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Letter from President

We strive to fulfill our vision: to foster a group of people who are committed to the value of work, supported by family, and proud of the company; to create a corporate culture based on the quest for innovation and quality; to manage Feng Tay to be an everlasting manufacturer steadily making reasonable profits; and to constantly engage in environmental protection and give back to society.

Improve Operational Performance

Since the establishment, Feng Tay has operated on four intrinsic values: Integrity, Discipline, Diligence and Craftsmanship. Because of the efforts from our employees, our consolidated revenues reached NTD 58.6 billion (USD 1.95 billion) in 2017, 0.9% higher than in 2016, with an earnings per share of NTD 6.58 (USD 0.22).

Provide Safe and Fair Workplace

At Feng Tay, employees are our essential partners to help us move forward. We strive to provide a safe and friendly workplace to our employees. In 2017, we continued to strengthen our safety culture. The occupational injury frequency rate was 42% lower than in 2016, and the occupational injury severity rate decreased by 49%. To provide attentive care for employees' children, we established our group's fifth nursery school in Vietnam. We strive to cultivate local talents and help them develop leadership and management capabilities in every region. As of the end of 2017, over 50% of Factory General Manager positions were held by local employees. To empower female employees in India, we continued to carry out SAKHI program, which has helped 54 female employees to earn college degrees since 2012.

Strengthen Community Partnerships

As our operational performance has improved, we also continue to support social welfare activities and fulfill our responsibilities as a corporate citizen through the programs of the foundations we established, as well as the efforts of our factories in each region. The Feng Tay Cultural and Educational Foundation in Taiwan has provided financial aids to less privileged students, helping them to enjoy equal educational opportunities. In addition to hosting sports and arts events and promoting educational programs, the Foundation also collaborates with a local social enterprise to support local farmers who adopt eco-friendly farming practices. And to provide our employees with healthy food options, many organic farming products are used to prepare meals in our employee canteen. In China, the Da Feng Cultural Foundation and factories are dedicated to improving local medical and educational resources. The factory in Indonesia continues to make its onsite clinic available to the local community. In Vietnam, the factories have provided free

health examinations and medical clinic to local residents. Through the "Beyond" program in India, we have offered free after-school tutoring programs and built public toilet blocks in neighboring villages to help improve community hygiene and educational resources.

Engage in Environmental Protection

Feng Tay is committed to sustainable development of the company and the environment. We have set up specific environmental impact reduction targets for our major footwear factories. To cut down energy consumption and greenhouse gas emissions, we have completed the replacement of all oil-fired boilers with electric heating systems at 7 factories in China, Indonesia and Vietnam in 2017. To increase the usage of renewable energy, we have expanded the capacity of the solar power systems in one factory in China, which supplied a total of 212,375 kWh of electricity in 2017. As a result of our efforts, for every pair of shoes our major footwear factories made in 2017, the greenhouse gas emissions were 34.4% lower than in 2013, and the energy usage was reduced by 27.9%.

We pay great attention to waste treatment and disposal, and aim to reduce waste at the source through monitoring the volume of waste to cut down production waste and working with suppliers to minimize the amount of packaging materials and non-recyclable containers. In 2017, the amounts of materials used in packaging 137 chemicals were reduced by an average of 20% from the 2016 level. In the meantime, we actively search for better waste recycling techniques and waste treatment companies. To achieve the goal of sending zero waste to incinerators or landfills, we try to reuse manufacturing waste and increase the use of energy recovery waste disposal methods as much as possible.

Looking ahead, we will continue to uphold our vision, to persist in our belief - "care for the community and give back to society," and to move toward a sustainable future.



