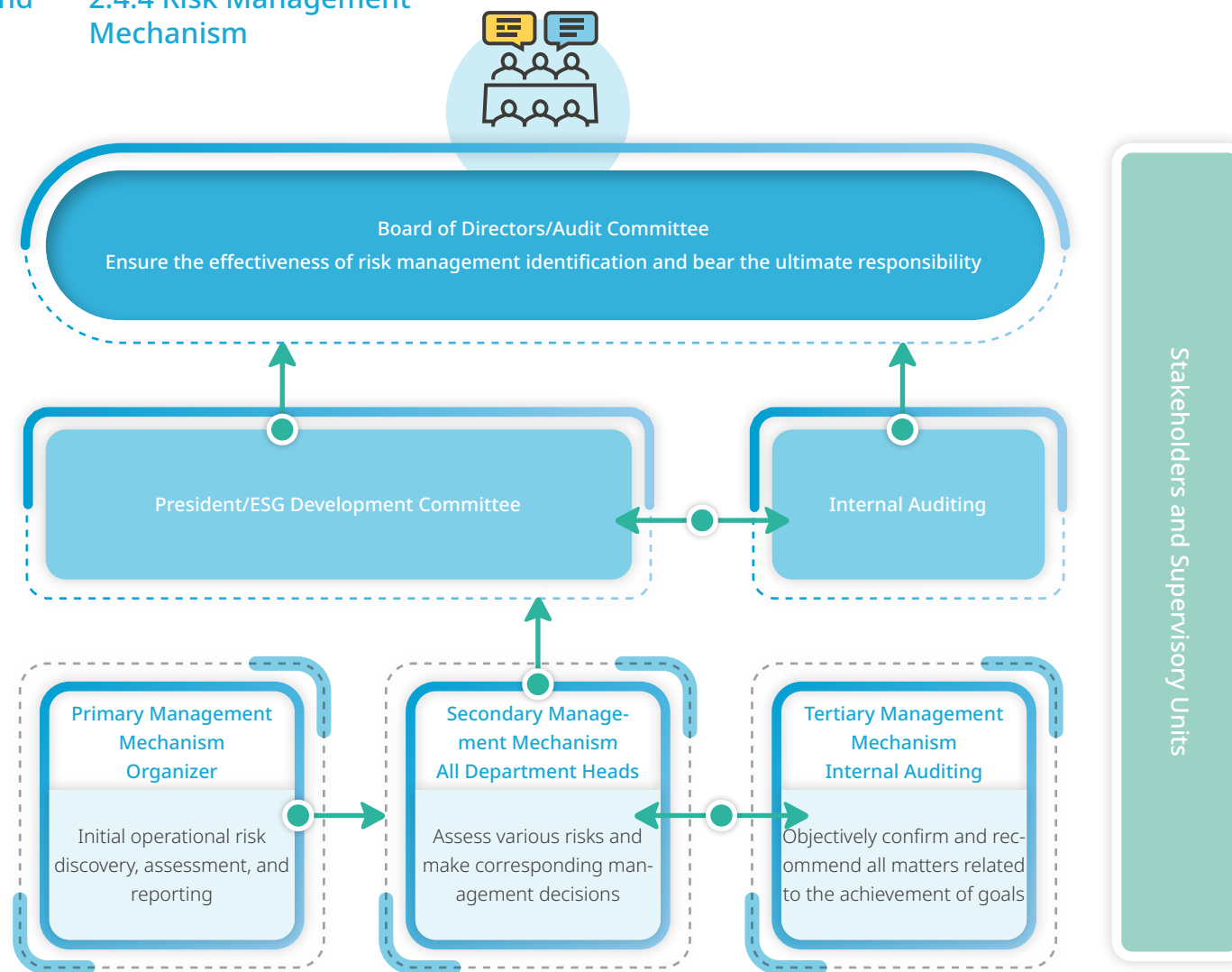
It is responsible for assisting the board of directors in fulfilling its risk management responsibilities and implementing the board's risk management decisions; reviewing the issues raised by each unit on the implementation and operation of risk management and the risk management coordination and communication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



The Company has risk management policies and procedures in place, approved by the 17th Board of Directors at its 11th meeting on January 13, 2023. Please see the Company's website for details.  
<https://reurl.cc/8qnKOM>

## 2.4.5 Risk Identification Process

San Fang conducts regular risk identification, analysis, response, and monitoring. In addition to identifying emerging and key risks annually based on the industrial environment and changes in the international situation, rolling reviews are carried out in accordance with the risk identification process to ensure the effectiveness of risk management procedures and related control measures, with continuous improvements made.

### (I) Risk Identification

- The risk management unit shall regularly review and identify potential risk sources, considering both external and internal environmental factors. Comprehensive identification of potential risks that may prevent the Company from achieving its objectives or cause losses and negative impacts enables effective follow-up analysis and management.

### (II) Risk Analysis

- Identified risks are analyzed, with appropriate measurement methods developed according to risk type as the basis for risk management.
- Risk measurement involves using relevant information to assess the likelihood of occurrence and the potential impact on the Company.
- The results of risk analysis are categorized into risk levels, facilitating prioritization and the development of risk response strategies.

### (III) Risk Response

- After analyzing and consolidating risks, the risk management unit formulates management plans for risk events. Taking into account internal and external environments and Company resources, it selects appropriate response measures to reduce risks to an acceptable level.

### (IV) Risk Monitoring

- When monitoring risks, the risk management unit must regularly and promptly propose response strategies and provide risk information to all levels of management. The audit unit compiles the final results.

### (V) Risk Reporting

- The audit unit shall assess and monitor the overall quality of risk management, compile the results for the ESG Development Committee, and regularly report to the Audit Committee and the Board of Directors. In the event of major or sudden risks, the audit unit must immediately notify the Audit Committee members.

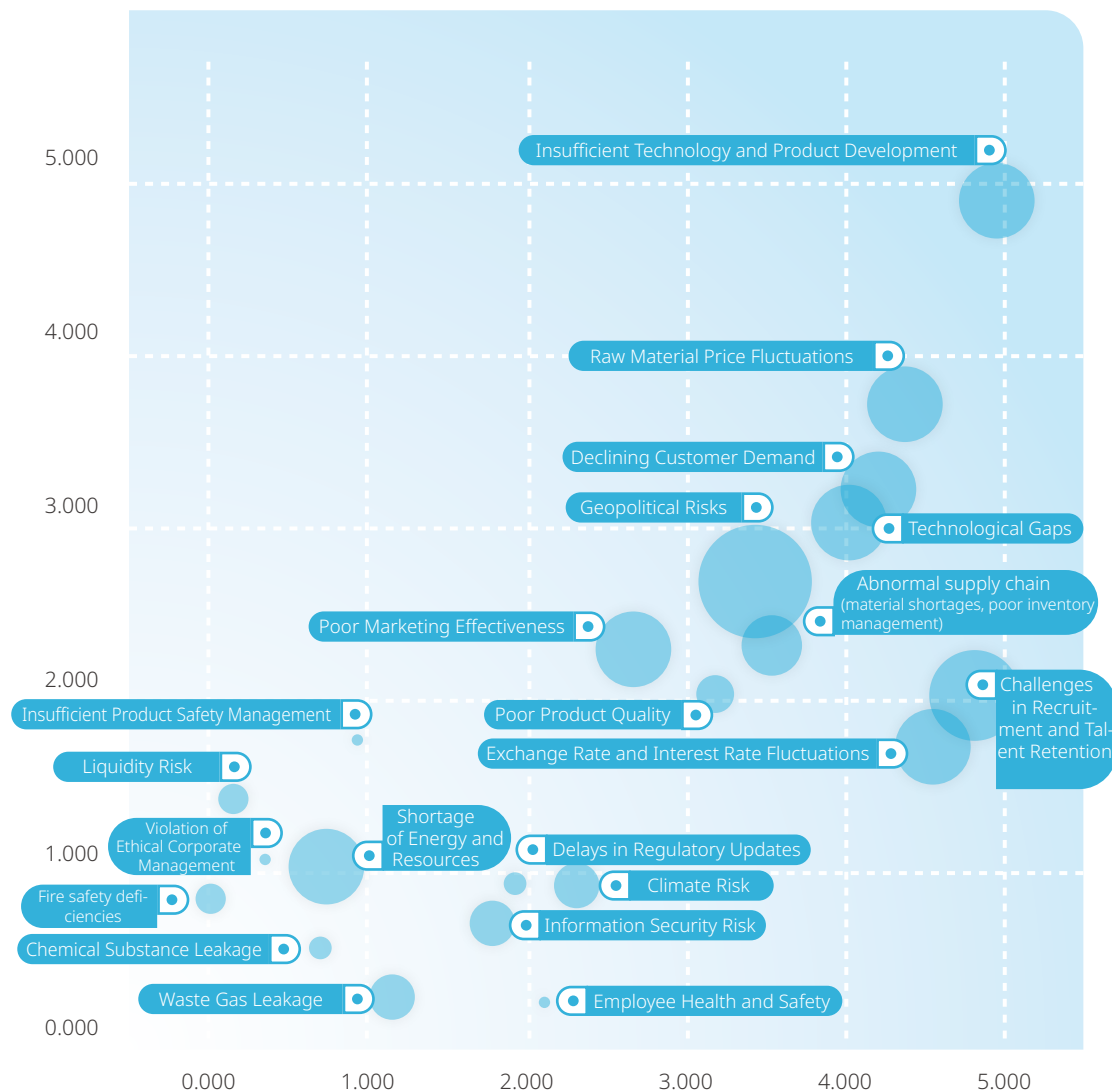
## 2.4.6 2024 Risk Management Operation Status

To ensure stable operations, the Board of Directors and the Audit Committee, as the highest decision-making bodies for risk management, established an ESG Development Committee to assist in executing risk management and to take charge of cross-departmental communication and coordination. In 2024, 34 first-level supervisors of San Fang participated in a sustainability risk identification survey. Major risk items were analyzed and corresponding countermeasures were developed to ensure the effective functioning of the risk management mechanism. The status of risk management operations is reported to the Board of Directors once a year, with the 2024 implementation report scheduled for January 15, 2025.

In 2024, a total of 21 risk topics were analyzed and ranked according to “Probability of Occurrence” and “Impact,” with the level of control over each risk and opportunity represented by the size of the “Control” bubble. Going forward, each risk issue will be evaluated for potential impact along with corresponding response plans and strategies, thereby strengthening overall risk management.

The top five risks identified are: 1. Insufficient technology and product development; 2. Raw material price fluctuations; 3. Decline in customer demand; 4. Technological gaps; 5. Challenges in recruitment and talent retention. San Fang will focus on addressing these major risks and developing corresponding risk management strategies.

► The impact boundary covers all operating sites.



- Declining Customer Demand
- Waste Gas Leakage
- Exchange Rate and Interest Rate Fluctuations
- Information Security Risk
- Delays in Regulatory Updates
- Challenges in Recruitment and Talent Retention
- Insufficient Technology and Product Development
- Shortage of Energy and Resources
- Liquidity Risk
- Employee Health and Safety
- Abnormal Supply Chain (Material Shortages, Poor Inventory Management)
- Chemical Substance Leakage
- Technological Gaps
- Raw Material Price Fluctuations
- Insufficient Product Safety Management
- Violation of Ethical Corporate Management
- Fire Safety Deficiencies
- Poor Product Quality
- Climate Risk
- Poor Marketing Effectiveness
- Geopolitical Risks

Category	Risk Item	Risk Topic	Risk Description	Potential Financial Risks	Countermeasures
Corporate Governance	Market Risk	Insufficient Technology and Product Development Capacity	Lagging R&D technology may reduce product competitiveness, prevent quick responses to market demands, and affect product introduction schedules and customer satisfaction.	Increased R&D costs, declining revenue and market share, and diminished brand competitiveness.	<ol style="list-style-type: none"> <li>1. Participate in customers' early product development plans.</li> <li>2. Establish partnerships with relevant technical schools to cultivate development talent.</li> <li>3. Collaborate with relevant technical units to establish early-stage technologies.</li> <li>4. Synthesize the product development direction of each brand to identify common needs for full development.</li> </ol>
		Declining Customer Demand / Poor Marketing Effectiveness	Changes in market trends, reduced customer demand, or ineffective marketing strategies may lead to declining sales performance and reduced market penetration.	Decreased revenue, rising marketing and distribution expansion expenses.	<ol style="list-style-type: none"> <li>1. Identify the reasons for declining customer demand and develop strategies based on whether the cause is customer-related or market-related If from customers, expand the customer base to offset declining demand. If from market factors, re-examine the market and develop corresponding materials.</li> <li>2. Review marketing performance quarterly to identify causes of poor effectiveness If due to material issues, work with the R&amp;D department to optimize and improve. If due to incorrect marketing content, coordinate with the operations department to strengthen or adjust marketing strategies.</li> <li>3. Participate in product exhibitions or product briefings to increase exposure and expand customer base.</li> <li>4. Refer to Lineapelle trend information to incorporate market demands, review current product lines, eliminate unmarketable products, and introduce appropriate products.</li> <li>5. Provide value-added services to deepen collaboration with brand customers.</li> </ol>
	Product Quality Risk	Product quality does not meet customer standards	Failure to meet customer requirements may lead to returns, claims, reduced customer trust, reputational damage, and regulatory risks.	Increased return and compensation costs, order losses, additional quality testing and related costs, and brand reputation damage.	<ol style="list-style-type: none"> <li>1. Establish a hazardous substance control process.</li> <li>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)".</li> <li>3. Materials must undergo physical property testing according to the standards required by customers.</li> <li>4. Import machine data management for real-time quality monitoring and data analysis.</li> <li>5. Standardize incoming material inspections (IQC) to avoid raw material quality differences.</li> <li>6. Establish standardized operations for all stages of projects to avoid quality differences.</li> <li>7. Continue to implement equipment automation to reduce differences between personnel techniques.</li> <li>8. Before materials go on the market, they must undergo "suitability" (suitability for the customer's production process) testing.</li> </ol>
	Financial Risk	Exchange rate and interest rate fluctuations	International trade involves currency exchange rates, which affect foreign income and procurement costs; interest rate fluctuations impact corporate financing costs.	Interest rate changes affect borrowing costs and fixed deposit returns; exchange rate changes affect foreign currency income.	<ol style="list-style-type: none"> <li>1. Analyze the impact of interest rate exposures at the end of the financial reporting period on the Company's profit and loss.</li> <li>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.</li> <li>3. Hedge against exchange rate risk using financial instruments, making timely adjustments based on rate changes.</li> <li>4. Analyze deposit interest rate fluctuations quarterly, allocate idle funds to time deposits, bonds, and other products, and adjust investment ratios according to interest rate movements to reduce risks.</li> </ol>

Category	Risk Item	Risk Topic	Risk Description	Potential Financial Risks	Countermeasures
Corporate Governance	Supply Chain Risk	Stock Management of Out-of-Stock Items	Supply chain fluctuations or forecast errors may lead to raw material shortages, affecting production schedules and product delivery.	Delays in orders affect revenue, increase procurement costs, and raise inventory management costs.	<ol style="list-style-type: none"> <li>1. Conduct a "supplier audit" every year, and handle any abnormality immediately and issue a "Corrective Action Sheet."</li> <li>2. Arrange backup suppliers for bulk raw materials to avoid supply disruptions.</li> <li>3. Maintain more than two suppliers for bulk raw materials.</li> <li>4. 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.</li> <li>5. Find suitable suppliers to provide test materials for development.</li> <li>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.</li> </ol>
		Raw Material Price Fluctuations	International raw material prices are affected by market supply and demand, energy costs, and exchange rates, leading to cost volatility.	Increased production costs, declining gross profit margins, and difficulty passing on costs reduce market competitiveness.	<ol style="list-style-type: none"> <li>1. Compile monthly statistics on bulk raw material consumption and unit purchase prices; adjust procurement based on international crude oil trends and supply-demand conditions.</li> <li>2. Closely monitor bulk commodity price fluctuations, supply-demand dynamics, and price trends; procure strategically using volume-based pricing.</li> <li>3. Take advantage of China's surplus plastic raw material capacity and lower prices by shifting sourcing from Europe and the U.S. to China to reduce costs.</li> </ol>
Environment	Climate Change Risk	Carbon emissions management	Under the global trend of carbon reduction, future carbon fees and regulatory requirements may increase business operating costs.	Rising carbon costs, additional investment in environmental equipment and reduction measures, and risks of regulatory penalties.	<ol style="list-style-type: none"> <li>1. The parent company has completed annual Scope 1 and Scope 2 greenhouse gas inventories, verified by a third party. In 2024, overseas subsidiaries completed self-inventories of Scope 1 and Scope 2 and are planning Scope 3 inventories for the parent and subsidiaries.</li> <li>2. The ESG Development Committee holds quarterly meetings to review carbon reduction progress, implementation status, and reports to the Board of Directors.</li> <li>3. Continue reducing carbon emissions through management activities.</li> </ol>
Society	Human Resource Risk	Challenges in Recruitment and Talent Retention	Fierce competition in the talent market, with salary and working environment affecting employee stability and company competitiveness.	Increased recruitment and training costs, workforce turnover impacting operational efficiency and productivity.	<ol style="list-style-type: none"> <li>1. Participate in campus recruitment, industry-academia collaborations, and job fairs to boost exposure; host corporate briefings with nearby schools.</li> <li>2. Establish a fair and reasonable remuneration system, adjusting annually based on inflation and market benchmarks; average salary adjustment in 2024 was approximately 3.8%–4.5%.</li> <li>3. Implement flexible working hours in R&amp;D, administrative, and sales units to balance efficiency and work-life balance. In May 2024, launched an employee shareholding trust, with ~80% participation by December 2024.</li> <li>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.</li> <li>5. Bridge the skill gaps of existing employees through systematic education and training. Align corporate systems with core competencies (integrity, teamwork, problem-solving) and management competencies (continuous learning, results-orientation, communication); use these in training and competency-based recruitment.</li> </ol>
		Technical Gap Risk	Insufficient transfer of key technologies and knowledge may hinder R&D innovation and production efficiency improvements.	Delays in R&D, rising technical licensing/consulting costs, reduced product competitiveness.	<ol style="list-style-type: none"> <li>1. Implement job accommodation and increase the degree of equipment automation to reduce manpower requirements.</li> <li>2. Build knowledge management (KM) and set up a Talent Cultivation section to strengthen experience inheritance and knowledge accumulation.</li> <li>3. Implement job authorization and substitute management to cultivate interdisciplinary talent. Foster cross-disciplinary talent via job rotation, functional mentor guidance, and in-house lecturer programs.</li> </ol>

In recent years, global attention to climate change has increased. San Fang has proactively addressed climate threats by adopting the Task Force on Climate-related Financial Disclosures (TCFD) framework since 2022. This strengthens mitigation and adaptation efforts, demonstrates climate responsibility, and guides the development of multiple carbon reduction strategies and targets to control risks and enhance opportunities.

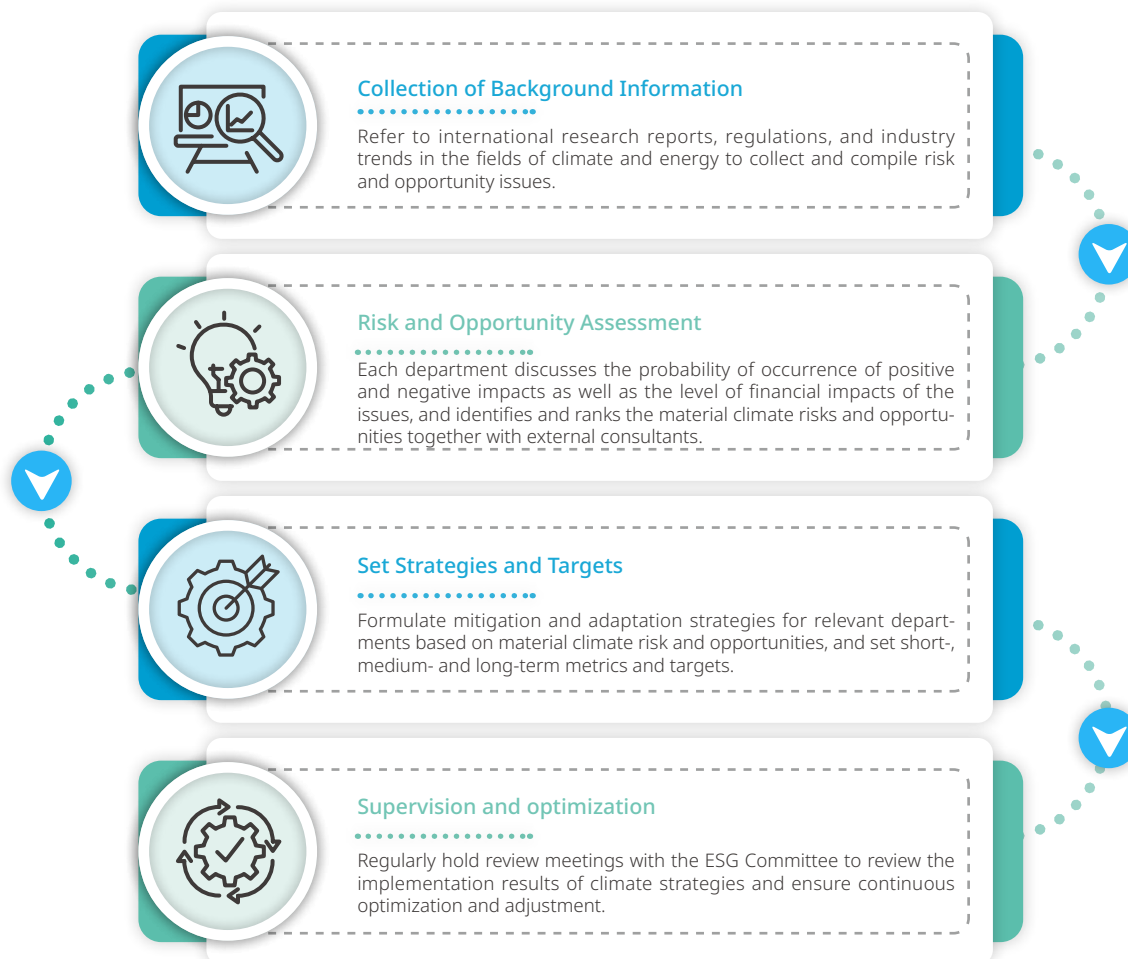
In response to climate change risks, the Company promotes low-carbon transformation and climate adaptation in the following directions:

- The management team formulates and oversees the Company's climate vision and countermeasures.
- Implement strategies, carry out mitigation and adaptation actions, provide low-carbon artificial leather manufacturing technology, and enhance green competitiveness across the value chain.
- Assess the severity of climate change, international trends, and brand clients' carbon reduction targets to establish performance indicators and quantitative goals, while regularly reviewing progress and tracking results.