Chao-Chi Chen
President
Feng Tay Group

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Overview



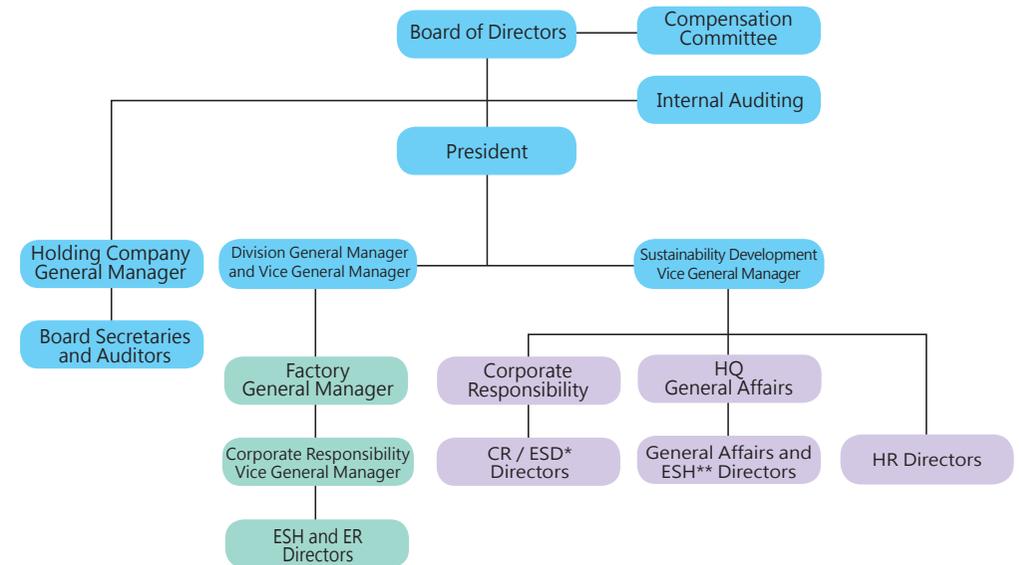
1.1 Reporting Boundary

Overview	This report discloses Feng Tay Enterprises Co., Ltd.'s social responsibility performance in 2017. The reporting boundary includes Feng Tay Group Headquarters in Taiwan and subsidiary companies in each region, but excludes the holding, retail, trading and miscellaneous companies. The financial data are the consolidated financial statements of Feng Tay Enterprises Co., Ltd. and its subsidiaries.
Reporting Period	From January 1, 2017 to December 31, 2017
Reporting Entities	<p>Taiwan</p> <ul style="list-style-type: none"> Feng Tay Enterprises Co., Ltd. <p>China</p> <ul style="list-style-type: none"> Fujian San Feng Footwear Co., Ltd. Fujian Xiefeng Footwear Co., Ltd. Fujian Lifeng Footwear Ind. Dev. Co., Ltd. Fujian Great Hope Footwear Co., Ltd. Xie Feng Mold Co., Ltd. Putian, Fujian Suzhou Yufeng Plastics Technology Co., Ltd. <p>Vietnam</p> <ul style="list-style-type: none"> Dona Victor Footwear Co., Ltd. Dona Pacific (Vietnam) Co., Ltd. Vietnam Dona Orient Co., Ltd. Vietnam Dona Standard Footwear Co., Ltd. Vietnam Shoe Majesty Co., Ltd. Vung Tau Orient Co., Ltd. Dona Victor Molds MFG Co., Ltd. <p>Indonesia</p> <ul style="list-style-type: none"> P. T. Feng Tay Indonesia Enterprises <p>India</p> <ul style="list-style-type: none"> Lotus Footwear Enterprises Ltd. (India Branch) East Wind Footwear Co., Ltd. (India Branch) Fairway Enterprises Co., Ltd. (India Branch)
Editorial Guidelines	The statistical data and information disclosed in this report are on an annual basis. This report was prepared using the Global Reporting Initiative (GRI) Standards. GRI Standards Content Index is provided in the Appendix.
Publication	Feng Tay Enterprises Co. Ltd. publishes its corporate social responsibility reports every year. An electronic copy of this report is available at http://www.fengtay.com . Current Issue: May 2018 Last Issue: April 2017

Contact Information	Any questions or suggestions regarding this report or our practices in corporate social responsibility are welcome and may be sent to: Feng Tay Group Corporate Responsibility Department Address: No. 52, Kegong 8th Road, Douliou City, Yunlin County 64064, Taiwan Telephone: +886 5 537 9100 Fax: +886 5 537 9105 Website: www.fengtay.com
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1.2 Organizational Structure of Corporate Responsibility

Feng Tay established a Corporate Responsibility (CR) Department in January 2010. The Department has the responsibility to oversee the management of environment, safety and health (ESH) conditions and employee relations (ER) at factories. The corporate responsibility program at the Headquarters is jointly carried out by the General Affairs and Human Resources departments, which also help the Company's highest governance body respond to stakeholders' concerns.



- Corporate Governance
- Headquarters
- Factories

*CR / ESD : Corporate Responsibility / Environmental Sustainability and Development
**ESH : Environment, Safety and Health

1.3 Stakeholder Identification and Communication

Identifying and responding to the stakeholders' needs are the keys to improve performance in corporate social responsibility. The stakeholders of Feng Tay include shareholders, customers, employees, communities, suppliers, governments, media and advocacy organizations. Feng Tay values our stakeholders and provides various channels for communication

and information disclosure. "Stakeholder's section" is set up on our website to maintain open dialogue and communication with the stakeholders, helping us to better understand the interests and concerns of stakeholders. Through these practices, we hope to continue improving our performance in social responsibility, as well as earning recognition and trust from the stakeholders.

Stakeholders	Major Concerns		Communication Channels and Measures	
Shareholders	<ul style="list-style-type: none"> Information disclosure Operating performance Risk management 	<ul style="list-style-type: none"> Corporate governance Sustainability 	<ul style="list-style-type: none"> Disclose monthly revenues, monthly earnings and shoe production and sales volumes Disclose quarterly financial report and estimates of shoe production and sales volumes Disclose corporate governance and material information on the website of the Market Observation Post System Publish the company profile and CSR report 	<ul style="list-style-type: none"> Hold the annual shareholders meeting and publish the Annual Reports Participate in the investor conference and investor forum The investor relations section of the company website Spokesperson and contact information for shareholders
Customers	<ul style="list-style-type: none"> Human resources development Labor safety and health Code of conduct Research, development and innovation 	<ul style="list-style-type: none"> Product pricing, security, quality and delivery Sustainability 	<ul style="list-style-type: none"> Maintain intensive and extensive contacts through emails Present monthly score cards Participate in the quarterly business review Make improvements according to the feedbacks from customers 	<ul style="list-style-type: none"> Accompany customers to production plants for walk-through and trial production Participate in training sessions arranged by the customers Release the DVD featuring Feng Tay Publish the company profile and CSR report
Employees	<ul style="list-style-type: none"> Salary and welfare Occupational safety and health On-the-job education and training 	<ul style="list-style-type: none"> Career development Employee-employer relationship 	<ul style="list-style-type: none"> Support the Labor Association Support the Employees Welfare Committee Hold the ESH meetings Set up the General Manager Mail Box and "Grievance and Suggestion System" 	<ul style="list-style-type: none"> Publish the corporate culture book and release the DVD featuring Feng Tay Announcements of internal regulations, personnel changes, as well as rewards and punishments Internal website and newsletter
Communities	<ul style="list-style-type: none"> Environmental protection Care for the community Give back to society 	<ul style="list-style-type: none"> Human resource cultivation 	<ul style="list-style-type: none"> Employees participate in the activities of public welfare Regularly conduct environmental testing Sponsor community activities 	<ul style="list-style-type: none"> Sponsor public welfare activities The CSR section of the company website
Suppliers	<ul style="list-style-type: none"> Environmental regulations Quality and pricing 	<ul style="list-style-type: none"> Supply chain management 	<ul style="list-style-type: none"> Contact through email Conduct supplier audits 	<ul style="list-style-type: none"> Feedback for further improvement Host supplier exhibitions
Governments	<ul style="list-style-type: none"> Corporate governance Labor rights Environmental protection 	<ul style="list-style-type: none"> Occupational safety and health 	<ul style="list-style-type: none"> Official documents Set up internal regulations according to the law Disclose corporate governance and material information on the website of the Market Observation Post System 	<ul style="list-style-type: none"> File periodic reports required by governments The CSR section of the company website
Media and Advocacy Organizations	<ul style="list-style-type: none"> Corporate governance Operating performance Expansion and investment plans Community involvement Environmental protection 	<ul style="list-style-type: none"> Employee-employer relationship Occupational safety and health 	<ul style="list-style-type: none"> Media interview Appoint a spokesperson for public communication Disclose monthly earnings and shoe production and sales volumes Disclose quarterly estimates of shoe production and sales volumes 	<ul style="list-style-type: none"> Disclose corporate governance and material information on the website of the Market Observation Post System. Set up internal regulations according to the law Sponsor public welfare activities The company website

1.4 Material Aspects and Boundaries

In order to assure that the report contents meet the stakeholders' expectations, Feng Tay compiles stakeholders' major concerns and identifies the major issues.