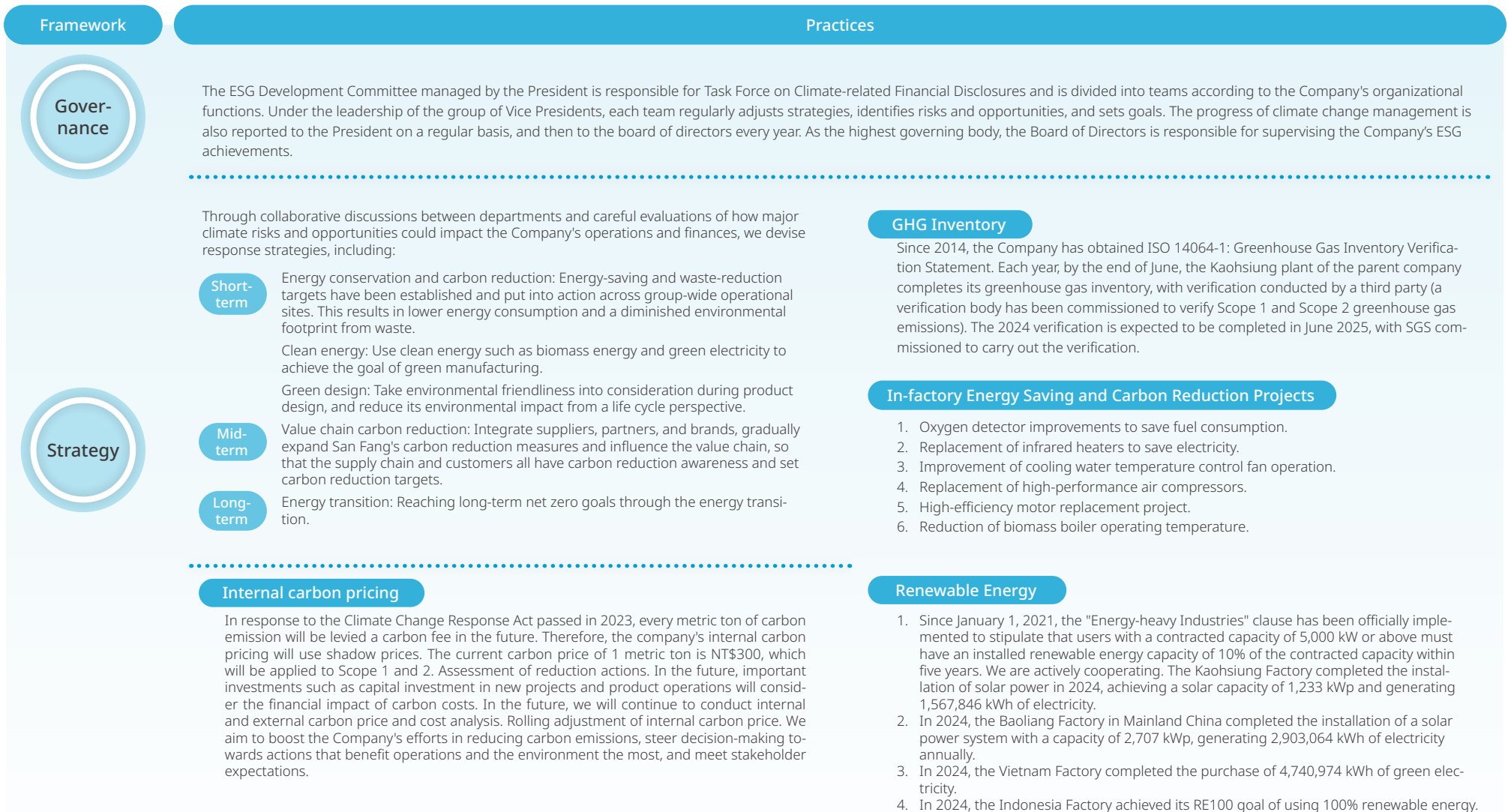
The Company upholds the belief in co-prosperity between corporate growth and the climate environment. By practicing green manufacturing, introducing green innovation, strengthening green management, and consistently implementing climate change and energy management, energy conservation and carbon reduction are embedded into daily operations to promote global sustainable development.

## 2.4.7 Climate Risk and Opportunity Management Process

To address the high uncertainty of climate change and capture both positive and negative impacts that support future climate decisions and goals, the Company conducts preliminary assessments of climate-related risks and opportunities. In collaboration with business departments and external consultants, the Company screens industry risks and opportunities based on regulations, market trends, and the frequency of climate disasters. Climate risks and opportunities are identified, evaluated, and ranked, with scenario analyses conducted to quantify financial impacts. Strategies and goals are then formulated based on the understanding of these impacts, followed by regular monitoring and optimization.



## 2.4.8 TCFD management framework



## Framework

## Practices

### Risk Management

#### Inventorying climate issues

The Company's current risk and opportunity management policy is that the ESG Development Committee conducts the initial identification of risks and opportunities. In the future, climate risk and opportunity identification meetings will be held across all departments to re-examine the impact and influence of physical risks, transition risks, and opportunities on each department of San Fang. 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.

#### Climate risk scenario analysis and financial quantification

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.

This year, we will conduct further scenario analysis on three issues: flooding risks as a physical risk, financial impacts from high temperatures, and carbon fees. We will refer to the domestic carbon fee system, and reports, figures, and data published by NCDR and NGFS to assess the financial impacts in the short, medium, and long term.

### Metrics and Targets

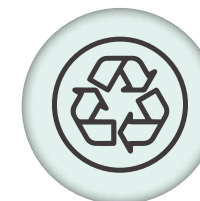
1. In December 2023, San Fang Group signed a commitment with SBTi to plan a science-based carbon reduction pathway through SBTi. We expect to inventory Scope 1, Scope 2, and Scope 3 emissions in 2024, set specific and feasible Scope 1, Scope 2, and Scope 3 emissions reduction targets, and submit the targets to SBTi in 2026, demonstrating the Company's determination to achieve the goal of net-zero emissions.
2. Carbon reduction target: Reduce carbon by 18% by 2025, with 2018 as the base year.
3. 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.
6. 2026: Implement the second phase of energy saving and carbon reduction planning based on the targets submitted to the SBTi.
7. Target for recycled material use: 100% recycled bottom fabric.

#### 2025 Environmental Goals

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



**-5%**  
Water  
Saving



**-2%**  
Waste Re-  
duction



**-18%**  
Carbon  
Reduction

## 2.4.9 Climate Change Risks and Financial Impacts

Risk category	Evaluation item	Risk description and potential impact	Categories	Impact period	Level	Responsive management practices
Transition risk	Carbon fee levy	The Climate Change Response Act is set to enforce carbon fees on major carbon emitters producing 25,000 tons of carbon emissions, causing a rise in production expenses and substantial financial repercussions.	Policy and Law	Short-term	Medium risk	<ol style="list-style-type: none"> <li>The Company is committed to actively promoting energy conservation and reducing carbon footprint. Besides the yearly power-saving strategy implemented at the factory, we are actively installing renewable energy generation facilities to decrease our use of purchased electricity.</li> <li>We will reduce carbon emissions in coordination with the carbon fee system, and reference the Ministry of Environment's voluntary reduction plan to prevent the impact of carbon fees from expanding in the future.</li> </ol>
	Energy saving of 1% is mandated by regulations	The energy user failed to reach the 1% electricity conservation target, as mandated by the Guidance for Energy Users on Setting Energy Conservation Objectives and Developing Action Blueprints, in the previous year. For this reason, it is imperative to set up additional energy-saving equipment to prevent legal consequences.	Policy and Law	Short-term	Low risk	<ol style="list-style-type: none"> <li>Upgrade the energy efficiency of electrical equipment and replace power-consuming public system equipment with newer, more energy-efficient models.</li> <li>The average annual power saving rate is 1.11%.</li> </ol>
	Regulations mandate installment of renewable energy generation capacity.	Under the "Renewable Energy Development Act", those who consume more than 5,000kW must, within five years, either set up renewable energy equipment or energy storage equipment with a rated capacity equivalent to at least 10% of the contract capacity, or acquire renewable energy certificates; otherwise, they will be subject to a penalty.	Policy and Law	Short-term	Medium risk	<ol style="list-style-type: none"> <li>The Company actively cooperates with policies, and the Kaohsiung factory has completed the installation of solar panels with an installed capacity of 1,233 kW as of 2024.</li> <li>The Baoliang factory in China has completed the installation of solar panels with an installed capacity of 2,707 kWp as of 2024, and generated 2,903,064 kWh of electricity.</li> <li>The Vietnam factory has completed the purchase of 4,740,974 kWp of green electricity as of 2024.</li> <li>The Indonesian factory has achieved the RE100 goal of using only renewable energy in 2024.</li> </ol>
	Power outage	Accidents at Taiwan Power Company (power shortage, power rationing, voltage drop, power outage) caused production line suspension and increase operating costs.	Market	Short-term	Significant risk	<ol style="list-style-type: none"> <li>Install power generation equipment for emergency response during power outages.</li> <li>Improve power-saving measures, replace high-energy-consuming equipment, and reduce electricity consumption.</li> <li>Install green electricity to reduce electricity costs.</li> <li>Collect electricity and adjusts contract capacity to reduce cost.</li> </ol>

Risk category	Evaluation item	Risk description and potential impact	Categories	Impact period	Level	Responsive management practices
Transition risk	Natural gas shortage	The steam boiler cannot operate and causes production suspension.	Market	Short-term	Significant risk	<ol style="list-style-type: none"> <li>1. Regularly check pipelines and record daily gas consumption.</li> <li>2. Control usage and record oxygen content to improve gas combustion efficiency.</li> <li>3. Connect the north-south ring natural gas pipeline for supply.</li> </ol>
	Biofuel shortage	Insufficient fuel for steam boilers, resulting in production suspension	Market	Short-term	Significant risk	<ol style="list-style-type: none"> <li>1. Monitor boiler fuel usage and control oil temperature to reduce fuel usage.</li> <li>2. Add heat recovery oxygen detector to improve combustion efficiency.</li> <li>3. Find alternative raw material suppliers.</li> </ol>
	Water consumption levy	The Measures for Water Consumption Levy Collection state that a water consumption levy will be applied to large water users consuming over 9,000 cubic meters of water in a single month during dry periods, inevitably raising production expenses.	Policy and Law	Short-term	Moderate impact	<ol style="list-style-type: none"> <li>1. Monitor and record water consumption to improve water recycling rate.</li> <li>2. Improve and replace water-consuming equipment, repair leaks in equipment and pipelines, and add water-saving controls.</li> <li>3. Compile statistics on water consumption during the dry season each year; requisitioned 16,353 cubic meters of water during the dry season in 2024, and the water saving rate is 5% in 2025.</li> </ol>
	Industrial transformation (towards green products and green processes)	To adapt to international trends and supply chain requirements, the development of green products is essential. Still, in addition to the pricey raw materials, the challenging technical demands for transitioning to green processes require capital investment and result in increased production expenses.	Market	Mid-term	Medium risk	<ol style="list-style-type: none"> <li>1. Develop green technologies and improve the performance of green products.</li> <li>2. Make efforts to drive up the sales of green products, with the target of reaching over 50% by 2025.</li> </ol>

Risk category	Evaluation item	Risk description and potential impact	Categories	Impact period	Level	Responsive management practices
Physical risk	Water shortage	Abnormal climate conditions causing water shortages and droughts can disable the factory production line's boilers and equipment, leading to lower output, higher costs, and reduced turnover.	Acute	Short-term	High risk	<ol style="list-style-type: none"> <li>1. Cooling water: The air conditioning cooling water tower is equipped with tablets to reduce the amount of waste water discharged from cleaning, and a controller is installed to reduce the amount of water vapor evaporation</li> <li>2. Boiler water: Approximately 60% can be recovered by recovering and reusing the condensed water of boiler steam.</li> <li>3. Domestic Water Use: Use the water discharged from the RO machine as washing and cleaning water in the kitchen,</li> <li>4. Sanitary facilities and faucets bearing a water-saving label were purchased.</li> <li>5. Other Water Use: Use the water discharged from drinking fountains for plant watering.</li> </ol>
	Extreme rainfall	Due to abnormal weather conditions, typhoons and heavy rains have increased extreme rainfall, which has led to factory flooding and other shutdowns. Operations have been interrupted, resulting in loss of revenue. In addition, flooding has caused damage to factory equipment and increased costs.	Acute	Long-term	Significant risk	<ol style="list-style-type: none"> <li>1. Factor in climate risks when choosing factory locations and constructing new factories to mitigate the impact of climate disasters on production.</li> <li>2. The construction of new factory buildings in Indonesia in 2024 included designs for flood prevention, drainage, ventilation, and cooling that were tailored to local climate features and climate change concerns.</li> <li>3. The factory is equipped with diesel power generation supply units to cope with temporary power outages.</li> </ol>
	Extreme heat	Abnormal climate patterns causing extreme heat could drive up air conditioner prices in factories, resulting in higher energy bills and increasing the risk of heat-related injuries to employees, ultimately impacting production.	Acute	Mid-term	Significant risk	<ol style="list-style-type: none"> <li>1. Installation of solar panels can reduce temperatures.</li> <li>2. Put in place measures for improving the comfort of the workplace, e.g., installing powerful ventilation fans.</li> </ol>
Opportunities	Renewable energy	Continue to invest in the development of renewable energy reduces the risk of power outage, and green electricity improves corporate image and increases revenue.	Resilience	Mid-term	Moderate opportunities	San Fang actively increases the percentage of recycled nurdles, waste leather materials, and recycled packaging materials reused, in order to reduce carbon emissions, reduce the amount of waste buried, and reduce related waste disposal costs.
	Recycled materials	Low-carbon products are produced using recycled materials, reducing waste gas processing cost and hoping to increase revenue from recycled materials in the future.	Products and services	Mid-term	Moderate opportunities	Electricity is the main energy used. The popularization of renewable energy and solar power supply can help reduce carbon emissions, and has the chance to reduce the cost of long-term energy consumption.

## 2.4.10 Physical risk scenario - flooding

Due to the impact of climate change in recent years, there are threats such as flooding caused by typhoons and other extreme rainfall. Therefore, San Fang referred to the flooding map released by the National Science and Technology Center for Disaster Reduction (NCDR) for its operations in Taiwan, conducted simulations for various regions, and selected two scenarios, RCP 4.5 and RCP 8.5, to evaluate the impact of different scenarios.

Scenario	Hazard and vulnerability	Process of risk assessment	Impact assessment
<b>RCP 4.5</b> Radiative forcing per square meter will increase by 4.5W by 2100. Representing countries around the world trying every possible way to achieve GHG reduction targets	The Company's factory in Renwu District, Kaohsiung City has high flooding risk in the long-term regardless of RCP4.5 or 8.5. A detailed analysis showed that the hazard level of the area is Level 4 and the vulnerability level is Level 3, and the final combined risk level is Level 4, which is moderate-high risk.	<ol style="list-style-type: none"> <li>1. Uses NCDR to assess the flooding risk in Taiwan.</li> <li>2. Determines hazard and vulnerability through flooding maps of the two scenarios.</li> <li>3. Analyzes the climate risk level based on the score of hazard x vulnerability.</li> <li>4. After determining the risk level, response measures are formulated for flooding in the future.</li> </ol>	<ol style="list-style-type: none"> <li>1. In the long term (2050), the Kaohsiung factory has high flooding risk regardless of RCP4.5 or 8.5. A detailed analysis showed that the hazard level of the area is Level 4 and the vulnerability level is Level 3, and the final combined risk level is Level 4.</li> <li>2. Flooding may block factory and office personnel, leading to delays in production and operations, and further cause property losses. In addition, flooding may also affect insurance and other flood recovery costs. Therefore, it is important to verify flooding risks whenever appropriate.</li> </ol>
<b>RCP 8.5</b> Radiative forcing per square meter will increase by 8.5W by 2100. Represents that countries around the world do not take any action to reduce emissions			

### Response strategies

The first line of defense was completed in 2021 by setting up flood gates at the entrance of each building, and installing flood gates when the Central Weather Administration issues a typhoon warning or torrential rain warning. The second line of defense was completed in 2022 by expanding the cross-sectional area of the factory's spillway, increasing drainage capacity, and setting up a main and backup pumping station. This improves San Fang's resilience to operational disruptions, reduces the risks caused by natural disasters and flooding, and establishes monitoring measures and risk response measures to ensure business continuity.

### Physical risk scenario - Extremely high temperatures causes energy costs to increase

Energy costs have increased due to rising global temperatures driven by climate change in recent years. Consequently, by referencing the Network for Greening the Financial System (NGFS), San Fang simulated diverse global average temperature rise for its operations in Taiwan under two scenarios, namely, RCP4.5 and RCP 8.5. By examining the electricity use, electricity rate, and air conditioning use, we projected the time and amount of impact from global temperature rise to air conditioning use.

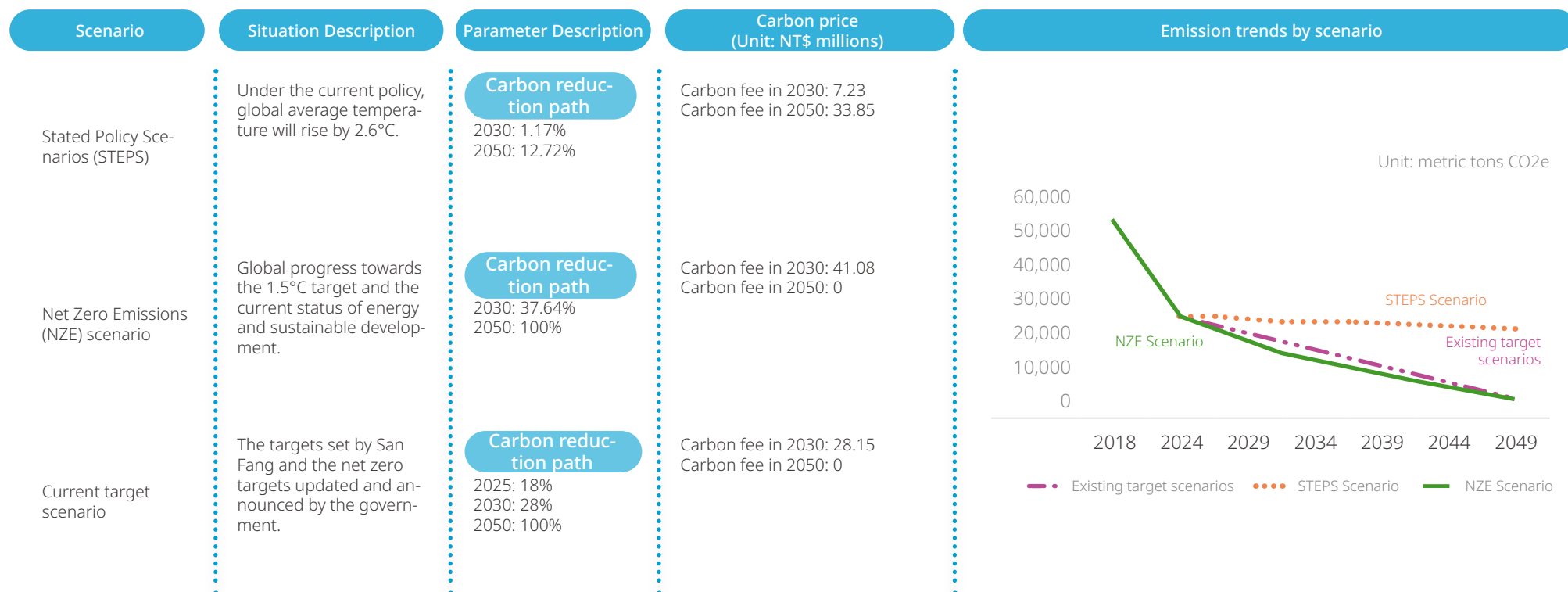
Scenario	Trend of rising temperature	Process of risk assessment	Financial impact																											
<div>RCP 4.5</div> <p>Radiative forcing per square meter will increase by 4.5W by 2100. Representing countries around the world trying every possible way to achieve GHG reduction targets</p>	<p>Predicted future temperature rise in Taiwan</p> <p>1.5°C rise by 2050</p> <p>2.0°C rise by 2100</p>	<ol style="list-style-type: none"><li>1. Leverage NGFS to measure temperature increase in Taiwan.</li><li>2. Evaluate how frequently temperature hikes at the Kaohsiung plant location.</li><li>3. Calculate the projected electricity consumption and electricity bills for the Kaohsiung plant.</li><li>4. Estimate the increase in air-conditioning energy consumption as a result of increase in temperature, and air-conditioning electricity consumption as a percentage of total power consumption.</li><li>5. Complete analysis of future trend of air-conditioning-induced increase in electricity bills.</li></ol>	<ol style="list-style-type: none"><li>1. Temperature rises moderately in scenario RCP4.5 and the additional air conditioning expenses in 2050 is approximately NT\$2.38 million. As temperature continues to rise, electricity expenses will continue to increase due to rising energy prices, despite continued efforts to save electricity.</li><li>2. RCP8.5 is a high-carbon emission scenario, and significant temperature rise causes many expenses to increase, peaking in 2100 and resulting in an additional air conditioning cost of nearly NT\$9.36 million.</li></ol> <div><p>Unit: NT\$ million</p><table><thead><tr><th>Year</th><th>RCP 4.5 (NT\$ million)</th><th>RCP 8.5 (NT\$ million)</th></tr></thead><tbody><tr><td>2025</td><td>1.0</td><td>1.0</td></tr><tr><td>2035</td><td>1.5</td><td>1.8</td></tr><tr><td>2045</td><td>2.0</td><td>2.8</td></tr><tr><td>2055</td><td>2.5</td><td>4.0</td></tr><tr><td>2065</td><td>3.0</td><td>5.2</td></tr><tr><td>2075</td><td>3.5</td><td>6.5</td></tr><tr><td>2085</td><td>4.0</td><td>7.8</td></tr><tr><td>2095</td><td>4.5</td><td>9.2</td></tr></tbody></table></div>	Year	RCP 4.5 (NT\$ million)	RCP 8.5 (NT\$ million)	2025	1.0	1.0	2035	1.5	1.8	2045	2.0	2.8	2055	2.5	4.0	2065	3.0	5.2	2075	3.5	6.5	2085	4.0	7.8	2095	4.5	9.2
Year	RCP 4.5 (NT\$ million)	RCP 8.5 (NT\$ million)																												
2025	1.0	1.0																												
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2065	3.0	5.2																												
2075	3.5	6.5																												
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2095	4.5	9.2																												
<div>RCP 8.5</div> <p>Radiative forcing per square meter will increase by 8.5W by 2100. Represents that countries around the world do not take any action to reduce emissions</p>	<p>Predicted future temperature rise in Taiwan</p> <p>1.8°C rise by 2050</p> <p>3.6°C rise by 2100</p>																													

#### Response strategies

In this scenario, the temperature rise and domestic energy policy are taken into account, while the analysis of air conditioning energy consumption is based solely on current data, without any consideration for future revolutionary technologies, which may cause air conditioning electricity consumption to rapidly decrease. The temperature rise caused by climate change may lead to an increase in air-conditioning electricity consumption, which will increase annual costs. Therefore, in addition to annual electricity-saving measures, we will pay attention to air-conditioning energy-saving related technologies and energy cost trends, in order to reduce physical risks in the future.

### Transition risk scenario - GHG emissions fee (carbon fee)

Countries have begun to levy carbon fees on high-carbon emission companies due to the impact of climate change in recent years, forcing them to reduce emissions. Taiwan passed the "Climate Change Response Act" and "Regulations for Charging of Carbon Fees," showing that the difference between carbon emissions and emission costs will impact the Company's financial position. This year, San Fang used the IEA's two scenarios of STEPS and NZE, and the existing target scenario as assumptions, and also referred to the carbon fee collection regulations of the Ministry of Environment of Taiwan to estimate the financial impact of carbon prices in the short, medium and long term in different scenarios in the future.



#### Response strategies

We will pay attention to domestic and overseas carbon fee or carbon tax policies, and try to apply for preferential rates in accordance with the policies to reduce the impact of carbon fees. In addition, San Fang's GHG emissions will continue to decline, and has dropped by more than 50% in 2024 compared to the baseline year. We will continue to implement carbon reduction strategies, including how to reduce energy consumption and improve recycling rates in processes, and actively develop low-energy products and clean fuels. We will continue to reduce emissions within the organization. In the future, we will focus on carbon fee policies and carbon reduction strategies to reduce the impact of carbon fees on San Fang.

## 2.5 Cyber Security Maintenance

### 2.5.1 Cyber Security Policies and Objectives

#### Cyber Security Policy

To ensure the secure management of all internal information and communication equipment, and to prevent risks such as service interruption or damage caused by improper internal operations or external cybersecurity threats, as well as data leakage, destruction, or damage that may affect the Company's normal operations. This policy states the Company's information and communication security management principles, enforces information security management standards, safeguards the interests of both customers and the Company, and enhances operational efficiency.

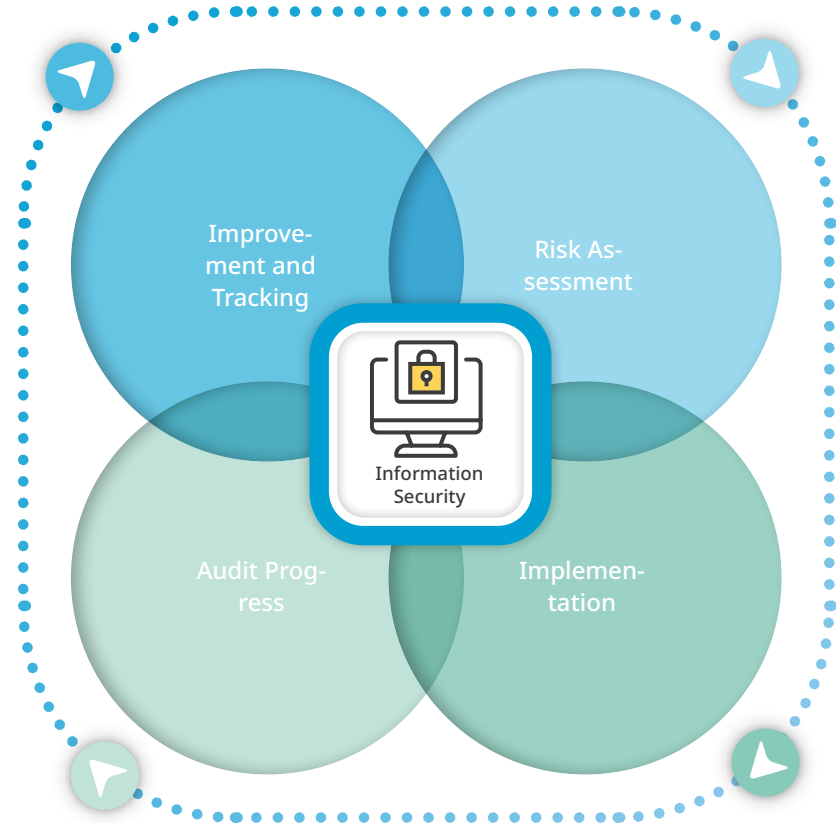
#### The information security policy has the following objectives

- 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.

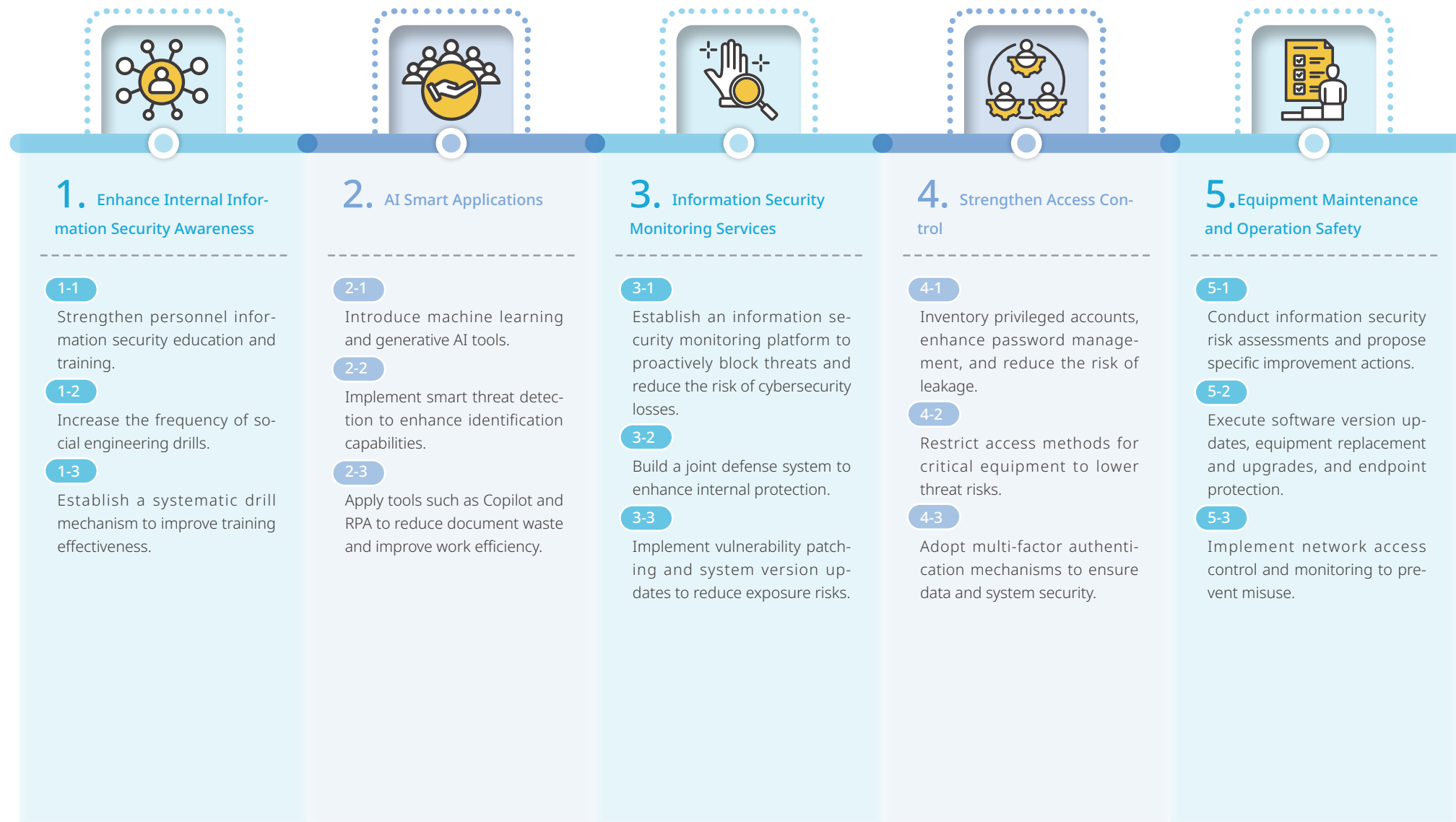
### 2.5.2 Cyber Security Management Plans

#### 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 2024



# 03 CHAPTER

## 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

### Significance of Product Technology Innovation and R&D to San Fang

For brands and different application markets, optimize the R&D team and production capabilities, transforming core technologies into scalable mass production and deriving application technologies to expand into various market fields.

#### Impacts



##### Positive impacts:

1. Enhance market competitiveness
2. Create new markets and business opportunities
3. Increase product added value and profitability
4. Strengthen brand image and customer loyalty
5. Reduce production costs and improve operational efficiency
6. Comply with environmental protection and regulatory standards, enhancing corporate sustainability
7. Attract investment and top talent

##### Negative impact:

1. High R&D costs and uncertain return on investment
2. Long product development cycles may cause missed market opportunities
3. High innovation risk may result in technological failure
4. Patent infringements and intellectual property disputes
5. Increased employee pressure may affect corporate culture
6. Intensified market competition and potential price wars
7. Risk of technology being copied or quickly imitated by competitors

#### Policies and Commitments



##### Policy impact:

1. R&D subsidies and incentive measures
2. Intellectual property protection
3. Science and industry development policies
4. Environmental protection and sustainability regulations
5. Technology cooperation and talent introduction policies

##### Corporate Commitments

1. Long-term investment in R&D
2. Commitment to sustainability and environmental protection
3. Information security and digital privacy
4. Fair competition and social responsibility
5. Talent cultivation and education

#### Metrics and Targets



Focus on the steady development of the two core businesses – footwear materials and film manufacturing – pursuing quality operational growth to achieve annual business objectives.

#### Actions



- Invest in R&D to strengthen core competitiveness
- Apply for patents to secure technological protection
- Use digital technologies to improve market responsiveness
- Develop green technologies to achieve sustainable development
- Collaborate with industry partners to share innovation resources
- Cultivate talent to maintain continuous innovation momentum

#### Evaluation Method



Evaluate the effectiveness of technological innovation and R&D by comprehensively considering financial indicators, market impact, technological performance, organizational innovation capability, and sustainable development goals. Companies in different industries may select the most appropriate indicators to measure the success of innovation.

- Short-term focus: R&D costs, product launch speed, number of patents
- Mid-term measurement: Market share, contribution of new product revenue
- Long-term goals: Brand innovation, talent cultivation, ESG influence

#### Stakeholder Engagement



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## Sustainable Innovation – Carbon Reduction Man-made Footwear Upper

Sustainability

Low-carbon

Solvent-free

Water reduction

Recycling



100% RPET  
Recycled fiber nonwoven fabric

Recycling solution from PET bottles to fibers



Conducting LCA calculations with brands

Carbon reduction and water reduction  
Solvent-free

Collaborating with brands to develop innovative manufacturing processes and technologies  
Significantly reducing carbon emissions, water usage, and solvent consumption  
Lowering environmental impact



Further improves physical properties

Innovative product manufacturing processes that surpass the physical properties of traditional synthetic leather



Circular Economy

Product is fully recyclable  
"Shoe-to-shoe" sustainable future

## Sustainable Innovation – Waterproof Breathable Film



Key Areas of Technology Development

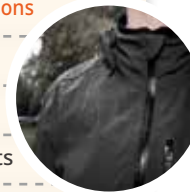
1. Carbon reduction technology
2. Recyclable or recycled material technologies
3. High performance and high functionality thin films

Recycled Polyester Applications

50% RPET

Anti-phenolic yellowing (Grade 4 or above)

Reduces yellowing defects

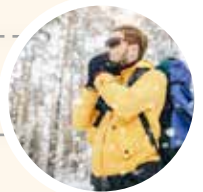


Wash durability up to 20 cycles

Eco-friendly solvent-free, low-carbon manufacturing processes

Waste recycling and regeneration

100% full recyclability when combined with polyester fabric



## 3.1 Innovation and R&D

### 3.1.1 R&D

The Company has established an R&D Division at the Kaohsiung Plant, serving as the core center for research and development, with engineers specializing across multiple fields. In addition to continuously innovating and improving existing artificial leather products, the Company is actively expanding R&D into the following areas: thin film products, fiber products, sports ball products, apparel products, and automotive products.

Response to Global Sustainability Trends – 3R Strategy (Recycle, Reduce, Reuse). The R&D Department incorporates the 3R principles as its annual development focus, dedicated to creating energy-saving and carbon-reducing products.

#### Three Major Themes

##### 1. RECYCLE

- Develop innovative materials and processes to improve product recyclability.
- Establish product recycling mechanisms to promote a circular economy.
- Use recycled polyester raw materials to develop low-carbon artificial leather.

##### 2. REDUCE

- Use recycled polyester and masterbatch coloring to produce undyed, carbon-reducing eco-friendly polyester yarn.
- Streamline internal or customer production processes to shorten manufacturing steps.
- Adopt lightweight materials to reduce carbon emissions during transportation and production.

##### 3. REUSE

- Encourage product reuse.
- Introduce recycled TPU materials and transform them into footwear components to reduce waste and enable reuse within both internal operations and customer supply chains.

#### Energy Saving and Carbon Reduction Axis

All 3R development efforts ultimately aim at energy conservation and carbon reduction. By lowering resource consumption, improving recyclability, and extending product lifecycles, the R&D Department develops products with reduced environmental impact.

#### Sustainable Development Goals

These R&D priorities align with the following United Nations Sustainable Development Goals (SDGs):

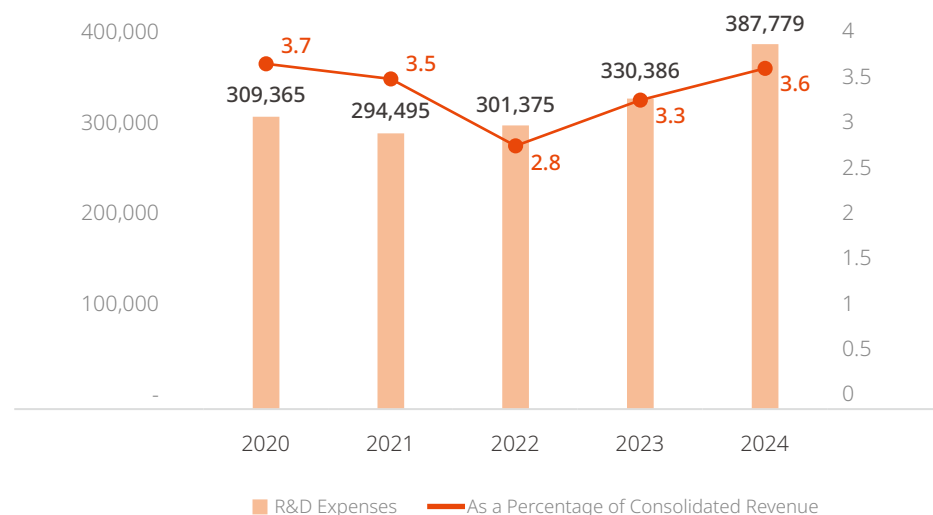
Goal 7: Ensure affordable, reliable, and sustainable clean energy for all

Goal 12: Ensure sustainable consumption and production patterns

Goal 13: Take urgent action to combat climate change and its impacts

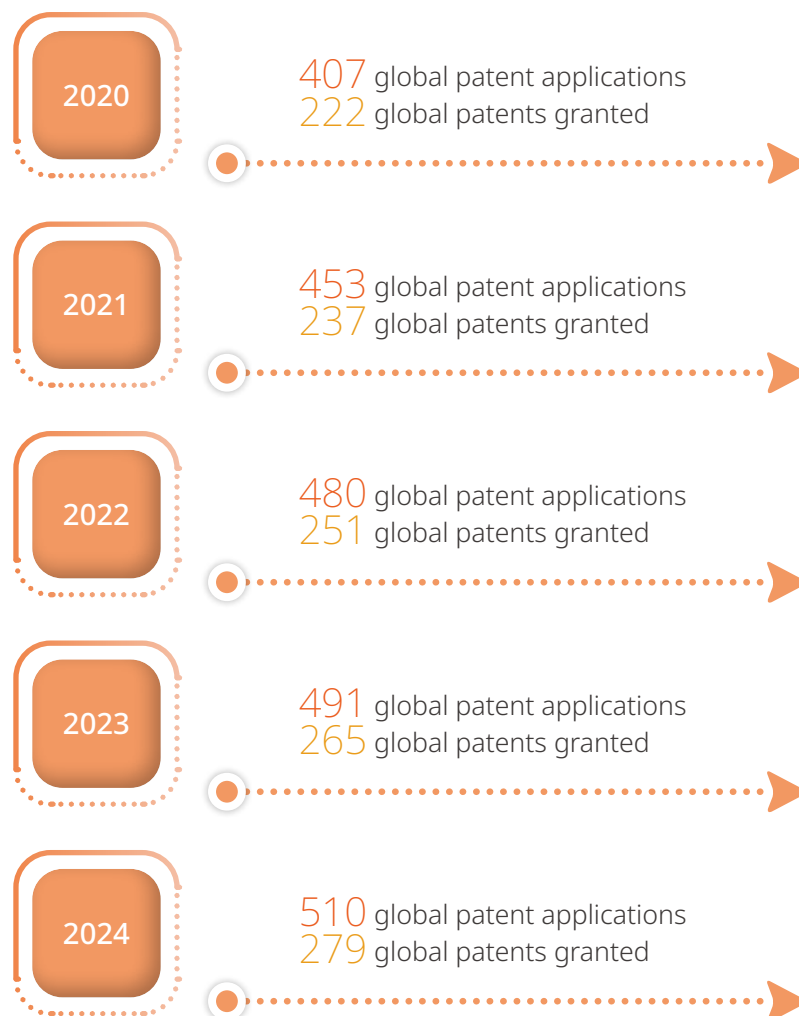
By adopting the 3R principles and emphasizing energy saving and carbon reduction, the R&D Department is committed to developing innovative products that foster sustainability and reduce environmental impact. These products will support customers and partners in contributing to a better future.

#### R&D Expenses



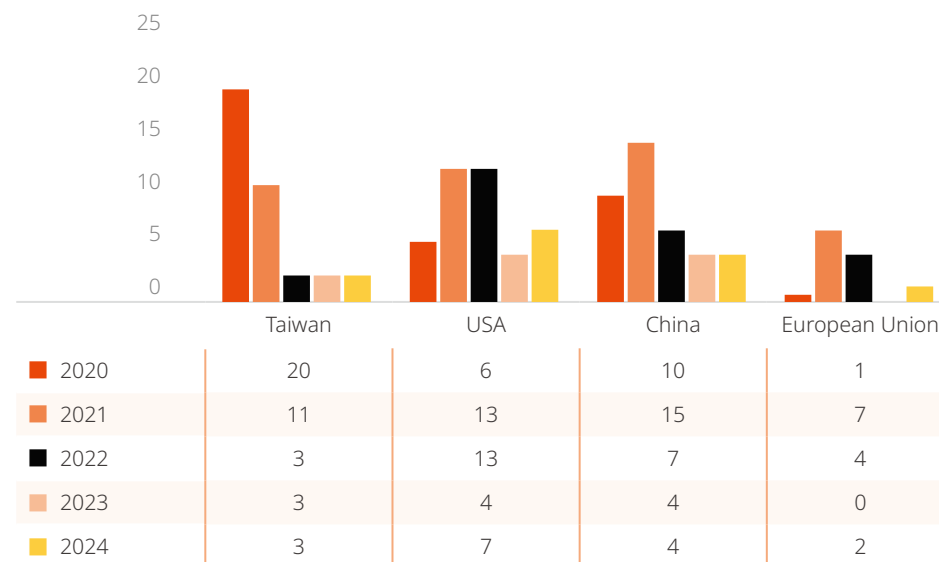
### 3.1.2 Innovation

The Company demonstrates its commitment to innovation through its patent achievements. Each year, it actively seeks patent protection and applies for patents for its products, including thin films, fibers, balls, apparel, and automotive components. The cumulative number of invention patent certificates granted in recent years is as follows:



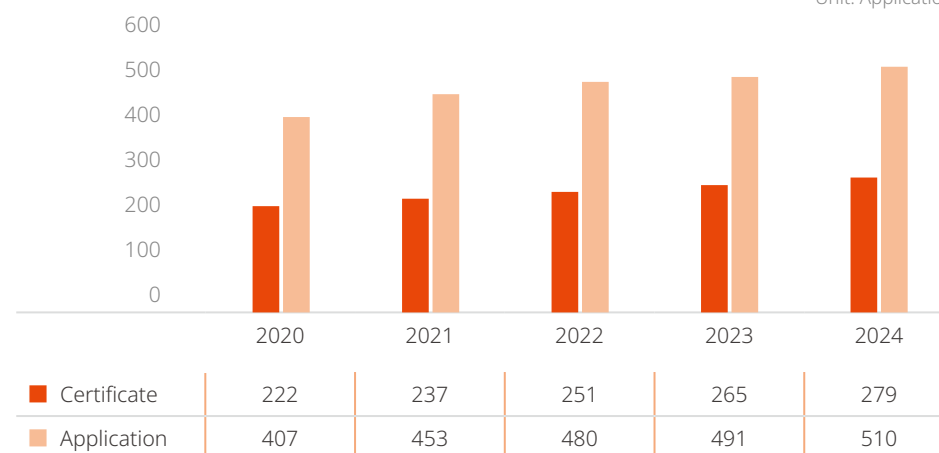
#### ► Distribution of SFC's Global Patent Applications by "Country"

Unit: Application



#### ► Accumulated Number of Global Patent Applications Filed and Approved

Unit: Application



## 3.2 Quality Management

### Significance of Product Quality to San Fang

Product quality directly impacts customer satisfaction, brand reputation, and competitiveness, making it the cornerstone of San Fang's success and long-term growth.