1.4.1 The Procedures for Identifying Major Issues:

Explain the strategy and targets through communication channels

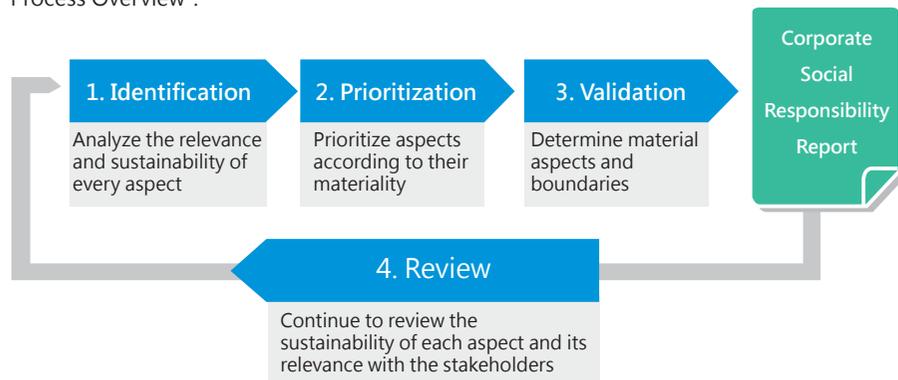
Convey the plans for issue resolution



1.4.2 Process of Defining Material Aspects and Boundaries

Through analysis of major issues, we defined the material aspects and boundaries in accordance with GRI Standards reporting guidelines, and thereby determined which information to disclose in the report.

Process Overview :



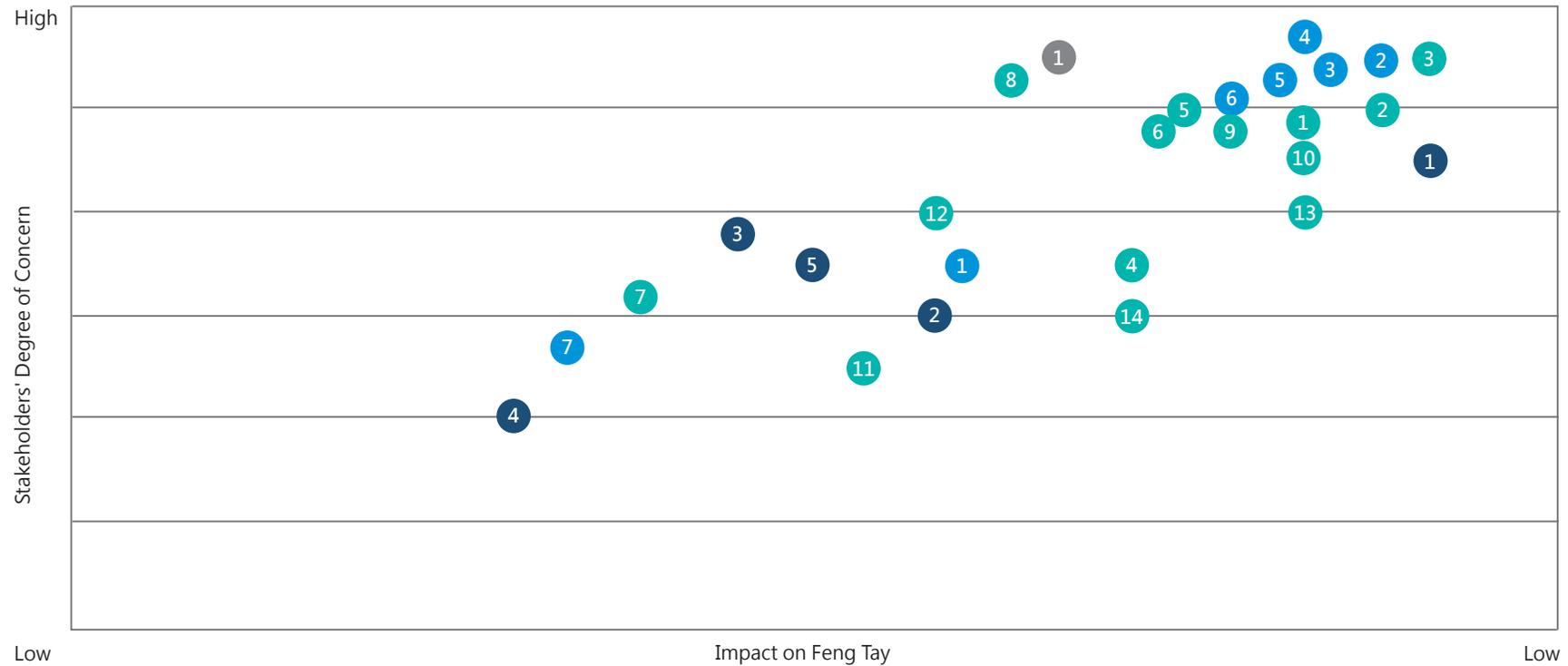
1.4.3 Material Aspects and Boundaries

Our material aspects and boundaries of where impacts occur for each material aspect in 2017 are identified as follows:

● Significance

Category	Material Aspects	Internal					External		
		Headquarter in Taiwan	China	Indonesia	Vietnam	India	Suppliers	Customers	Community
Economic	Economic Performance	●	●	●	●	●			
	Market Presence	●	●	●	●	●			
	Indirect Economic Impacts	●	●	●	●	●			●
	Procurement Practices	●	●	●	●	●	●		
	Anti-corruption	●	●	●	●	●			
Environmental	Materials	●	●	●	●	●			
	Energy	●	●	●	●	●			
	Water	●	●	●	●	●			
	Emissions	●	●	●	●	●			●
	Effluents and Waste	●	●	●	●	●			●
	Environmental Compliance	●	●	●	●	●			
	Supplier Environmental Assessment	●	●	●	●	●	●		
	Employment	●	●	●	●	●			
Social	Labor/Management Relations	●	●	●	●	●			
	Occupational Health and Safety	●	●	●	●	●			
	Training and Education	●	●	●	●	●			
	Diversity and Equal Opportunity	●	●	●	●	●			
	Non-discrimination	●	●	●	●	●			
	Freedom of Association and Collective Bargaining	●	●	●	●	●			
	Child Labor	●	●	●	●	●			
	Forced or Compulsory Labor	●	●	●	●	●			
	Local Communities	●	●	●	●	●			
	Supplier Social Assessment	●	●	●	●	●			
	Customer Health and Safety	●	●	●	●	●		●	
	Customer Privacy	●	●	●	●	●		●	
	Socioeconomic Compliance	●	●	●	●	●			
	Others	Contribution to Society	●	●	●	●	●		

1.4.4 Results of Materiality Analysis



- | Economic | Environmental | Social | Others |
|-----------------------------|-------------------------------------|--|---------------------------|
| ① Economic Performance | ① Materials | ① Employment | ① Contribution to Society |
| ② Market Presence | ② Energy | ② Labor/Management Relations | |
| ③ Indirect Economic Impacts | ③ Water | ③ Occupational Health and Safety | |
| ④ Procurement Practices | ④ Emissions | ④ Training and Education | |
| ⑤ Anti-corruption | ⑤ Effluents and Waste | ⑤ Diversity and Equal Opportunity | |
| | ⑥ Environmental Compliance | ⑥ Non-discrimination | |
| | ⑦ Supplier Environmental Assessment | ⑦ Freedom of Association and Collective Bargaining | |
| | | ⑧ Child Labor | |
| | | ⑨ Forced or Compulsory Labor | |
| | | ⑩ Local Communities | |
| | | ⑪ Supplier Social Assessment | |
| | | ⑫ Customer Health and Safety | |
| | | ⑬ Customer Privacy | |
| | | ⑭ Socioeconomic Compliance | |

2

Corporate Profile





2.1 An Overview of Feng Tay Group

Founded in 1971, the Feng Tay Group is a world leading footwear manufacturer headquartered in Taiwan, with factories spread over China, Vietnam, Indonesia and India. We have also extended our operations to development and manufacturing of other sporting goods such as soccer balls.

Overview

Date of Establishment	July 29, 1971
Chairman	Chien-Hung Wang
President	Chao-Chi Chen
Scope of Business	Feng Tay's core business is athletic shoes manufacturing. We also engage in development and production of casual shoes, inline skates, ice skates, ski boots, snowboard boots, cycling shoes, golf balls, soccer balls, helmets and sticks for ice hockey, shoe parts, shoe molds and shoe tooling.
Headquarter	52 Kegong 8 th Rd., Douliou City, Yunlin County 64064, Taiwan, R.O.C.
Global Locations	Taiwan, China, Indonesia, Vietnam and India
Capital Stock*	NTD 6.68 billion (USD 225 million)
Number of Employees*	More than 110,000

*As of the end of 2017

2.1.1 Operation Center

Feng Tay Group locates its headquarters in Yunlin Science and Industrial Park in Taiwan. The operation center at the headquarters performs the following functions and thereby continuously improves core capabilities to maintain our competitive advantage in the shoe manufacturing industry.