#### Impacts



**Positive Impact:** The Company can flexibly respond to diverse customer needs, swiftly adjust production lines to ensure smooth and timely delivery, and collaborate with customers to achieve shared objectives, creating a win-win outcome.

**Negative Impact:** Competitive pressure from peers and potential new entrants forces the Company to maintain product quality while managing costs, which compresses profit margins.

#### Policies and Commitments



San Fang's product quality policy is built on professionalism, integration, innovation, and service. The Company pledges to deliver products that meet customer expectations, uphold corporate social responsibility, and contribute to sustainable environmental and social development.

#### Metrics and Targets



Pursue zero customer complaints and high customer satisfaction.

#### Actions



Introduce automated production management to collect and analyze various data in real time, and strictly control product shipment quality.

#### Evaluation Method



Set internal performance targets and tracks the results monthly, and also utilizes external quality system audits for self-monitoring and corrective action, aiming for continuous improvement.

#### Stakeholder Engagement



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Corresponding sustainability indicators

Industry Issues

## 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).

### Product Quality and Safety Control

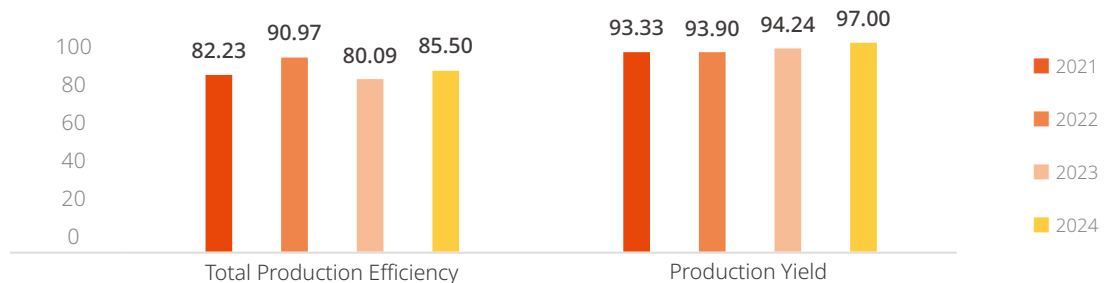
- The Company has established an RSL (Restricted Substances List) Committee to conduct sampling inspections from the entry of raw materials through the entire production process. It has also established a CIL (Chemical Information List) to guide R&D and production units in selecting raw materials that are harmless to both humans and the environment.

- A professional laboratory, certified by brand customers, is equipped with advanced instruments and qualified personnel. The lab can simulate various usage environments and conduct physical and chemical tests according to customer requirements. It strictly safeguards shipment quality and, in the event of non-conforming products, assists in investigation and analysis to identify the root cause and implement immediate corrective actions.
- The Company's products have obtained numerous well-known environmental and quality certifications, including: Oeko-Tex, GRS 4.0, RCS 2.0, TQP Auxiliary Material Supplier, and Green Mark, demonstrating that the Company's products are trustworthy.

### Intellectual Property Management Plan

- The Company is committed to the research and development of advanced technologies and to safeguarding the results of these efforts. It has established an intellectual property management system linked to its business objectives, with the dual purpose of strengthening competitive advantages and achieving business goals, while also preventing losses from internal leaks or external infringements.
- With respect to patents, the Company applies a comprehensive review mechanism, incentive schemes, and systematic talent development programs to accumulate patent strength, promote technological innovation, and build a robust patent moat.
- For trademarks, prior to product launches the Company conducts trademark searches, analysis, and planning, and applies for trademark registration in multiple jurisdictions. This secures exclusive rights, prevents consumer confusion, enhances corporate image, and increases product value.

### ► 2021–2024 Production KPI (%)



- For trade secrets, internally the Company enforces protection by requiring new employees to sign employment contracts and by regularly promoting policy awareness among staff, thereby reinforcing both responsibility and obligation for intellectual property protection. Externally, it signs confidentiality agreements with suppliers to ensure compliance with nondisclosure commitments.

### 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

Continue to build automated production and introduce online monitoring systems. Employ TPS analysis methods to diagnose projects, preventing anomalies before they occur, or trace the history of each stage to identify the root cause. This ensures optimal product quality control and consistently high shipping quality.



## ► Lab photos



## ► Diagram of the plant

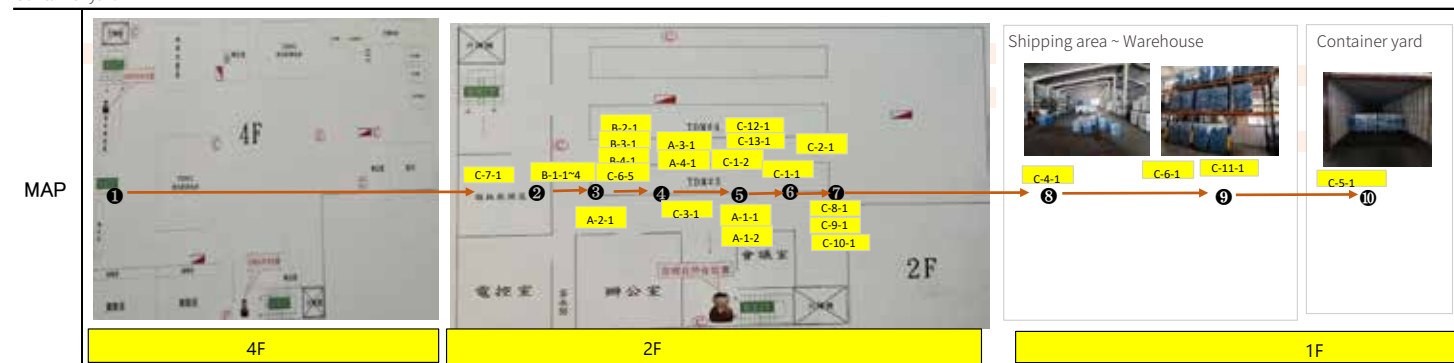


## ► Diagnostics of TPS engineering issues

### Diagnostics of engineering issues

Number of issues: 26

Processes: ① Raw material tank → ② Drying → ③ Extrusion & laminating → ④ Thickness measurement → ⑤ Edge trimming → ⑥ Winding → ⑦ Accessioning → ⑧ Shipping area → ⑨ Warehouse → ⑩ Container yard



Issues	NO.	Contents	NO.	Contents
	A-1-1	Waste trim on the left and right sides are produced with different widths and thicknesses	C-1-2	Unclear disclosure regarding exceptional items
	A-1-2	Waste trim due to excessive carrier thickness	C-2-1	4S/5 implementation is not yet complete, and quality, safety, and working hour issues are affecting results
	A-2-1	Defective products identified, along with significant wasted time	C-3-1	Insufficient awareness of worker safety
	A-3-1	Lack of quality management skills among on-site production supervisors	C-4-1	Waste of picking and packing work
	A-4-1	Lack of problem-solving skills among production supervisors	C-5-1	Low container load factor
	B-1-1	Incomplete standardization of tool cleaning procedures	C-6-1	No visualization for finished goods warehouse management
	B-1-2	Standard Operating Procedures for 3 personnels changeover are not defined	C-7-1	Dust pollution during filter tank cleaning
	B-1-3	Separate operations for wheel wiping and tool cleaning result in wasted time	C-8-1	High labor hours for iron box assembly operations
	B-1-4	Workers for wheel wiping repeatedly reach for tools	C-9-1	Excessive walking time during finished product packaging is a waste
	B-2-1	Poor blade replacement operation for waste trim cutting tools	C-10-1	Waste of labor hours in collection processes
	B-3-1	Traction work and interference from electrical equipment are causing frequent issues and wasting time	C-11-1	Waste in labor hours for inventory management
	B-4-1	Waste in inbound container cleaning operations	C-12-1	Waste of labor costs for supply pickup and delivery
	C-1-1	Machine production status is unclear	C-13-1	Tool retrieval walks reveal significant waste

### 3.3 Customer Satisfaction and Product Services

#### Significance of Customer Relationship Management to San Fang

Strengthen innovative cooperation with major brands, grasp early development opportunities, and provide differentiated products. Consolidate the deep cooperative relationship, establish a comprehensive sales and technical service system, and effectively expand brand sourcing while stabilizing order flow.

##### Impacts



**Positive Impact:** Improving customer satisfaction enhances customer loyalty, promotes positive word-of-mouth, and drives business growth for the Company.

**Negative impact:** If product or service quality fails to meet customer needs, satisfaction will decrease, potentially leading to customer loss, more complaints, and the spread of negative reviews in the market, which would harm the Company's reputation and performance.

##### Policies and Commitments



San Fang's product quality policy is built on professionalism, integration, innovation, and service. The Company pledges to deliver products that meet customer expectations, uphold corporate social responsibility, and contribute to sustainable environmental and social development.

##### Metrics and Targets



Strengthen innovative cooperation with major brands, grasp early development opportunities, and provide differentiated products. Consolidate the deep cooperative relationship, establish a comprehensive sales and technical service system, and effectively expand brand sourcing while stabilizing order flow.

##### Actions



**Quality assurance:** Ensure that products and services maintain high standards through strict quality control to reduce defects or errors.

**Quality customer service:** Provide fast, professional, and friendly customer service, resolving problems promptly and responding to customer needs.

**Active feedback mechanism:** Establish convenient channels for collecting feedback, listen to customer suggestions, and implement improvements quickly.

**Electronic digital sample cards:** Provide customers with real-time product references.

##### Evaluation Method



Customer Satisfaction Survey.

##### Stakeholder Engagement



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Corresponding sustainability indicators

Industry Issues

## 3.3 Customer Satisfaction and Product Services



### A complete market is divided into

- A** Source (brand origin)
- B** Production factory (T1): 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.



### 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** Production vendor:

Production vendors are the customers who actually place orders. For these customers' special project needs—such as meeting urgent delivery schedules for rush orders or providing customized handling methods to accommodate differences in production equipment—San Fang provides full support and assistance.

- C** Beginning in 2024, San Fang will provide more accurate and practical customer services based on development seasons and implementation milestones.



### One-stop Service from Branding to Market Planning

In addition to source brand customers, San Fang 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, For example: 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.



### Real-time Provision of Information

In addition to our standard color cards, we provide push notifications for new materials and company updates to keep our customers informed of the latest news.

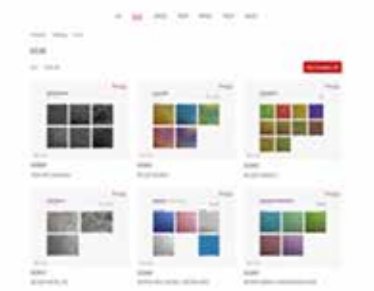


**Location: NW Show, Portland, OR, USA**  
**Booth Numbers: [410 / 412 / 311]**

### View all collections in our eCatalog

Account : [guest@sanfang.com.tw](mailto:guest@sanfang.com.tw)  
Password : 12345678

**Sign In**





### Customer Needs Products and Services

To enable customers to gain a deeper understanding of our products and experience their applications immediately, we have redesigned our electronic database. With this system, customers can quickly access product information without being limited by time or distance. In addition to text descriptions, we have carefully designed a material effect experience and a 3D simulation of finished products, allowing customers to instantly visualize the appearance and performance of future products. Furthermore, customers can use the database to conduct sample development and material adjustments in real time. Compared with traditional workflows, this improvement significantly reduces development time by at least one month and lowers costs considerably.

#### S2662

RFG110-AURORA



+ 加入詢問車 (0)

##### Attention

Vamp / Trim

##### Description

PU / Recycled Nylon microfiber

##### Customized color

Yes

##### Base colors available

Blk / White

##### Finish available other substrates

Yes

##### Heat press / H/F Welding

Yes / Yes

##### Remark

N/A

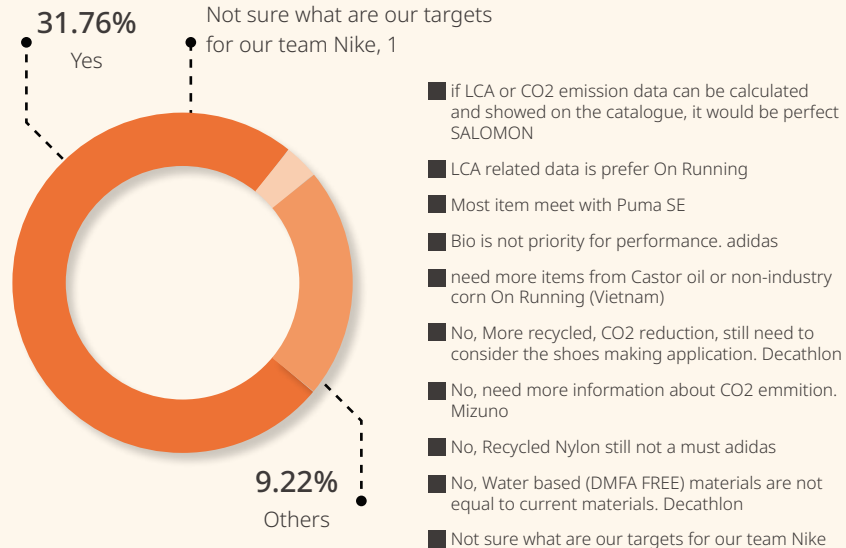




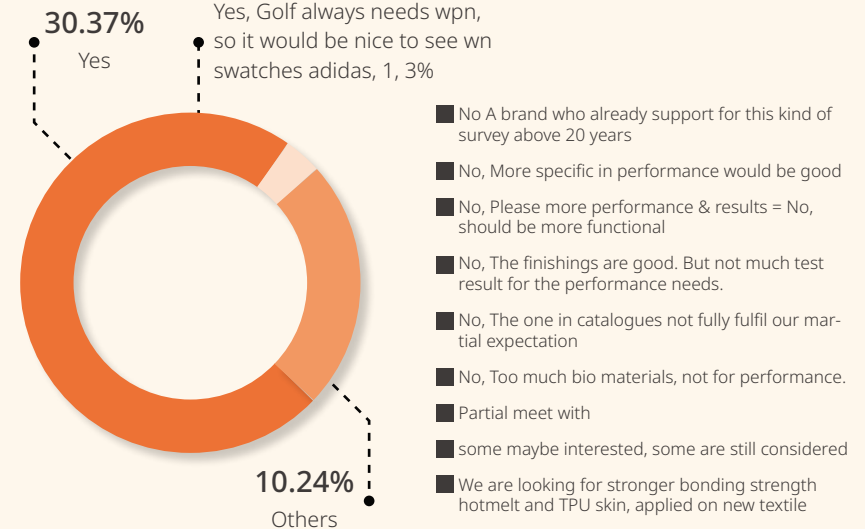
Customer Needs Satisfaction Survey

To further enhance service quality and customer satisfaction, we conduct surveys prior to the official release of the color card to gain a deeper understanding of customer needs and future development directions. At the same time, we refine areas of improvement based on the shortcomings of the previous season's color card, ensuring that San Fang's product development remains closely aligned with customer requirements.

Do the products in our seasonal catalog meet your sustainability requirements?



Do the products in our seasonal catalog meet your performance needs for foot-wear design and development?





### Protection of Customer Privacy and Rights

San Fang always adheres to relevant laws, regulations, and international standards, including:

1. Submitting products annually to third-party impartial organizations to obtain Restricted Substances List (RSL) reports that confirm compliance with national and brand requirements.
2. Obtaining certifications such as Higg, ISO 14001, ISO 14064, ISO 9001, TQP, Oeko-Tex, Type II Environmental Label, ISO 14067, GRS, RCS, IATF 16949, and SLCP to meet customer and regional requirements.
3. Ensuring that all business information, transaction data, and any customer privacy-related information are compiled and archived by a dedicated unit to fully implement data protection requirements.
4. Conducting annual customer engagement through on-site visits or participation in exhibitions to understand product and service needs, gather feedback, and provide immediate communication channels to safeguard customer rights.
5. Signing confidentiality agreements for all collaborative projects with customers to prevent information leakage and protect customer interests.

### Complaint channel

- Contact information for each product's business representative is available on the Company's website.
- Website: <https://www.sanfang.com/contact>

### Complaint Procedure

#### Complaint Procedure

- (1) **A** Report problems promptly, providing the following: complainant information, product information, problem description, and proof of purchase.  
**B** The handling unit shall record the complaint details and assign a case number.
- (2) Preliminary Handling:  
**A** Confirm the complaint within two working days, conduct a preliminary investigation, and clarify responsibility.  
**B** Straightforward issues shall be resolved and replied to promptly; cases requiring further investigation will be forwarded to the relevant department.
- (3) Investigation and Analysis:  
**A** Complete a detailed investigation and analysis within seven working days, and propose a handling recommendation.  
**B** The investigation may include reviewing data, testing products, and checking records. If necessary, relevant units may conduct joint inspections or tests.
- (4) Handling and Response:  
**A** Based on the investigation results, propose a handling plan (restocking, return, compensation, etc.), and upon approval, respond to the customer within five working days to reach consensus.  
**B** If a solution cannot be determined within the scheduled time, the customer shall be proactively informed of the progress.
- (5) Case Closing and Follow-Up:  
**A** Complaints shall be archived, and their causes and types analyzed periodically as a reference for improvements.  
**B** The QA Department shall regularly track the status of handling to ensure procedural compliance and review effectiveness.

## 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.

In 2024, we worked with **184** suppliers, defined as Tier 1 suppliers as their upstream operations are primarily raw material suppliers. We estimate approximately **644** suppliers beyond Tier 1.

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.

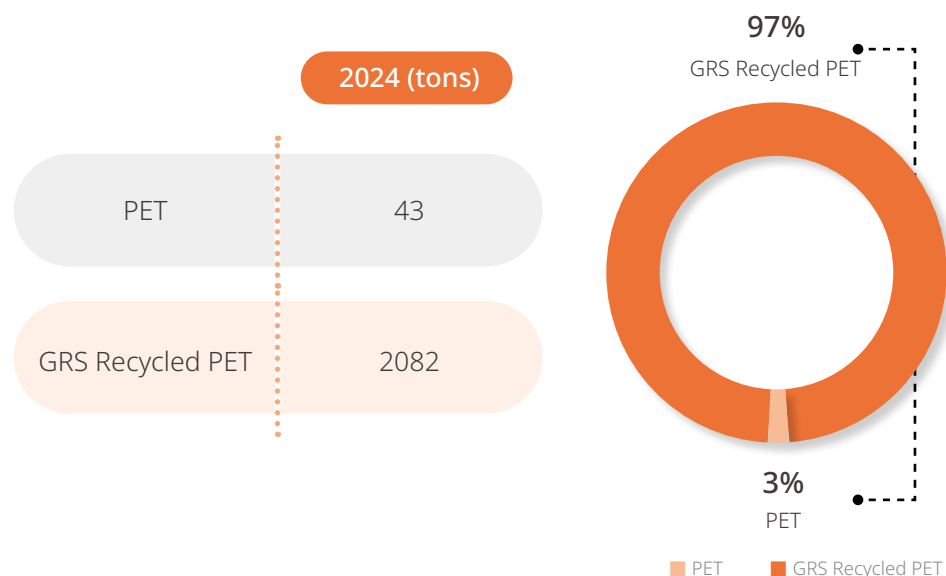
According to local regulations, 26 primary suppliers with wastewater discharge licenses were investigated in 2024.

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 2024, 2082 tons of GRS recycled PET were used, and we also reduced the use of organic solvents in raw materials to cut VOCs.



### 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 22,849 tons of raw materials procured in 2024, PU resin-related raw materials accounted for 40.45%; water-based PU, TPU, PU, PET and other raw materials accounted for 51.21%; and other additives, pigments, etc. accounted for 8.34%.

	2022	2023	2024
Annual Procurement (tons)	25,236	23,717	22,849
PU Resin-related Raw Materials (%)	36.00%	41.32%	40.45%
Water-based PU, TPU, PU, PET, etc. (%)	56.50%	50.98%	51.21%
Other Additives, Pigments, etc. (%)	7.50%	7.70%	8.34%

### 3.4.3 Low-carbon Procurement

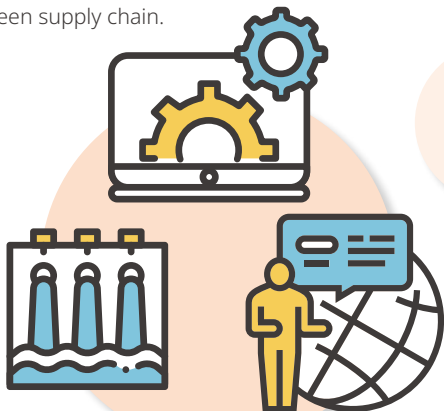
When developing materials, priority is given to the use of BIO (biological) materials or to companies certified under the Global Recycled Standard (GRS), Global Compliance Standard (GCS), and ISO 9001 (Quality Management System). The Company also actively seeks materials that can be issued a Transaction Certificate (TC). At the same time, currently used raw materials are being replaced with the above types of materials, which is a positive step toward 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.

#### Environmental Impact in the Supply Chain

1. Supplier awareness initiatives have been carried out on the Supplier Code of Conduct, with 83 signed acknowledgements returned in 2024.
2. The number of certified suppliers has also increased, with 113 suppliers obtaining raw material certifications in 2024.

In order to reduce supply chain risks, San Fang regularly conducts environmental impact assessments across its supply chain. The assessment items include ISO 14001 certification, wastewater discharge, Higg FEM, and other environmental data. According to the latest supplier survey, 14.9% of suppliers are qualified for wastewater treatment, 1.1% have passed the Higg FEM assessment, and 43.7% have obtained ISO 14001 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:

Item	Obtained Higg FEM Certification	Obtained ISO 14001 Certification	Qualified for Wastewater Treatment
Tier-1 suppliers that have completed the sustainability environmental assessment.		174	
Number of Suppliers Passing Certifications	2	76	26
Percentage	1.10%	43.70%	14.90%

### 3.4.4 Launch Warehouse Management System Implementation

The Company has initiated the implementation of a Warehouse Management System (WMS), aiming to significantly enhance warehousing efficiency through standardized processes and data governance, thereby strengthening competitiveness in the global supply chain.

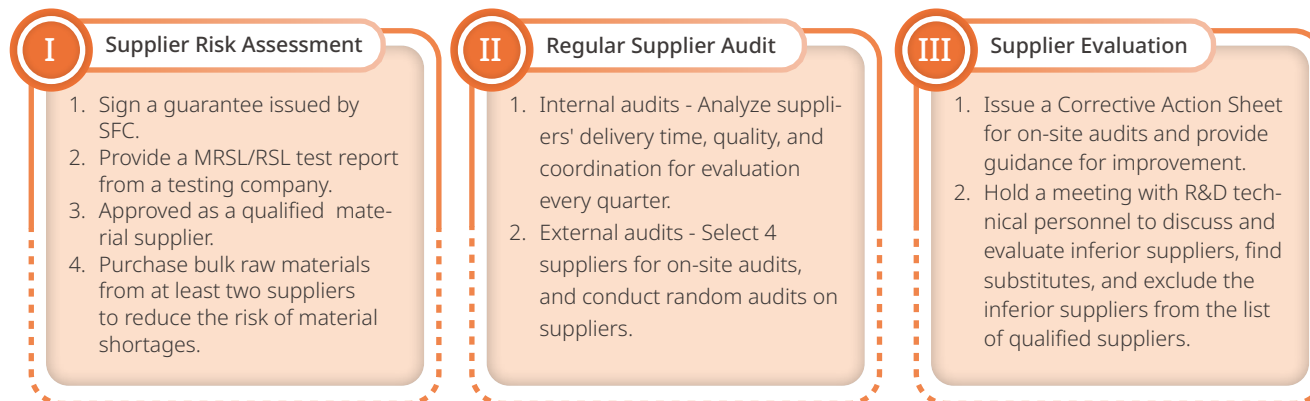
Our goal is to establish a highly efficient, precise, and sustainable smart warehousing model that ensures greater flexibility and visibility in production and logistics processes. Through accelerated and refined data, decision-making becomes more forward-looking and proactive.

With the adoption of the WMS, San Fang improves raw material management, carbon emission tracking, and operational decision-making support, thereby accelerating digital transformation and advancing toward a more efficient and intelligent management model. We are also deepening supply chain optimization to further enhance operational efficiency, maintain competitiveness in the global market, and achieve both smart manufacturing and sustainable operations.



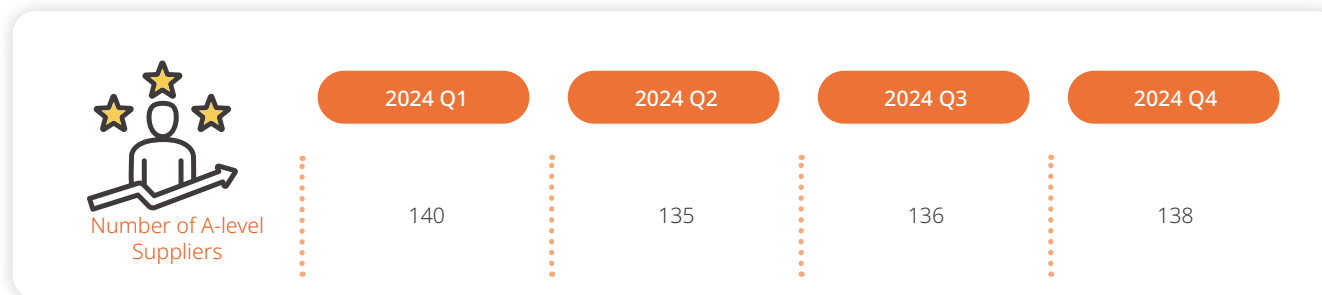
### 3.4.5 Risk Assessment

Currently, the R&D and Procurement departments jointly support material development. The R&D team identifies suitable products for testing according to requirements, while the Procurement team evaluates suppliers' delivery lead times, unit prices, and quality. Only after successful testing are materials formally included in the sourcing specifications.



#### Evaluation Results

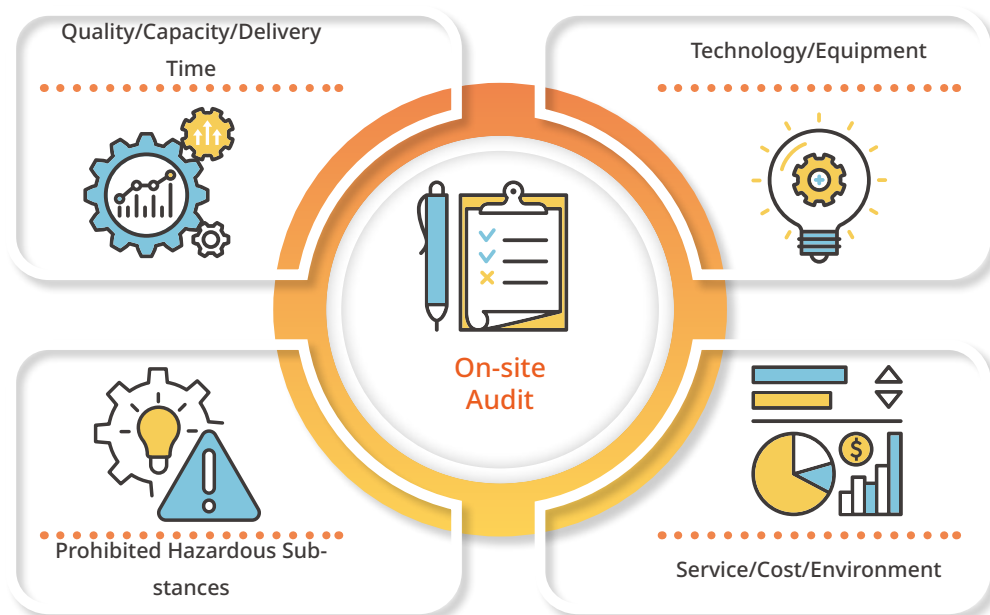
Suppliers are regularly evaluated under a grading system in which 100 ~ 81 points are rated grade A, 80 ~ 60 points (inclusive) are rated grade B, and below 60 points are rated grade C; evaluation criteria include the number of defective items, overdue delivery ratio, cooperativeness, excess freight costs, etc.; suppliers rated grade B will have order quantities reduced as appropriate, and those rated grade C will be replaced by alternative vendors and have their qualification cancelled; in 2024, for all four quarters, from the first to the fourth, the rating was grade A.



### 3.4.5 Risk Assessment

Each year, the Company organizes an interdepartmental audit team to conduct on-site audits and certifications of suppliers to ensure compliance. If the supplier fails to meet the standards, we will provide guidance to help them improve. In 2024, we conducted on-site audits of 4 suppliers, achieving an average score of 97.75%. If any problems are found, an audit correction notice will be issued and suppliers will be instructed to make improvements as required. All suppliers completed the relevant requirements within the specified timeframe. For purchased suppliers, the goal of the on-site evaluation is to assess different product categories.

In 2024, two suppliers will be selected for evaluation of both thin film and artificial leather products, with an average score of 97.75%.



#### Sustainable Corporate Responsibility

Our supply chain consists of Taiwanese suppliers, accounting for 80%, and suppliers from other regions, accounting for 20%. 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. Including five main 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.

**On-site audit of IATF 16949** averaged a **97.75%** completion rate.

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.

**All contractors will be required to sign an integrity agreement and attach it to the contract.**



# 04 CHAPTER

## Environmental Sustainability

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- 4.1 Environmental Sustainability Management Policies and Objectives
- 4.2 Energy Management
- 4.3 Water Resource Management
- 4.4 GHG Reduction
- 4.5 Waste and wastewater 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 CO<sub>2</sub>e, 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.

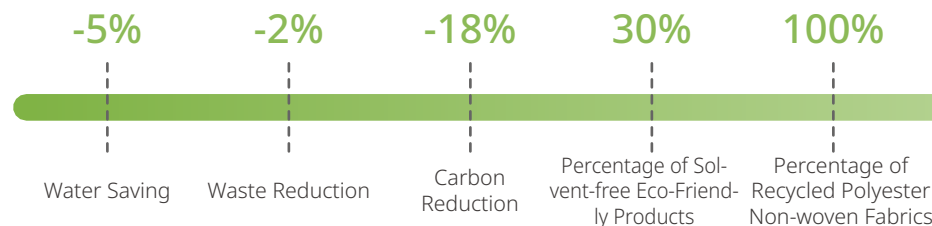
### ● Participation in International Environmental Protection Issues

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.

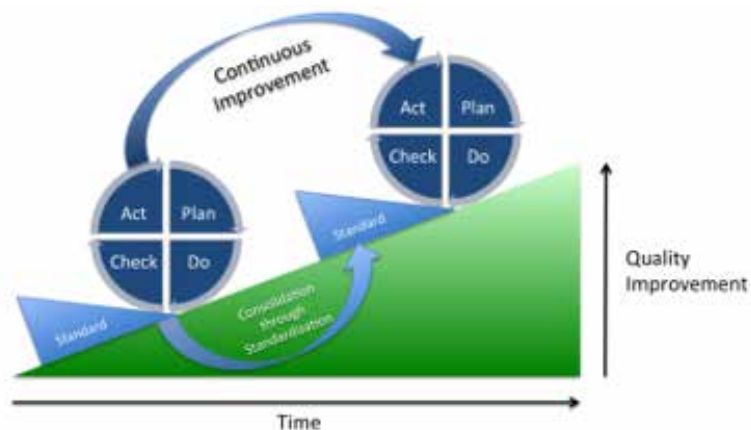


### 2025 Environmental Goals

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 2024 were reported to the board of directors in every quarter and approved by the senior management.

### ► Report to the Board of Directors on May 8, 2025

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	<ul style="list-style-type: none"> <li>The personnel in charge of each subsidiary were listed in the organization chart at the ESG Development Committee meeting in January 2023.</li> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>Completed the SBTi education and training course from April 22 to April 25, 2024.</li> </ul>
Strategic Goal Setting	Policy Establishment Group of the Company's ESG Development Committee	<ul style="list-style-type: none"> <li>Goals for carbon reduction, waste reduction, and water conservation were set at the ESG Development Committee meeting in February 2023.</li> </ul>	<ul style="list-style-type: none"> <li>Completed.</li> </ul>
Control Mechanism Development	The Sustainability Implementation Group and the Environmental Planning and Energy Management Team of the Company's ESG Development Committee	<ul style="list-style-type: none"> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing.</li> </ul>
Inventory Scheduling	The Sustainability Implementation Group and the Environmental Planning and Energy Management Team of the Company's ESG Development Committee	<ul style="list-style-type: none"> <li>We plan to complete the 2023 internal GHG inventory of all overseas subsidiaries by the third quarter of 2024.</li> <li>The parent company has set a goal to complete the internal GHG inventory for 2023 by the end of April 2025, and has commissioned SGS to complete the parent company's GHG verification by June 2025.</li> </ul>	<ul style="list-style-type: none"> <li>The greenhouse gas activity data of our subsidiaries for 2022 and 2023 was internally verified in September 2024.</li> <li>The parent company's GHG inventory registration was completed by the Environmental Protection Administration on October 7, 2023.</li> <li>The internal GHG inventory of the parent company is in progress for 2024.</li> </ul>

## 4.1.2 Sustainability Initiatives

The Company places great importance on the sustainable development of the industry, aligning with international initiatives on sustainable textiles to provide customers with products that comply with ZDHC standards; it also participates in the Higg Index environmental sustainability assessment, Higg MSI life cycle assessment, SLCP social labor integration project, and ZDHC zero-discharge standards for hazardous chemicals across the textile, leather, and footwear industries—initiatives promoted by the Sustainable Apparel Coalition (SAC)—to enhance and continuously improve environmental performance, thereby contributing to the sustainable development of the industry.

► Report to the Board of Directors on May 8, 2025



## 4.1.3 Environmental Fines

Date of Punishment	Punishment Document No.	Provision Violated	Content of Violation	Amount of Fine/NTD in Thousands	Management Solution
March 05, 2024	20-113-030004	Article 22, Paragraph 3 of the Air Pollution Control Act	The 2023 regular inspection (dimethylformamide) had not been declared by January 12, 2024, as required. This exceeded the deadline set in Article 13 of the "Regulations for Management of Stationary Pollution Source Self-Inspection or Commissioned Inspection and Reporting," and violated Article 22, Paragraph 3 of the Air Pollution Control Act.	100	The inspection results were reported on March 1, 2024, as instructed by the competent authority. In the future, when confirming the inspection schedule, the reporting deadline will be recorded simultaneously.
November 20, 2024	20-113-110051	Air Pollution Control Act, Article 23, Paragraph 1, penalized in accordance with Article 62 of the same Act. Environmental seminar imposed pursuant to Article 23, Paragraph 2 of the Environmental Education Act.	The monitoring facilities of the air pollution control equipment were not properly maintained, violating Article 23, Paragraph 1 of the Air Pollution Control Act.	150	On August 26, 2024, the following corrective measures were completed: 1. Replaced the waste gas flow meter of the scrubber (A361) to ensure normal data display and compliance with regulations. 2. Re-calibrated and tested the flow meter equipment to ensure proper functioning. After improvements, all relevant operating parameters complied with the permit requirements. If subsequent equipment failures occur and cannot be repaired immediately, production will be suspended until repairs are complete to prevent recurrence.

## 4.2 Energy Management

### Significance of Energy Management and Renewable Energy for SFC

Good energy management can improve operational performance and reduce environmental load and carbon footprint.

#### Impacts



**Positive impact:** As energy costs decrease, profit margins increase, helping to enhance brand image and meet consumer demand for environmental protection.

**Negative impact:** Low-carbon energy use is a future trend. Power rationing will directly affect production. Failure to respond properly may increase operating costs.

#### Actions



Implementing greenhouse gas reduction measures in the factory area, improving energy efficiency, and assessing the benefits.

Introduce the types of energy generated and energy-saving cases to the Group's personnel.

#### Policies and Commitments



Use solar power generation, purchase REC certificates, and progressively increase the proportion of green electricity, while improving the energy efficiency of production equipment.

#### Evaluation Method



Statistical data on greenhouse gas emissions.

Analysis, review, and reporting on energy-saving effectiveness

#### Metrics and Targets



Collect and review greenhouse gas emission statistics, comparing with the previous year, with the goal of not exceeding the same period last year.

#### Stakeholder Engagement



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Corresponding sustainability indicators

302 Energy

## 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. SFC has expanded into diverse markets through the development of critical basic raw materials and application technologies, and has actively invested in environmentally friendly products, circular economy, recycling, and the manufacturing and application of functional leather, films, yarn, fibers, and garments. With energy conservation, carbon reduction, and environmental protection as our guiding principles, we strive to fulfill our corporate responsibility in environmental issues. Energy-saving measures are promoted comprehensively throughout the entire process, from equipment procurement to production.



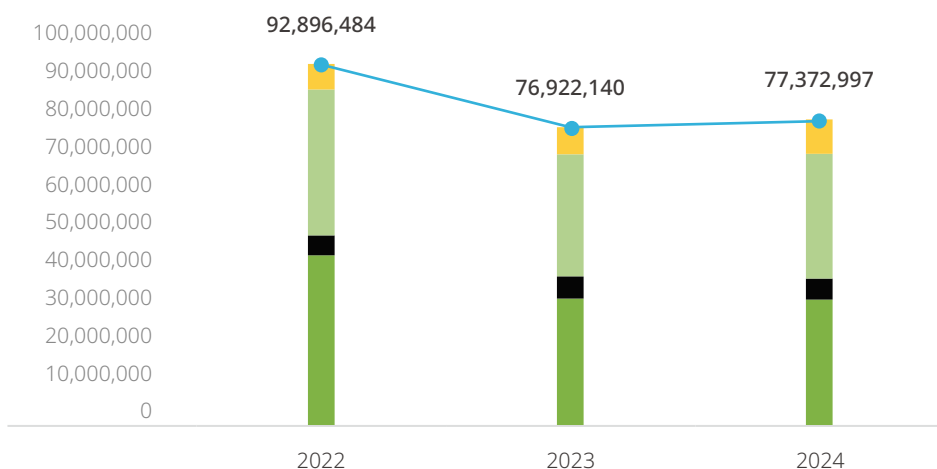
Item	Content
Procurement of new equipment and improvement of existing equipment	Assess the compliance of the functionality of equipment with production requirements and further evaluate the low-energy consumption and water-saving performance to achieve the goals of reducing GHG emissions and saving energy.
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 operational efficiency of equipment and enhance its effectiveness, and establish a smart meter energy management system.
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	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

In 2024, factories in different regions continued to implement various energy-saving projects. The Group's total energy consumption consisted of electricity at 77,372,997 kWh, natural gas at 5,546,100 m<sup>3</sup>, and biomass fuel at 52,394,037 kg, representing an overall increase of approximately 3.68% compared to 2023.

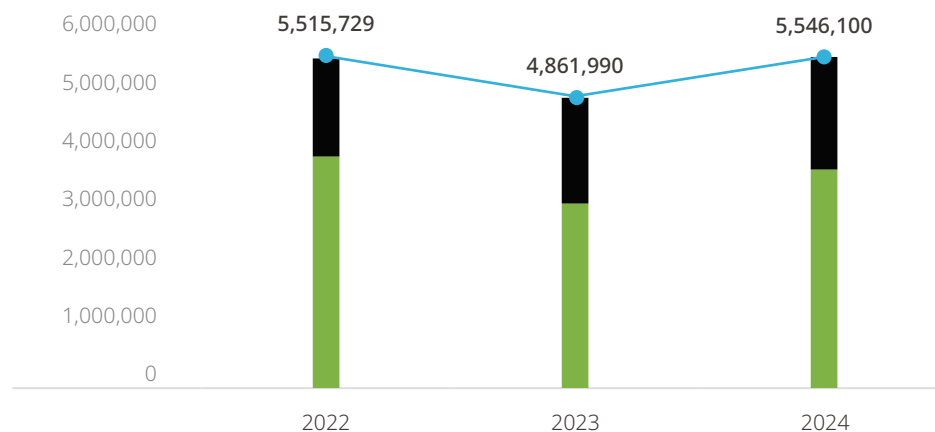
The energy consumption per NT\$1,000 of production value was 34.31 kWh/NT\$1,000 in 2024, a decrease of approximately 2.99% compared to 2023.

### ► Electricity consumption (kWh)



	2022	2023	2024
Indonesia Factory	7,509,300	7,389,180	7,609,886
Vietnam Factory	35,654,600	32,152,800	31,535,500
BAL Factory	5,982,584	5,209,560	5,366,811
Kaohsiung Factory	43,750,000	32,170,600	32,860,800
<b>Total</b>	<b>92,896,484</b>	<b>76,922,140</b>	<b>77,372,997</b>

### ► Natural Gas (m3)

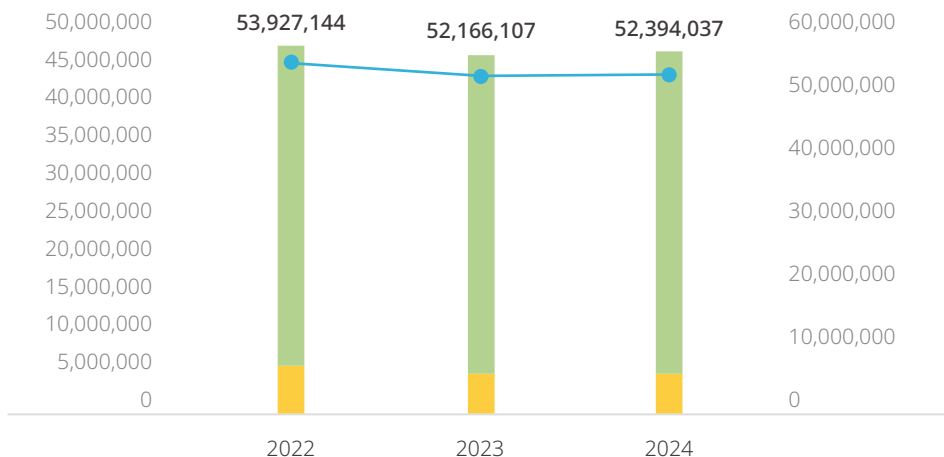


	2022	2023	2024
Indonesia Factory	0	0	0
Vietnam Factory	0	0	0
BAL Factory	1,686,014	1,778,978	1,885,000
Kaohsiung Factory	3,829,715	3,083,012	3,661,100
<b>Total</b>	<b>5,515,729</b>	<b>4,861,990</b>	<b>5,546,100</b>

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

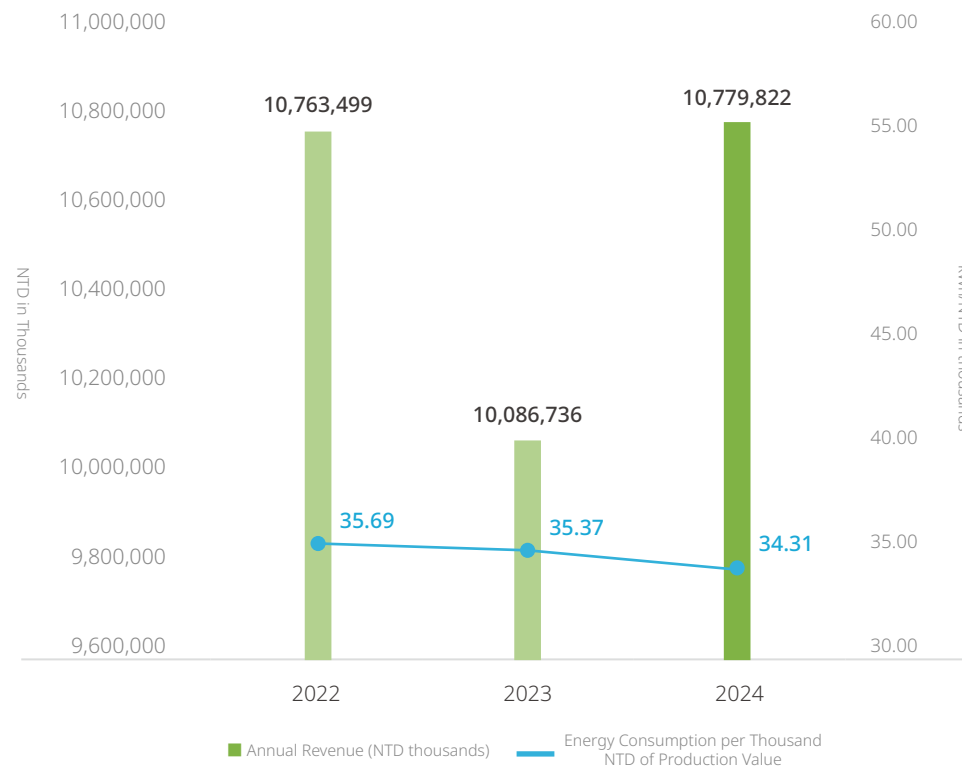
■ After-tax net income - attributable to the parent (NTD million) ■ Earnings per share (NTD)

### ► Biofuels (kg)



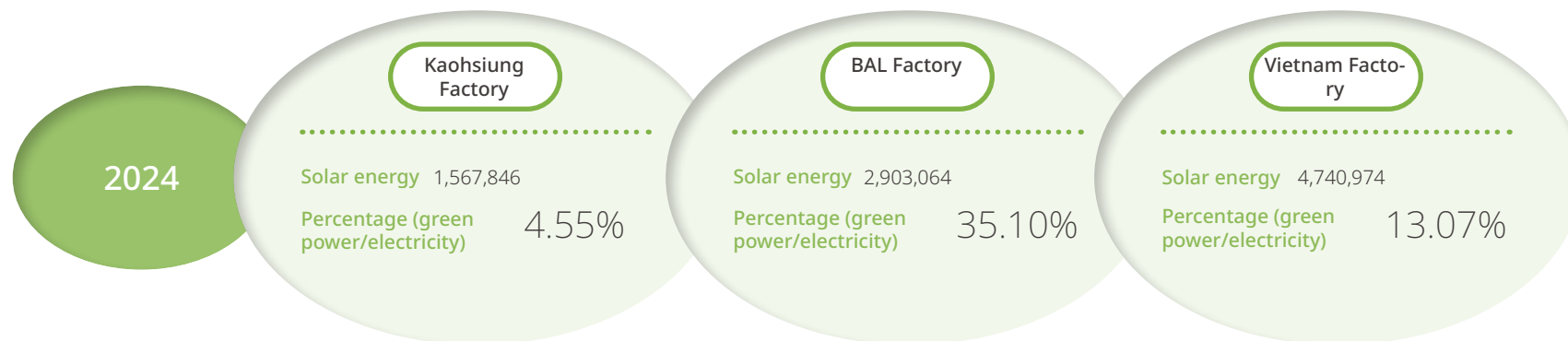
	2022	2023	2024
Indonesia Factory	6,395,932	5,965,983	5,932,742
Vietnam Factory	47,531,212	46,200,124	46,461,295
BAL Factory	0	0	0
Kaohsiung Factory	0	0	0
Total	53,927,144	52,166,107	52,394,037

### ► Comparison of Revenue and Electricity Consumption



### ► Consumption of the Group by Region

	2024	Kaohsiung Factory	BAL Factory	Vietnam Factory	Indonesia Factory	Total
Energy Consumption by Factory(KWH)		76,000,820	29,567,403	225,621,098	38,713,924	369,903,245
Percentage		20.55%	7.99%	60.99%	10.47%	100.00%



2024	Energy Consumption of the Group (GJ)	Percentage
Purchased Electricity	278,540	20.95%
Natural Gas	225,195	16.94%
Biofuels	792,459	59.60%
Solar Energy (Self-consumed)	16,095	1.21%
Solar Energy (Purchased)	17,067	1.28%
Diesel Fuel	233	0.02%
Total	1,329,589	100%

Distribution of the Group's Energy Consumption by Type

2024, the Group's main internal energy source was biofuels, followed by electricity and natural gas. In 2024, solar energy installations and purchased solar power were gradually introduced.

#### Kaohsiung Factory's self-consumed solar energy

Investment amount NT\$47.95 million,  
Installed capacity 1,233 kWp,  
Power generation 1,567,846 kWh  
※ The solar energy share at the Kaohsiung Plant is approximately 4.55%

#### Vietnam Plant purchased solar power

Purchased electricity 4,740,974 kWh  
[Purchased installed capacity 3,595 kWp]  
※ The solar energy share at the Vietnam Plant is approximately 13.07%  
※ In 2024, REC purchases 86.93%,  
Green electricity share reaches 100% in 2024

#### BAL Factory's self-consumed solar energy

Investment amount NT\$52.52 million,  
Installed capacity 2,707 kWp,  
Power generation 2,903,064 kWh  
※ The solar energy share at the BAL Factory is approximately 35.1%  
※ Planned REC15% purchases for 2025,  
2026 REC purchases 40%,  
2027 REC purchases 65%,  
Green electricity share reaches 100% in 2027

#### Indonesia Factory

In 2024, REC purchases 100%,  
Green electricity share reaches 100% in 2024

### 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 36 power-saving measures and projects were implemented in 2024.

	Investment amount in 2024 (NT\$)	18,383,400
	Total	
Electricity	8,807,289	Saved amount (kWh/year)
Water	39,451	Saved amount (tons/year)
Natural Gas	730,812	Saved (M <sup>3</sup> /year)
Biofuels	540	Saved amount (tons/year)

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

Item	Number of Measures
Procurement of new equipment and improvement of existing equipment	3
Machine energy consumption control	2
Exhaust ventilation systems	10
Air compressor systems	8
Power management	11
Others	2
Total	36

#### Electricity Conservation

Every year, the Group can save about 8,807 thousand kWh of electricity, about 730,812 m<sup>3</sup> 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**
  - The extruder heater was replaced with an infrared heater, which can save about 128,621 kWh of electricity per year.
  - 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 652,824 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 18,849 kWh of electricity per year.
- Air compressor systems**
  - 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.
  - Zero air loss drains were installed in the air compressor system, reducing exhaust volume and cutting electricity costs by 3%, saving 153,400 kWh per year.
  - The original system pressure was set at 7 kg/cm<sup>2</sup>. The pressure setting was lowered to 6.2 kg/cm<sup>2</sup>, saving 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.

Replacing the existing fans with air-suspended blowers can save approximately 56% in costs and 275,502 kWh of electricity per year.

## 4.3 Water Resource Management

### Significance of Water Resource Management to San Fang

Establish a comprehensive environmental management system to reduce water pollution during operations and minimize environmental impacts.

#### Impacts



**Positive impact:** Enhance water resource management efficiency, reduce water waste, ensure compliance with environmental regulations, and strengthen the corporate sustainability image.

**Negative impact:** Water shortages resulting from climate change will increase operating costs, and water rationing will directly affect production and revenue.

#### Actions



**Process optimization and equipment management:** Regularly inspect and maintain production equipment to ensure no leaks and avoid efficiency losses.

**Wastewater management and discharge control:** Regularly monitor and record wastewater discharge data to ensure compliance, reduce fines, and minimize environmental risks.

#### Policies and Commitments



**Strengthen water conservation management:** Through internal monitoring and improvement measures, continuously enhance water resource efficiency and reduce waste.

**Ensure regulatory compliance:** Strictly comply with government water resource management and wastewater discharge standards.

**Raise employee awareness:** Promote internal education on water resources to improve awareness of water conservation and environmental protection, ensuring practical implementation.

#### Evaluation Method



**Internal monitoring and audits:** Conduct periodic audits to ensure effective implementation of water conservation measures and optimization based on data.

**Third-party testing and reporting:** Engage professional organizations to conduct regular water quality testing to ensure discharged water meets required standards.

#### Metrics and Targets



**Water consumption per unit of product:** Reduce by 5% by 2025.

**Wastewater discharge standards:** 100% compliance with government and environmental regulations.

#### Stakeholder Engagement



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Corresponding sustainability indicators

303 Water

## 4.3 Water Resource Management

### 4.3.1 Water Resource Management Objectives

All San Fang operations implement water reduction initiatives. Using 2018 as the baseline year, the goal is to achieve a 5% reduction in water consumption per unit of product by 2025.

### 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.

Region	Water Risk Level
 <b>Taiwan</b>	Low - Medium (1-2)
 <b>China</b>	Low - Medium (1-2)
 <b>Vietnam</b>	Medium-High (2-3)
 <b>Indonesia</b>	Medium-High (2-3)

- 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	BAL Factory	Total
2020	188.2	177.7	16.8	46.6	429.3
2021	165.9	202.7	15.6	38.8	423
2022	171.7	190.3	19.2	30	411.2
2023	140.8	196.4	24.5	41.4	403.1
2024	142.2	193.1	22.7	40.6	398.6

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 target for water consumption reduction is a 5% reduction compared to 2018.

#### ► 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
2020	97.9	31.7	10.6
2021	89	41.7	10.8
2022	102.8	45	18.5
2023	77.8	49	18.7
2024	71.3	51	7.1

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

### Significance of Climate Change and Greenhouse Gas Management to San Fang

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.

#### Impacts



**Positive impact:** Actively manage GHG reduction in line with international carbon reduction trends, reduce carbon tax risks, and enhance brand image and market competitiveness.

**Negative impact:** Failure to properly respond to physical and transition risks caused by climate change will increase operating costs.

#### Actions



**Energy management and equipment upgrades:** Improve production processes to reduce energy consumption.

**Renewable energy usage:** Since 2022, the Kaohsiung Plant and BAL Factory have been installing solar power generation equipment to increase the proportion of green energy used.

**Low-carbon products and green supply chain management:** Optimize production bases and supply chains to reduce carbon emissions from long-distance transportation.

#### Policies and Commitments



**Join SBTi:** San Fang Group applied to join SBTi in July 2023 and set specific and feasible carbon reduction targets based on Scope 1, 2, and 3 inventories.

**Strengthen energy management and energy-saving measures:** Improve energy efficiency, reduce high-energy-consuming products, and promote the development of clean energy and low-carbon technologies.

**Reduce carbon footprint of products and services:** Optimize transportation strategies to cut long-distance transportation emissions.

#### Evaluation Method



Conduct carbon inventories in accordance with the operational guidelines announced by the Ministry of Environment and regularly review carbon reduction performance.

Ensure the accuracy of carbon reduction data through DNV verification.

#### Metrics and Targets



**Carbon emission intensity:** Achieve the reduction target set by SBTi.

#### Stakeholder Engagement



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Corresponding sustainability indicators

305 Emissions

## 4.4 GHG Reduction

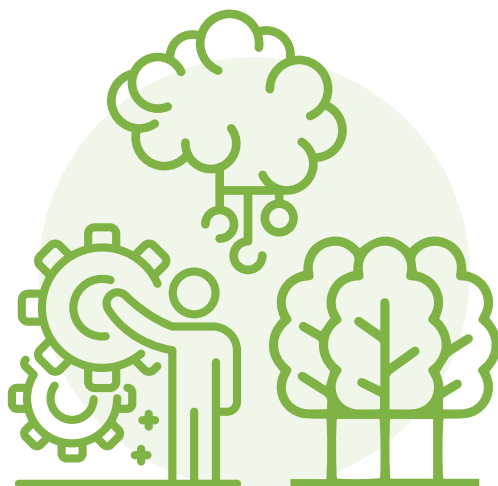
The Company focuses on collecting and analyzing greenhouse gas (GHG) emission data and calculates emissions in accordance with the Intergovernmental Panel on Climate Change (IPCC) and ISO 14064-1 international standards.

The GHG emissions are assessed under the following three scopes:

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

**Scope 2:** Purchased electricity.

**Scope 3:** Waste transportation, solid and liquid waste disposal, upstream and downstream transportation and distribution, business travel, upstream and downstream leases, employee commuting, purchased goods, product processing, product disposal, and capital goods management.



### ► Kaohsiung Factory's GHG Emissions

At present, only the Kaohsiung Plant in Taiwan has completed third-party verification for Scope 1 and Scope 2 of ISO 14064-1, as required by the Environmental Protection Administration. Scope 3 has undergone self-assessment for 2023 and 2024.

From 2022 to 2023, the GHG emissions of individual companies were verified by a third-party organization. In 2024, the Company will commission SGS to complete verification by the end of June 2025.

Unit: Tons

	2022	2023	2024
Scope 1	8,190.10	6,968.10	8,166.70
Scope 2	21,656.20	15,892.30	16,233.20
Total	29,846.40	22,860.40	24,399.90
Intensity = GHG emissions/Million NTD of revenue	38.77	35.79	39.73
Scope 3	184,333.60	117,741.40	108,482.00
Verification institution	Scope 1 and Scope 2 Verified by SGS	Scope 1 and Scope 2 Verified by SGS	Conduct inspection by the end of June 2025.
Statement and opinion issued by the verification institution	Unqualified opinion	Unqualified opinion	

From 2022 to 2024, the subsidiaries' GHG emissions have been self-inventoried, and since 2023 the implementation progress has been reported quarterly to the Board of Directors.

► GHG Self-Inventory of Subsidiaries

Unit: Tons

Year	Subsidiary	PT. San Fang Indonesia/Indonesia	San Fang Vietnam/Vietnam	BAL Materials Technology Co., Ltd./China
2024	Scope 1	575.8	1,883.00	3,828.20
	Scope 2	6,612.80	22,772.00	2,959.00
	Scope 3	20,117.00	63,366.00	25,098.00
2023	Scope 1	443.6	1,710.90	3,644.30
	Scope 2	6,533.10	21,754.60	2,977.80
	Scope 3	24,414.50	80,400.90	33,901.00
2022	Scope 1	353	1,765.00	3,450.00
	Scope 2	6,612.00	24,052.00	3,311.50
	Scope 3	22,423.00	97,435.00	67,469.00

► 2023 Verification Certificate



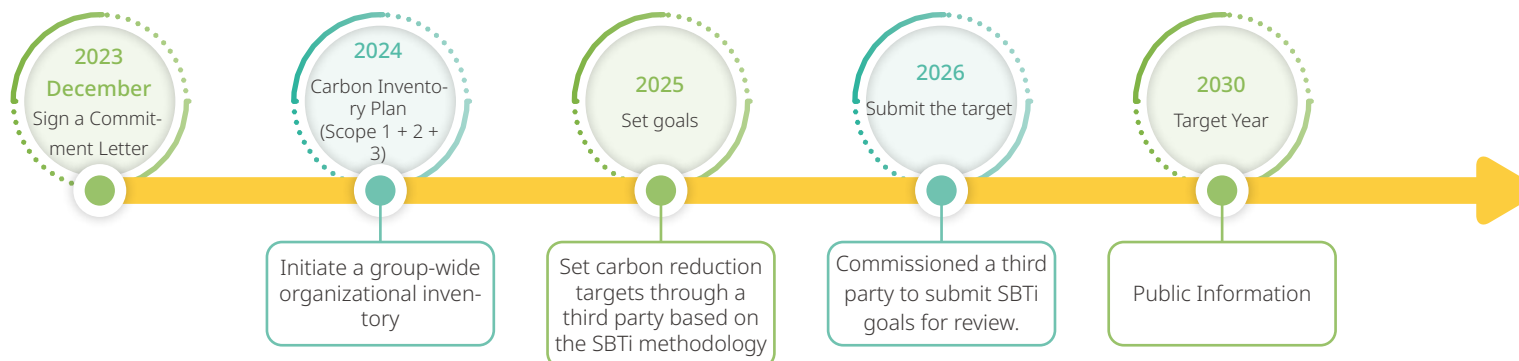
► 2022 Verification Certificate



## 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.

## ► Flowchart for Carbon Inventory and Setting SBTi Carbon Reduction Targets



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

### Kaohsiung Factory in Taiwan

See section 4.2.3, Energy Saving Measures – Electricity Saving

### Vietnam Factory

Purchased 30,000 I-RECs.

### Indonesia Factory

- Replaced traditional air-cooled chillers with flooded chillers to improve cooling efficiency and save electricity, **with an estimated annual saving of 280,000 kWh.**
- Replaced traditional office light tubes with LED light tubes, reducing electricity consumption and improving brightness, **with an estimated annual saving of 5,500 kWh.**
- Replaced the grinder transmission system with a variable frequency drive system, saving power output. **The annual estimated saving is 3,500 (kWh/year).**

## 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.
- By 2024, emissions were reduced by 53.9% compared to 2018, achieving the target.
- **Intensity comparison: 2024: 39.73 tons per million revenue, 2023: 35.79 tons per million revenue, 2022: 38.77 tons per million revenue; 2024 increased by 11% compared with 2023.**

## 4.5 Waste

### Significance of Waste Management to San Fang

Reducing the environmental load of each stage of the product life cycle is an important goal of the Company in promoting environmental protection.

#### Impacts



**Positive impact:** 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.

**Negative impact:** Hazardous waste disposal involves risk control, and safe storage and legal disposal must be ensured.

#### Actions



**Legal treatment:** Ensure all waste is collected and finalized by qualified handlers in accordance with local regulations.

**Production waste reduction:** Optimize the production process to reduce waste output during production.

**Classification management:** Establish a comprehensive waste classification and recycling mechanism to increase the recycling rate.

#### Policies and Commitments



Waste is disposed of in accordance with the law, and there have been no illegal dumping or environmental pollution incidents.

Continue to optimize the production process, reduce waste generation, and increase resource utilization.

Actively introduce the concept of circular economy to increase the value of waste recycling and reuse.

#### Evaluation Method



1. Ensure that waste management complies with regulations and environmental protection standards through internal audits and external reviews.
2. Track the waste reduction results regularly and compare them with the annual targets.
3. Enhance transparency by disclosing waste management performance through ESG reports.

#### Metrics and Targets



1. Ensure that 100% of waste disposal complies with regulatory requirements.
2. Using 2018 as the baseline year, the waste output per unit of product has a reduction target of 2% by 2025.
3. Increase the proportion of recyclable waste and reduce the final disposal volume.

#### Stakeholder Engagement



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Corresponding sustainability indicators

306 Waste

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	BAL Factory	Total	
					Quantity	%
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	1,308	1,413	1,328	398	4,447	75%
2024	1,638	1,314	1,363	384	4,699	75%

### ► Hazardous Waste

Unit: Tons

Year	Kaohsiung Factory	Vietnam Factory	Indonesia Factory	BAL Factory	Total	
					Quantity	%
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	288	641	357	206	1,492	25%
2024	230	878	163	297	1,568	25%

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 of the headquarters

Unit: Tons

Disposal Method	2020		2021		2022		2023		2024	
	Quantity	%	Quantity	%	Quantity	%	Quantity	%	Quantity	%
Incineration	1,819	78	1,702	72	1,648	70	694	43	607	32
Physical Treatment	513	22	451	19	399	17	305	19	316	17
General waste recycling and disposal	0	0	216	9	312	13	597	37	945	51

The hazardous waste recycling rate in 2024 is 0%.

## 4.6 Implementation of Chemical Management

### 4.6.1 Future Goals and Policies to Achieve

#### Goals

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

We safeguard both employee occupational health and environmental protection by establishing a San Fang Chemical Control List, referencing internationally recognized databases and regulatory conventions. Before introducing any new chemical, we conduct a comprehensive health, safety, and environmental assessment. In addition, we have set up a registration and review procedure prior to chemical adoption to ensure effective management and to achieve the goal of minimizing 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



# 05 CHAPTER

## Happy Career and Social Prosperity

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- 5.1 Company Workforce Structure and Employment
- 5.2 Employee Relations
- 5.3 Occupational Safety and Health Management
- 5.4 Social Contribution



## 5.1 Company Workforce Structure and Employment

### Significance of Employee Training, Development, and Recruitment to San Fang

The Company conducts annual training plans linked to business strategies, establishing functional indicators and corresponding training courses to ensure continuous human capital development, thereby improving production efficiency, quality, and customer service.

Currently, through diverse recruitment activities, the Company ensures sufficient workforce supply and continuously expands recruitment channels via on-site job fairs, online recruitment platforms, and industry-academia cooperation.

#### Impacts



##### Positive impacts:

Education and training: Knowledge and experience are preserved through the internal knowledge management website. At the same time, the Company promotes an online learning platform to provide diverse and flexible learning channels.

Recruitment: Campus information sessions and recruitment events help positively convey the Company's employer brand image. Participation in on-site recruitment events strengthens connections with nearby communities, provides employment opportunities, and fosters a positive cycle.

##### Negative impact:

Education and training: Each year, the annual training execution rate is assessed, and improvement suggestions are proposed for unexecuted courses as a reference for the following year's planning. The alignment of training course planning with Company strategies is also reviewed annually.

Recruitment: In response to future labor shortages, the Company engages with campuses to build relationships through information sessions and internship opportunities, while also reaching out to overseas talent to establish a talent pipeline.

#### Policies and Commitments



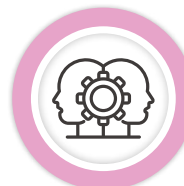
1. Education and training are designed to enhance the quality of human capital, foster employees' career development, and enable employees to grow alongside the Company. Improved work efficiency in turn supports the achievement of financial targets.
2. A sound balance of workforce quality and quantity ensures the stable operation of corporate functions and the smooth execution of business activities.

#### Metrics and Targets



1. Training effectiveness is verified through satisfaction surveys (scores of 8.2 or above), assessments, and written feedback.
2. Regular evaluation of manpower gaps and recruitment achievement rates ensures adequate resources are available to support operations.

#### Actions



**Accelerate the digitization of training materials:** to provide more flexible and rapid learning, aligned with competency frameworks and credit systems, thereby building high-quality human capital.

**Diversify recruitment channels:** In addition to online recruitment, expand collaboration with campuses and industry associations to broaden talent acquisition and strengthen the Company's employer brand.

#### Evaluation Method



1. The effectiveness of training is evaluated through post-training tests, reports, and practical exercises, measuring employees' understanding and mastery of content and ensuring effective knowledge transfer. Learning reports further provide insights into employees' perceptions of the training.
2. Recruitment efficiency is evaluated by calculating the recruitment cycle (time from job posting to onboarding), while recruitment quality is assessed based on employee retention, probationary period performance, and resignation rates.

#### Stakeholder Engagement



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Corresponding sustainability indicators

404 Education and Training

# 5.1 Company Workforce Structure and Employment

## 5.1.1 Company Workforce Structure

In 2024, the Company had a total of 2668 employees in Taiwan, of which 1839 were male (69%) and 829 were female (31%) due to on the characteristics of the industry. In terms of age distribution, there are a total of 1,009 employees under 30 years old (inclusive), accounting for 38% of the overall company. This is largely due to a younger workforce in the overseas factories in Vietnam and Indonesia.

Gender	Age Distribution	2022	2023	2024
Male	30 years old and below	542	629	671
	30 - 40 years old (inclusive)	721	680	647
	40 - 50 years old (inclusive)	363	379	374
	50 - 60 years old (inclusive)	112	120	133
	Over 60 years old	12	13	14
	Subtotal	1750	1821	1839
	Percentage %	69%	70%	69%
Female	30 years old and below	281	301	338
	30 - 40 years old (inclusive)	309	312	312
	40 - 50 years old (inclusive)	154	145	142
	50 - 60 years old (inclusive)	41	31	35
	Over 60 years old	1	0	2
	Subtotal	786	789	829
	Percentage %	31%	30%	31%
Total		2536	2610	2668

## 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 1070 new employees were hired for the group during 2022-2024.

At the end of 2024, the number of female employees reached 101, representing around 20% of the total workforce, with female first-level managers accounting for 8%.

Year	Joined in 2022		Joined in 2023		Joined in 2024	
Total Number	1187		828		1196	
Gender	Male	Female	Male	Female	Male	Female
Number	778	409	590	238	816	380
Percentage	65.50%	34.50%	71.30%	28.70%	68.20%	31.80%

※Covering Taiwan, China, Indonesia, and Vietnam

The Company complies with Article 38 of the People with Disabilities Rights Protection Act in Taiwan, which requires a statutory quota for the employment of people with disabilities. By doing so, we fulfill our social responsibility in hiring individuals with disabilities. In addition, we assign suitable job positions based on their specific physical or functional limitations to ensure the protection of their work rights and provide an inclusive and supportive work environment. The Company's employment of persons with disabilities in the most recent three years is summarized as follows:

Year	2022	2023	2024
Number	580	577	583
Statutory Employment Quota	5	5	5
Number of Employees with Disabilities Hired	6	4	5
Applicable Quota	8	5	6
Number of Employees with Disabilities in Excess of Quota	3	0	1
Excess Percentage	60%	0%	20%

※This table only applies to Taiwan

## 5.2 Employee Relations

### 5.2.1 Employee Remuneration

The Company reviews both operational performance and employees' economic stability each year. In July, fixed salary adjustments are made for different job grades based on profitability, the consumer price index, and the contribution of each function, among other factors. In addition, performance-based salary increases are awarded according to individual employee performance, encouraging colleagues to strive for excellence. Before the Lunar New Year, the Company grants a year-end bonus based on profitability, typically averaging 2 to 4 months' salary. In 2024, with lower raw material prices and a recovery in profitability of shoe materials, earnings increased significantly compared with previous years, and the year-end bonus amounted to 5.6 months. 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

	2022	2023	2024
Average Number (persons)	654	519	500
Average Annual Salary (NTD in thousands)	731	848	1,014
Median Annual Salary (NTD in thousands)	694	808	971

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

In order to encourage employees to continuously enhance work efficiency and performance, the Company has established the Proposal Improvement Management Procedure to motivate employees to actively submit improvement proposals, along with a tiered reward system based on the level of improvement achieved. The Company also implements a variety of performance incentive mechanisms, including the Efficiency Bonus Issuance Regulations, under which efficiency and business bonuses are distributed monthly according to operating performance, to inspire employees to continue innovating and contributing.

To further support the development of production, business, and R&D units, the Company has introduced a quarterly achievement bonus to reward employees who excel in expanding new business and developing new markets. At the same time, the Company encourages employee involvement in innovative R&D through the Employee Patent Application and Reward Guidelines, which provide rewards or profit-sharing opportunities for employees who file patents.

To ensure that employee contributions are closely linked to annual performance, the Company has also implemented the Regulations for the Payment of Year-end Bonuses, the Regulations for the Issuance of Employee Remuneration, and the Regulations for the Implementation of the Earnings Distribution Plan, ensuring that overall operating results are aligned with employee contributions. Among these, the Implementation Rules of Year-end Bonuses and the Employee Remuneration Approval Method establish differentiated job-point standards based on employee titles, thereby motivating employees to pursue excellence in performance and achieve career development.

### 5.2.3 Talent Cultivation

In the face of rapid global economic changes, we recognize that the accumulation of human capital is the cornerstone for building the Company's competitive advantage. Based on the Employee Education and Training Implementation Guidelines, we have established a systematic human resource training framework dedicated to enhancing the competency development of employees across all management levels and functional departments. Through the advancement of professional skills and cross-functional training, we are actively cultivating π-shaped talent, ensuring that employees are equipped to adapt to future challenges and opportunities. San Fang's education and training system encompasses three core dimensions: Management Study (M), Professional Training (P), and Self-Development (SD) (see the Education and Training System Chart for details). Training plans are designed to correspond to employees' different stages of career development. Training content includes pre-employment programs, competency-based management training by hierarchy, and function-specific professional skills training, ensuring that employees acquire the appropriate knowledge and skills at each stage of their career growth.

In practice, we encourage employees to strengthen their fundamental professional abilities through "learning by doing," while providing managers at various development stages with structured management credit training. This helps them accumulate essential managerial competencies on the foundation of solid professional expertise. By doing so, we ensure that every employee can continue to grow throughout their career, cultivating the next generation of core talent for the Company.

### 5.2.3 Talent Cultivation

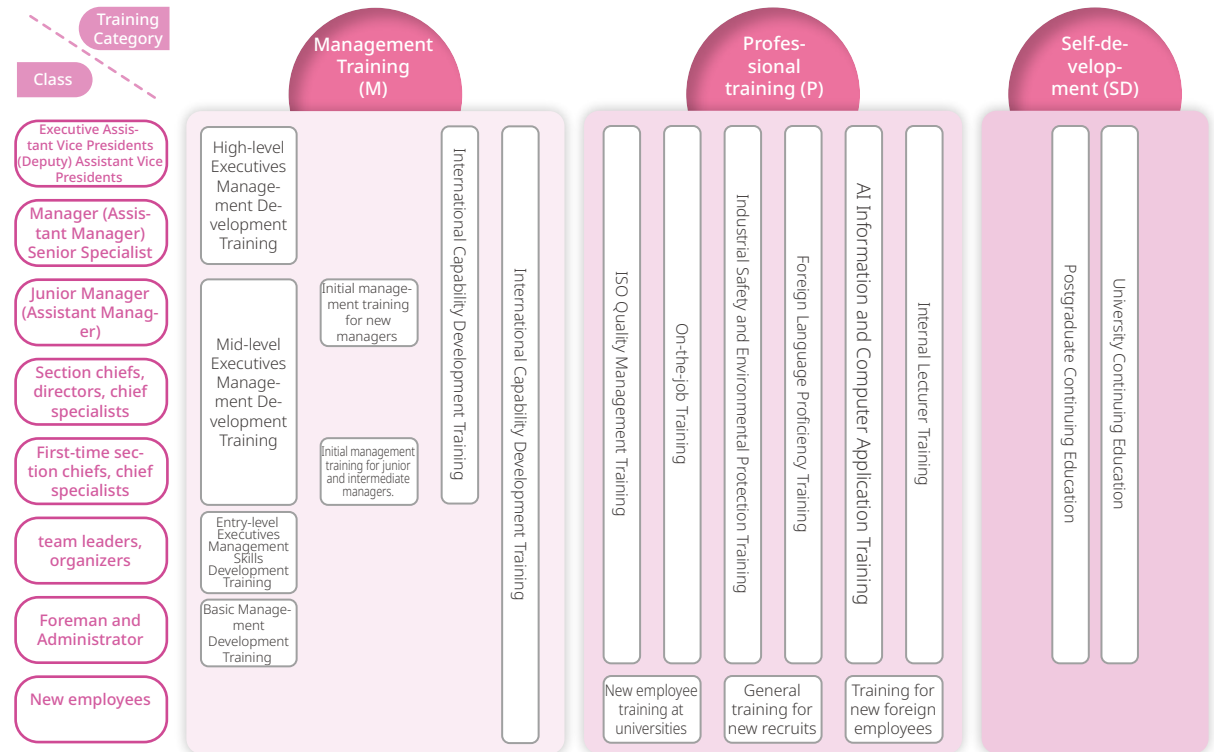
In 2024, the average training hours per employee were 46.5 hours. Training hours for management positions decreased slightly by 4.1 hours, while training hours for non-managerial staff declined by 14 hours compared to the previous year. The Company's education and training programs focus on strengthening the competency development of supervisors at all levels, with a phased and progressive approach to enhancing management capabilities as well as professional technical skills across functions, in order to achieve the Company's talent cultivation objectives.

Unit: Hours

Year/Category	All Employees	Level 2 and Higher Supervisors	Non-managerial Employees
2022	61.3	74.4	58.1
2023	60.3	74.3	56.7
2024	46.5	70.2	42.7

Training System and Talent Cultivation Activities	Inner meaning
E-learning system establishment and AI issues	We will build a digital learning platform and diversify education and training tools to help each employee achieve continuous learning through hybrid learning tools. In 2024, we will introduce AI application software and hold training sessions to prepare for the challenges and opportunities of the coming AI era.
Executives implement experience and technology transfer.	The supervisors of each function and level are responsible for developing the Company's future talent, implementing the accumulation and transfer of technical experience, and cultivating high-potential individuals.
Promotion of education and training systems for overseas factories	We have continued to organize management training at overseas plants to promote local talent development. The Company will extend its training system to overseas factories and implement a talent capital evaluation system concurrently.
Promotion of the TTQS system	In 2023, the Company successfully passed the TQS evaluation and will further optimize the PDDRO process to continuously improve the Company's training system and enhance the training quality across all plants.

#### ► SFC Chemical Education and Training System Diagram



#### 5.2.3.1 Employees' career development

To continuously cultivate employees' abilities and support career development in line with individual aspirations, the Company launched the "Implementation Guidelines for Cross-Departmental Internship Rotation (Windmill Project)" in 2024. This program enables employees to engage in ongoing learning and growth, fosters cross-disciplinary talent cultivation, enhances the accumulation of human capital, and is integrated with the Company's promotion system. In 2024, two employees successfully completed the program, and we will continue to expand cross-functional talent cultivation in the future. To complement this initiative, the Company also established the "Guidelines for the Implementation of Functional Mentorship and Rewards (Master Guide Program)", designed to develop internal professional instructors. In March 2024, 27 internal lecturers completed the training program, each receiving a certificate and monetary incentive as encouragement. Additionally, in alignment with the Company's strategic planning and business objectives, the 2024 Annual Training Plan was formulated. It includes competency-based management training for supervisors at all levels to strengthen leadership skills, as well as specialized technical training tailored to different functional units. These initiatives aim to support employees in continuous learning, personal growth, and professional advancement throughout their careers.

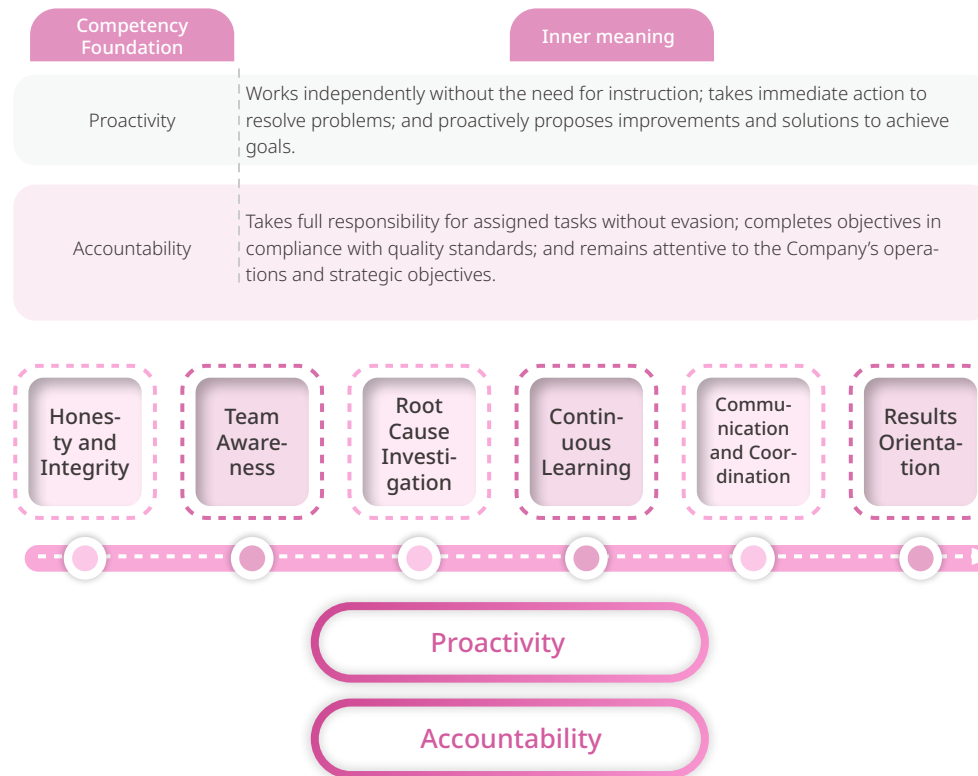
### 5.2.3.2 Enhancing the Development of Management Talent

Through industry-academia collaboration programs, the Company has defined its core competencies and management competencies. These serve as the cornerstone of our education and training planning, enabling us to identify key talent and cultivate managers at all levels, thereby achieving a win-win outcome for both the Company and its employees.

Core Competencies (3C)	Inner meaning
C1 Honesty and Integrity	Demonstrates high moral standards and trustworthy behavior; upholds organizational integrity as a guiding principle, and understands the impact of violating ethical standards on the organization, oneself, and others.
C2 Team Awareness	Understands the needs and balance across and within departments; actively participates in and supports teams and the organization; effectively collaborates with others in a spirit of altruism to achieve shared goals.
C3 Root Cause Investigation	Carefully considers and handles all details during task execution; precisely reviews each procedure; and maintains sustained focus and attention to ensure accuracy.

Management Competencies (3M)	Inner meaning
M1 Continuous Learning	Exhibits strong self-improvement motivation; actively seeks and participates in opportunities to acquire new knowledge and skills needed for tasks; applies them effectively to professional assignments; and leads by example for others to emulate.
M2 Results Orientation	Maintains strong persistence in achieving required goals and deliverables; ensures compliance with quality standards while fostering team harmony; meets organizational needs and completes tasks on schedule.
M3 Communication and Coordination	Listens respectfully to others to fully understand the source of issues; effectively negotiates and coordinates the allocation of key resources.



### 5.2.4 Overtime and Extra Hours Worked

According to the Company's relevant regulations and standards, forced labor is prohibited. In addition to complying with labor laws and regulations, if emergency orders arise or overtime work is required due to personnel adjustments, unit heads must obtain employee consent before approving overtime applications. Except for overtime work not exceeding 46 hours per month, daily overtime work should not exceed 4 hours. Furthermore, employees must comply with the legal requirement of one day of rest after every seven days of work, and continuous workdays should not exceed 6 days, to ensure employee health and a work-life balance. Starting in 2024, we will strengthen the management of weekly overtime limits to meet international human rights and brand standards. Furthermore, based on our respect for the rights of employees after working overtime, employees can receive compensatory leave or overtime pay after working overtime. In 2024, the Company was not subject to any penalties from labor inspections related to non-compliance with labor conditions (working hours and overtime pay).

### 5.2.5 Improvement plan and reward and punishment system

The Company conducts performance evaluations every six months to optimize supervisors' communication and coordination skills and to demonstrate their accountability. This encourages supervisors to hold performance interviews, allows employees to conduct self-evaluations to showcase their performance, facilitates two-way communication, and assesses employees' work performance. For employees with poor work performance, we have established the "Implementation Guidelines for Performance Improvement Plans" to actively remind supervisors to maintain positive communication with underperforming colleagues, provide regular coaching and assistance to help them improve, ensure they can return to their usual performance level, and enhance their work capabilities to meet the unit's functional requirements.

The Company's HR Management Regulations stipulate a reward and punishment system. Employees who make special contributions to the Company will be recognized with merit points, bonuses, salary increases, and other incentives. A separate reward system is in place for improvement proposals and innovations. If there is any violation of the Company's regulations, the Company will provide the employee with an opportunity to explain and seek improvement suggestions through the management process or submit a disciplinary action report for approval. The Company will not use any unreasonable verbal abuse, physical punishment, or any intimidation or unfavorable treatment that would cause the employee to feel fear.

### 5.2.6 Human Rights Policy and Risk Identification

We firmly believe that respecting human rights and creating a dignified working environment are extremely important to us. We are hereby committed to abiding by the labor laws and regulations of countries where we operate so as to protect the legal rights and interests of employees and uphold the human rights protection spirit and fundamental principles of various international human rights conventions, including the "United Nations Universal Declaration of Human Rights" and the "International Labor Organization Declaration on Fundamental Principles and Rights at Work." This fully demonstrates our responsibility and obligation to respect and protect human rights and treat all employees with dignity and respect, including contracted personnel, interns, and temporary workers. In 2024, the Company conducted online learning sessions covering the Human Rights Policy, Employee Complaint Management Regulations, Attendance Management Implementation Guidelines, and Personnel Management Regulations. A total of 111 supervisors across all levels completed the training, ensuring a thorough understanding of the Company's commitment to human rights and labor rights.

Based on this policy, we have carried out various management guidelines, including the prohibition of child labor, the prohibition of forced labor, the strict prohibition of discrimination, respect for freedom of association, the establishment of multiple grievance channels, regular human rights awareness promotion, the creation of a fair and safe working environment, and the assurance of full freedom of movement. These measures effectively embody the universal value of putting human rights first and ensure that everyone in the workplace is fully protected in body and mind.

In 2024, the Company's audit unit conducted online training and promotion of the "Ethical Corporate Management Best Practice Principles" and "Codes of Ethical Conduct" in Taiwan, with a total of 487 completions.

The Company regularly evaluates existing mechanisms and measures through internal and external audits to ensure effective risk mitigation for abnormal issues.



## 5.2.7 Management of Child and Youth Workers

According to Taiwan's Labor Standards Act, workers who are over 15 years old but under 16 years old are classified as child workers. In accordance with the Company's Personnel Management Regulations and the Child and Youth Worker Management Guidelines, it is explicitly stipulated in our human resources policy that the employment of child labor is strictly prohibited. For workers recruited through industry-academia collaboration — including summer part-time students, semester part-time students, or regular employees — as well as foreign migrant workers introduced from Indonesia, the minimum employment age requirement is 18 years old. For relevant recruitment, in addition to resume screening conducted by HR staff, applicants are also required to provide a copy of valid identification during the interview to verify their eligibility and confirm that they are not underage workers. As of December 31, 2024, the Company has not employed any child workers.

## 5.2.8 Responsible recruitment and employment

In response to brand requirements, since 2020 the Company has participated in third-party verification under the Social and Labor Convergence Project (SLCP). This process integrates various social responsibility verification mechanisms, making it easier for brand partners to understand the Company's labor conditions and practices, while also driving the Company toward continuous improvement. At present, the Company's SLCP verification results have been shared with brand partners including Nike, adidas, New Balance, Columbia, and others. During the verification process, the Company has met the requirements of the management system in the areas of recruitment and employment, working hours, wages and benefits, employee treatment and participation, health and safety, and termination of employment.

## 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. Currently, the Company has implemented a zero-fee policy for hiring foreign Employees to meet brand requirements, and complies with all annual employment regulations. Current partner domestic and foreign agencies are prohibited from collecting any additional recruitment fees, which are all paid by the Company.



2024 Foreign Employee Seminar

## 5.2.10 Complaint System

To prevent workplace sexual harassment and to safeguard gender equality and human dignity, San Fang has implemented the Sexual Harassment Prevention and Control Management Guidelines since 2002. In light of recent sexual harassment incidents in Taiwan and the amendments to the Act of Gender Equality in Employment, the Company completed revisions to its internal guidelines in 2024. In accordance with legal requirements, the revised guidelines were publicly announced and training was provided to all employees to ensure full awareness. Employees encountering sexual harassment incidents may file complaints with the Company's Personnel Review Committee. Investigations, handling, reviews, and case closures must be completed within three months as required by law. To further protect employees' rights at work, the Company has also established the Employee Complaint Management Measures and installed an employee suggestion box. Employees are encouraged to report any unfair treatment or violations of rights through written submissions or email to the HR department. The review, investigation, and response mechanisms will then be activated in accordance with established procedures. The Company has also adopted a Codes of Ethical Conduct and Ethical Corporate Management Best Practice Principles. Through regular training and public disclosure on the Company's external website, all stakeholders—including suppliers, employees, and customers—are encouraged to report unlawful conduct. These measures help ensure proper corporate operations and reduce potential risks.

► In Taiwan, seven training sessions on Sexual Harassment Prevention and Control Promotion were held in 2024 with the following results:

Personnel type	Number of attendees	Training completion rate
Level 1 Managers (including Vice Presidents)	38 participants	88.30%
Level 2 Managers	46 participants	79.30%
Female employees	68 participants	81.90%

### 5.2.11 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 2024, a total of 282 employees joined the labor union, accounting for 48%.

### 5.2.12 Collective Bargaining

The Company has established multiple communication channels, including an employee suggestion box, e-mail, and telephone extensions. In particular, regular monthly meetings are held with the labor union to understand employees' needs and to maintain communication with company management. These meetings have been effective to date, and minutes are kept for reference. As of December 31, 2024, 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 Flexible Working Hours

Since late October 2023, the Company has implemented a flexible working hours system in its indirect departments, enabling employees to arrange their work schedules more flexibly to balance family needs and commuting safety, while also reducing the risk of traffic accidents. After six months of implementation in 2024, the Company conducted a satisfaction survey and collected 121 valid responses. The survey results indicated that most employees believed the system improved work efficiency, optimized commuting arrangements, and reflected the Company's attentiveness to employee needs. The system remains in effect, and the Company will continue to evaluate whether to expand its scope of application to additional departments.

### 5.2.14 Industry-Academia Collaboration and Campus Recruitment

In 2024, the Company participated in nine campus recruitment events to identify potential talent at an early stage, with a particular focus on nearby schools such as National Sun Yat-sen University, National Kaohsiung University of Science and Technology (Chien-Kung and First Campuses), I-Shou University, and National Kaohsiung Girls' Senior High School. The aim was to encourage local talent to remain in Southern Taiwan for employment. In the central region, the Company also participated in recruitment events at Feng Chia University and Tunghai University. In addition, in 2024, the Company signed off-campus internship agreements with National University of Kaohsiung and I-Shou University. A total of four students participated in the internship program, including two Vietnamese students. This initiative has strengthened the connection between the Company and academic institutions while supporting the cultivation of international talent.



2024 National Sun Yat-sen University



2024 National Kaohsiung University of Science and Technology (Jiangong Campus)



## 5.2.15 Employee Welfare Committee

The Company has established an Employee Welfare Committee in Taiwan. In accordance with legal requirements, the Committee is composed of labor representatives appointed by the union, alongside employer representatives appointed by the Company. The Welfare Committee's funds are derived mainly from allocations of the Company's operating income, proceeds from scrap sales, and employees' monthly welfare contributions. These funds are used to provide meal subsidies, festival bonuses, birthday gift vouchers, as well as medical, funeral, and wedding assistance for employees and their families. Scholarships are also made available. To further support employees' work-life balance, the Committee organizes annual recreational and leisure activities, as well as both domestic and overseas travel opportunities, either through group tours or self-funded arrangements. In 2024, the Welfare Committee organized a variety of activities, including parent-child hiking, bowling competitions, movie screenings, badminton tournaments, and fruit-picking events. These activities helped employees relieve stress from daily work while promoting camaraderie, family bonding, and a positive workplace atmosphere.

In addition, to enhance employees' health and foster cross-departmental interaction, the Company also provides subsidies for employee clubs. Currently, the mountain climbing and badminton clubs each organize at least one activity per month.

Year	2022	2023	2024
Amount NT\$	8,134,857	8,919,309	8,209,062

Name of activity in 2024	Number of participants (including family members)
Shoushan Parent-Child Hiking Activity	260
Bowling Competition	110
Private Cinema Screening Event	253
Badminton Competition	105
Parent-Child Fruit-Picking Event	219



## 5.2.16 Parental Leave and Leave without Pay for Employees

According to the Gender Equality in Employment Act, 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.



Breastfeeding room

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 2022-2024, there are employees applied for unpaid parental leave, and the average number of days of unpaid parental leave was 436 days. The reinstatement rate of employees returning from parental leave after a period of time reached 100%.

### ► Overview of employee parental leave applications

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	Reinstatement retention rate
2022	686	686	0	100%
2023	400	400	0	100%
2024	284	284	0	100%
Total	1,308	1,308	0	100%

## 5.2.17 Employee satisfaction

The Company conducts an employee satisfaction survey every year in accordance with the requirements of the quality management system to understand employee needs and make continuous improvements. In 2024, a total of 351 valid questionnaires were collected, with a response rate of 74% and an overall satisfaction score of 72. The survey results show that the production and administrative departments responded most positively to the increase in salaries and benefits. The R&D department is more concerned with improvements to the management system, communication, and corporate image, while the sales department is more satisfied with employee development opportunities. The survey results were discussed at the July review meeting, with an in-depth exploration of each department's shortcomings. In the future, we will focus on three key areas: strengthening cross-departmental communication and coordination, improving the work environment and enhancing team cohesion, and increasing employee care and support. We hope these measures will further improve employee satisfaction and promote the Company's long-term development.

Satisfaction Dimension (Scored 1-5)	2024	2023	2022
Corporate image and culture	3.68	3.64	3.49
Quality service	3.68	3.72	3.56
Salary and benefits	3.43	3.3	3.05
Management system and communication	3.53	3.54	3.35
Employee development	3.59	3.54	3.38
Working environment	3.8	3.77	3.50



Parent-friendly parking spots



### 5.2.18 Employee Shareholding Trust

Since March 2024, the Company has implemented the "Employee Shareholding Trust," allowing employees to participate in shareholding. Employees contribute a fixed amount each month, and those meeting eligibility criteria receive a corresponding company subsidy. If the Company achieves its profit targets, the subsidy ratio will increase the following year. Contribution standards also vary by job title, with higher positions required to contribute higher amounts, thereby encouraging employees to demonstrate strong performance. This measure supports employees' long-term savings, strengthens their commitment to the Company, and contributes to retirement planning.

#### Implementation Status

The program commenced in March 2024, with the first deductions in April 2024. By December 2024, there were **444** members enrolled, representing a participation rate of **80.1%**.



#### Pension System



Legal Basis



Contribution Method



2024 contribution overview

#### New System

Labor Pension Act

A pension contribution of 6% of the employee's monthly salary is made to their personal account at the Bureau of Labor Insurance, based on the Table of Monthly Contribution Wages for Labor Pensions.

22,711 thousand

#### Old System

Labor Standards Act

The Labor Retirement Reserve Fund is contributed monthly (with a 15% contribution rate) to a dedicated account at the Bank of Taiwan.

23,944 thousand  
(47,693 thousand in total)

### 5.2.19 Retirement System

1. The Company has established the "Regulations for the Implementation of Preferred Retirement," which provide benefits more favorable than those required by law.
2. 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.
3. For employees covered by the Labor Pension Act (new system, effective July 2005), the Company contributes 6% of the employee's monthly wage to their personal pension account. Employees may also voluntarily contribute up to an additional 6% of their monthly wage. Employees may voluntarily make an additional pension contribution limited to 6% of their monthly salary.
4. The Finance Department appoints an external actuary to prepare pension actuarial reports in line with regulations. Each February, the HR Department conducts an adequacy assessment of the old pension system and ensures sufficient contributions are made in accordance with the law.
5. The Company's overseas subsidiaries adopt a defined contribution plan and make pension contributions in accordance with local laws and regulations.
6. The following is an overview of the Company's new and old pension contributions:
7. As of 2024, 12 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.

### 5.2.20 Personal Data Protection Policy

To protect the privacy of employees and partners, the Company has established the "Personal Data Protection Management Regulations" (details available at Company Website: <https://www.sanfang.com/interest-ed/>), and is committed to complying with all relevant data protection laws and regulations to ensure the security and confidentiality of personal data.

When collecting personal data, the Company clearly informs employees or partners of the purpose, retention period, and method of use, and obtains their consent before processing.

During onboarding, new employees receive an introduction to the policy and sign a Personal Data Use Consent form. This has been incorporated into pre-employment training. In 2023, two supervisor awareness sessions were held, with 55 participants and 55 total training hours. In 2024, 40 new employees received training, totaling 20 hours. Ongoing sessions will continue to ensure all employees fully understand the policy.

The Company shall appoint appropriate personnel with corresponding responsibilities for personal data protection and management, as required by personal data protection and management regulations. All units shall bear the responsibility for personal data management and ensure compliance with the Personal Data Protection Act and the requirements of these Regulations. The allocation of custody responsibility for each unit is as follows:

1. All employees, directors, supervisors, consultants, etc.: HR Department, Finance Department, and related units.
2. Business partners: Procurement Office, Engineering Office, Management Office, Finance Office, Environmental Safety Office, and related departments.
3. Customers: Marketing Department I, Marketing Department II, Business Management Group, Finance Department, and related units.
4. Shareholders: Finance Department.
5. Job applicants: HR Department and heads of requesting departments.
6. External contractors, brokers, and consulting firms: HR Department and relevant cooperating units.

## 5.3 Occupational Safety and Health Management

### Significance of Occupational Safety and Health to San Fang

Occupational safety and health are the fundamental cornerstone of establishing a safety culture in an enterprise. Only by implementing the core value of putting people first can sustainable corporate development be ensured.

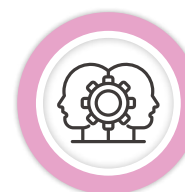
#### Impacts



**Positive impact:** Proactive occupational safety and health management prevents accidents that could cause harm to personnel and property. A friendly work environment also enhances work efficiency.

**Negative impact:** Continuous investment of resources and costs is required for safety equipment upgrades and risk monitoring.

#### Actions



**Risk assessment and improvement:** Conduct operational risk and equipment safety analyses, and mitigate hazards through engineering improvements, administrative management, and personal protective measures.

**Safety education and promotion:** Develop and display safety slogans in each unit, and provide occupational safety information through QR codes and digital learning.

**Contractor management:** Require all external personnel to complete online safety education and training before entering the plant, ensuring compliance with safety standards.

#### Policies and Commitments



1. Comply with and exceed government regulatory standards to ensure workplace safety and employee health.
2. Continuously strengthen contractor safety management to ensure that external partners comply with occupational safety regulations.

#### Evaluation Method



**Safety performance tracking:** Regularly monitor workplace accident data to ensure effective implementation of improvement plans.

**External audit and internal review:** Verify compliance with occupational safety management requirements through inspections by government agencies, third-party certification bodies, and internal audits.

#### Metrics and Targets



1. Achieve zero major workplace accidents and continuously reduce the rate of occupational injuries.
2. Ensure a 100% safety compliance rate for contractors, with all external personnel receiving safety training and passing examinations.

#### Stakeholder Engagement



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Corresponding sustainability indicators

403 Occupational health and safety

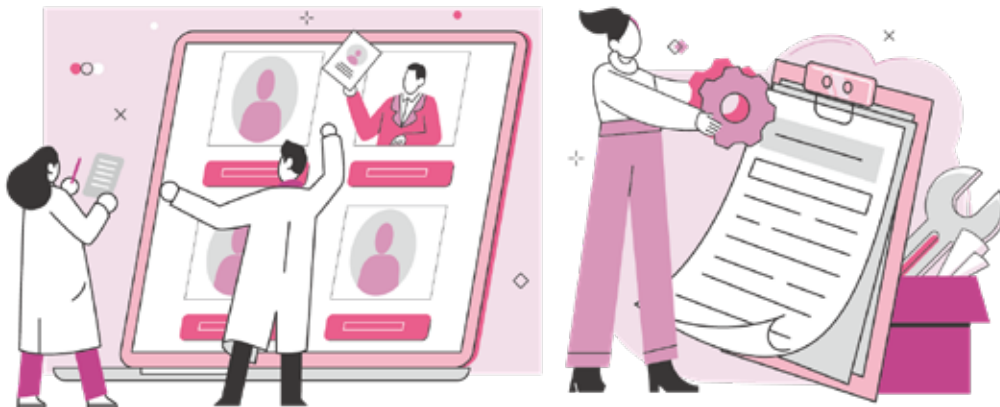
## 5.3 Occupational Safety and Health Management

### 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



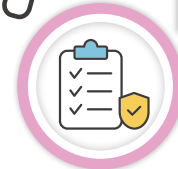
#### I. Workplace Safety

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

The safety slogans are posted on the public announcement boards of each unit. Occupational health and safety work rules are made into QR codes for employees to download and refer to at any time. The automatic inspection of the E-dReg system will be officially implemented in April 2025.



#### 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 2024.
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 2024 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.
4. The Company will promote the ISO45001 system in 2025 and strengthen Employees' work safety compliance based on this.

Type/Year	2022	2023	2024
Traffic accidents during commuting	1	0	0
Accidents on the job	5	3	1

Year	2022	2023	2024
 Number of employees suffering from occupational accidents	5	3	1
 Percentage of employees suffering from occupational accidents	0.80%	0.62%	1.02%
 Disabling Frequency Rate (FR)	4.03	3.08	1.02
 Disabling injury severity rate	150.17	19.54	96.26
 Average number of days lost due to disabling injuries	37.2	6.3	94.0
 Number of work-related fatalities (excluding commuting traffic accidents)	0	0	0

## 5.4 Social Contribution

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

##### Care for the Blind

We donated to 80 visually impaired individuals, each receiving 10 kilograms of rice, one box of instant noodles, and VND 100,000 in cash.





#### Kaohsiung Factory:

The Company collaborated with the township office, the Renwu Development Association, and local enterprises to organize a walking campaign. This activity encouraged community residents to enjoy the warmth of nature and sunshine, while indirectly promoting their physical and mental well-being.

### 5.4.2 Educational Resources



#### Kaohsiung Factory:

We reward community schools to support students attending Renwu High School, junior high and elementary schools, lessening the financial burden on their families and ensuring peace of mind during their studies. This includes a subsidy for tuition and fees for residents of this neighborhood.



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:

San Fang supported the Houan Community Development Association in organizing a health seminar, which was enthusiastically attended by local residents. In addition to promoting knowledge on healthy eating, the event also emphasized the importance of regular exercise. A group workout session was conducted on-site, with 150 participants joining the activity.

### 5.4.4 Environmental Protection



#### Kaohsiung Factory:

San Fang partnered with small farmers to promote the rural economy while protecting local ecology and culture. A fruit-picking event in Meinong was organized, with a total of 219 employees and their families participating.

# 06 CHAPTER

## 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 Standards Index Table

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	
2-16	Communication of critical concerns	2.3.8	Ethical Management	

Disclosure Indicator		Corresponding Report Chapter		Re- marks
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	Sustainable Promotion Organizational Structure	
2-24	Embedding policy commitments	1.2	Sustainable Promotion Organizational Structure	
2-25	Processes to remediate negative impacts	2.3.8 5.2	Ethical Corporate Management Employee Relations	
2-26	Mechanisms for seeking advice and raising concerns	2.3.10	Complaint Mechanism and Management	
2-27	Compliance with laws and regulations	2.3.9 4.1.3	Implementation of Legal Compliance 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 agreements	

► GRI Material Issues

Issue	GRI Topic and Indicator		Corresponding Report Chapter	
<b>Economic Performance</b> 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
<b>Energy</b> GRI 302 (2016)	302-1	Energy consumption within the organization	4.2	Energy Management
	302-3	Energy intensity		
	302-4	Reduction of energy consumption		
<b>Water and Effluents</b> 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		

Issue	GRI Topic and Indicator		Corresponding Report Chapter	
<b>Emissions</b> GRI 305 (2016)	305-1	Direct (Scope 1) GHG emissions	4.4	Greenhouse Gas Reduction
	305-2	Energy indirect (Scope 2) GHG emissions		
	305-4	GHG emissions intensity		
	305-5	Reduction of GHG emissions		
<b>Waste</b> GRI 306 (2020)	306-3	Waste generated	4.5	Waste Management
	306-5	Waste directed to disposal		
<b>Occupational Safety and Health</b> GRI 403 (2018)	403-3	Occupational health services	5.3	Occupational Safety and Health Management
	403-4	Worker participation, consultation, and communication on occupational health and safety		
	403-5	Worker training on occupational health and safety		
	403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships		
<b>Training and Education</b> 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		
<b>Freedom of Association and Collective Bargaining</b> GRI 407: (2016)	407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	3.4.5 5.2.14	Risk Assessment Freedom of Association

## 6.2 Sustainability Accounting Standards Board (SASB) Reference Table

TOPIC	CODE	METRIC	Corresponding Report Chapter	
NA	CG-AA-000.A	Number of (1) Tier 1 suppliers and (2) suppliers beyond Tier 1	3.4	Supply Chain Management
Environmental Impacts 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 or contractual agreements	3.4	Supply Chain Management
	CG-AA-430a.2	Percentage of (1) Tier 1 supplier facilities and (2) supplier facilities beyond Tier 1 that have completed the Sustainable Apparel Coalition's Higg Facility Environmental Module (Higg FEM) assessment or an equivalent environmental data assessment		
Labour 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 labour code of conduct, (3) percentage of total audits conducted by a third-party auditor	3.4	Supply Chain Management
	CG-AA-430b.2	(1) Priority non-conformance rate and (2) associated corrective action rate for suppliers' labour code of conduct audits	3.4	Supply Chain Management
	CG-AA-430b.3	Description of the greatest (1) labour and (2) environmental, health and safety 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 or social factor(s) most likely to threaten sourcing, (3) discussion on business risks or opportunities associated with environmental or social factors and (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, and (2) amount of each priority raw material that is certified to a third-party environmental or social standard, by standard	3.4	Supply Chain Management
Management of Chemicals in Products	CG-AA-250a.1	Discussion of processes to maintain compliance with restricted substances regulations	4.6	Implementation of Chemical Management
	CG-AA-250a.2	Discussion of processes to assess and manage risks 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 duties Risk Management Mechanisms	
	Management's role in assessing and managing climate-related risks and opportunities	2.4.4		
Strategy	Climate-related risks and opportunities identified over the short, medium, and long term	2.4.8	TCFD management framework of SFC	
	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)	2.4.9 2.4.10	Climate Change Risks and Financial Impacts 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	2.4.5 2.4.7	Risk Identification Process Climate Risk and Opportunity Management Process	
	Processes for managing climate-related risks	2.4.7	Climate Risk and Opportunity Management Process	
	Integration of processes for identifying, assessing, and managing climate-related risks into the organization's overall risk management	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	2.4.8	TCFD management framework of SFC	
	Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks	2.4.9 4.4	Climate Risk and Opportunity Management Process 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

Recommended Disclosures	Corresponding Report Chapter		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)	2.4.8	TCFD management framework of SFC	
3. Describe the financial impact of extreme climate events and transformation actions	2.4.9	Climate Change Risks and Financial Impacts	
4. Describe how climate risk identification, assessment, and management processes are integrated into the risk management system	2.4.7	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	2.4.10	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	2.4.9	Climate Change Risks and Financial Impacts	
7. If internal carbon pricing is used as a planning tool, describe the basis for pricing	2.4.9 2.4.10	Climate Change Risks and Financial Impacts 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 4.4	Energy consumption GHG Reduction	
9. GHG Inventory and Assurance	4.4 6.4.1	Greenhouse Gas Reduction Greenhouse Gas Inventory and Verification Status	

## 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

☒ Parent company individual review

☒ Parent company's sole confirmation

☐ Inventory of subsidiaries in the consolidated financial statements

☐ Assurance of subsidiaries in the consolidated financial statements

Scope 1 Direct greenhouse gas emissions	Total emissions (metric tons CO <sub>2</sub> e)	Intensity (metric tons CO <sub>2</sub> e/ million NTD)	Description of Assurance			
			Assurance Institution	Scope of Assurance	Assurance Standards	Assurance Opinion
2024 Self-inventory by the parent	8,166.70	13.3			The 2024 verification for the entity parent is expected to be conducted by SGS at the end of June 2025 Complete assurance information will be disclosed on the MOPS according to the statement of assurance	
2023 Parent Company	6,968.10	10.91	SGS	Taiwan Kaohsiung Factory	<ul style="list-style-type: none"> <li>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</li> <li>Regulations Governing the Inventory and Registration of Greenhouse Gas Emissions, Ministry of Environment, Executive Yuan (2016.01.05)</li> <li>Guidelines for Greenhouse Gas Emission Inventory (2022.05)</li> <li>Guidelines for the Verification of Greenhouse Gas Emissions, Ministry of Environment, Executive Yuan (2010.12)</li> <li>Relevant regulations of the national greenhouse gas registration platform</li> </ul>	Unqualified opinion

Scope 2 Direct GHG emissions	Total emissions (metric tons CO <sub>2</sub> e)	Intensity (metric tons CO <sub>2</sub> e/ million NTD)	Description of Assurance			
			Assurance Institution	Scope of Assurance	Assurance Standards	Assurance Opinion
2024 Self-inventory by the parent	16,232.20	26.43			The 2024 verification for the entity parent is expected to be conducted by SGS at the end of June 2025 Complete assurance information will be disclosed on the MOPS according to the statement of assurance	
2023 Parent Company	15,892.30	24.88	SGS	Taiwan Kaohsiung Factory	<ul style="list-style-type: none"> <li>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</li> <li>Regulations Governing the Inventory and Registration of Greenhouse Gas Emissions, Ministry of Environment, Executive Yuan (2016.01.05)</li> <li>Guidelines for Greenhouse Gas Emission Inventory (2022.05)</li> <li>Guidelines for the Verification of Greenhouse Gas Emissions, Ministry of Environment, Executive Yuan (2010.12)</li> <li>Relevant regulations of the national greenhouse gas registration platform</li> </ul>	Unqualified opinion

#### 6.4.1.1 The Company's GHG Inventory and Assurance in the Most Recent Two Years

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



##### Reduction Strategy

##### 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

##### Kaohsiung Factory in Taiwan

1. Replacement of LED lighting: All factory lighting was upgraded and all equipment projection lamps were replaced with LED types, saving approximately 652,824 kWh per year.
2. The extruder heater was replaced with an infrared heater, which can save about 128,621 kWh of electricity per year.
3. High-efficiency motor replacement project: IE1 and IE2 motors across the Group were replaced with IE3 motors, improving motor efficiency and saving approximately 391,437 kWh per year.
4. Replacement of air-suspension blowers: Air-suspension blower units replaced Roots blowers, achieving about 56% efficiency improvement and saving approximately 275,502 kWh per year.
5. Oxygen detector installation: Every 3% reduction in boiler exhaust oxygen reduces fuel consumption by 1%, saving approximately 29,634 kWh per year.
6. Exhaust fan system: Improvements to the temperature-controlled cooling tower fans in all factories save approximately 18,849 kWh per year.
7. Permanent magnet variable-frequency air compressor: A 100HP screw air compressor was replaced with a permanent magnet VFD model, saving approximately 158,400 kWh per year.
8. Air compressor system pressure adjustment: The system pressure was reduced from 7 kg/cm<sup>2</sup> to 6.2 kg/cm<sup>2</sup>, saving approximately 93,312 kWh per year.

##### 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 2024, the increase was about 7% compared to 2023 and 53.9% compared to 2018 in 2024. The target has been achieved.  
Intensity comparison: 11% more in 2024 than in 2023.

## 6.5 Sustainability Disclosure Indicator Reference Table Plastics Industry

No.	Indicator	Indicator Type	Annual Disclosure	Unit	Note Comparison Table of Chapters in the Report											
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: 1,329,589 kWh Percentage of purchased electricity: 20.95% Renewable energy use rate: 100% Total self-generated energy consumption: 16,095 kWh	GJ percentage (%)	4.2.2	Energy Consumption										
II	Total water withdrawal and consumption	Quantitative	Total water withdrawal: 398,600 Total water consumption: 398,600	Thousand cubic meters (m <sup>3</sup> )	4.3.3	Water Resource Management Plan										
III	Weight of hazardous waste generated and percentage recycled	Quantitative	Weight of hazardous waste generated: 1,568 Percentage recycled: 0	metric 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: 1, accounting for 0.2%	percentage (%) Quantity	5.3.4	Occupational Accident Statistics										
V	Output of main products by product category	Quantitative	<table><tr><th>Main Products</th><th>Yield/Thousand Yards</th></tr><tr><td>PU Synthetic Leather</td><td>17,238</td></tr><tr><td>Eco-friendly Synthetic Leather</td><td>21,255</td></tr><tr><td>Films</td><td>23,090</td></tr><tr><td>Total</td><td>61,583</td></tr></table>	Main Products	Yield/Thousand Yards	PU Synthetic Leather	17,238	Eco-friendly Synthetic Leather	21,255	Films	23,090	Total	61,583	Varies by product type	2.2.5	Products and Sales
Main Products	Yield/Thousand Yards															
PU Synthetic Leather	17,238															
Eco-friendly Synthetic Leather	21,255															
Films	23,090															
Total	61,583															

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.



**San Fang Chemical Industry Co., Ltd.**

**ESF Sustainability Report**