2.1.2 Subsidiary Companies in Each Region

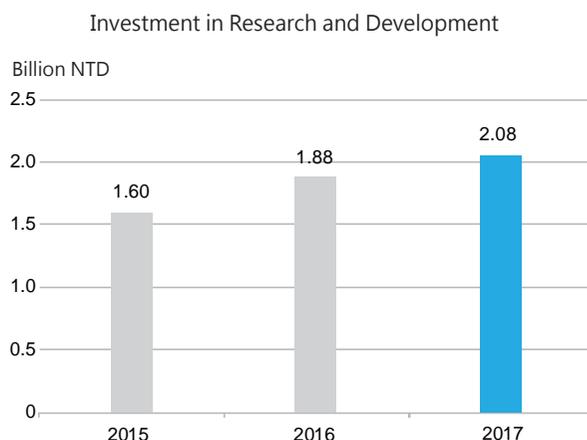


Region	Factory	Year of Incorporation	Primary Products
China	Fujian Lifeng Footwear Industry Development Co., Ltd.	1988	Athletic shoes
	Fujian Xiefeng Footwear Co., Ltd.	1989	Athletic shoes
	Fujian San Feng Footwear Co., Ltd.	1992	Athletic shoes
	Xie Feng Mold Co., Ltd. Putian, Fujian	1991	Molds & Tooling
	Fujian Great Hope Footwear Co., Ltd.	1989	Ice Hockey Equipment (Skates / Helmets / Sticks)
	Suzhou Yufeng Plastics Technology Co., Ltd.	2009	Air soles
Indonesia	P.T. Feng Tay Indonesia Enterprises	1992	Athletic shoes / Sandals / Slippers / Molds & Tooling
Vietnam	Dona Victor Footwear Co., Ltd.	1994	Athletic shoes
	Dona Victor Molds Mfg. Co., Ltd.	1999	Molds & Tooling
	Dona Pacific (Vietnam) Co., Ltd.	2000	Athletic shoes
	Vietnam Shoe Majesty Co., Ltd.	2003	Causal shoes
	Vietnam Dona Orient Co., Ltd.	2003	Athletic shoes / Air soles
	Vung Tau Orient Co., Ltd.	2005	Golf balls / Soccer balls
Vietnam Dona Standard Footwear Co., Ltd.	2006	Athletic shoes / Sandals / Inline skates / Snow boots / Cycling shoes / Causal shoes / Slippers	
India	Lotus Footwear Enterprises Ltd. (India Branch)	2007	Athletic shoes / Molds & Tooling
	East Wind Footwear Co., Ltd. (India Branch)	2010	Athletic shoes
	Fairway Enterprises Co., Ltd. (India Branch)	2014	Athletic shoes

2.2 Competitive Niche

2.2.1 Research & Development

Feng Tay Group has been deeply cultivating its proficiency in shoe manufacturing business for more than 40 years. Over the years, we have developed from a traditional footwear producer to a technology-driven manufacturing corporation. At the Headquarters, more than 1,000 project managers, engineers, and technicians work at the Product Development Center. They continuously improve the quality and add value to our products, and gradually enhance partnership with our customers. In 2015, a Product Creation Center was established in Vietnam to carry out product development for our production plants in the region. We invested about NTD 2.08 billion (USD 69 million) in research and development in 2017, an increase of 10.7% over 2016. During the past three years, our investments in research and development are given below:



Design of Structure and Production Process

Nearly **700** professional engineers, in accordance with the shoe architecture, athletic requirements and manufacturing specifications, apply the latest industrial design and structural engineering technologies to the development of molds and accessories, the improvement of production processes and the enhancement of manufacturing efficiency.



Management of New Product Development

Nearly **140** project managers search for appropriate materials and develop corresponding technology to make product samples out of design sketches to meet market demands.



Sample Production

Over **1,000** experienced and skilled technicians produce fine and exquisite samples.



2.2.2 Innovation

The facts that Feng Tay values innovation are shown in the innovation achievements. In 2017, Feng Tay had the following major results:



Nike's latest high-end basketball shoe – LeBron XV, which features a new Flyknit vamp and a cushioning Air-bag with Zoom Air and Max Air, is the flagship shoe for NBA star in 2017.



The first pair of skateboard shoes with an all-rubber upper has been developed, which achieves a breakthrough in traditional reverse-fur materials, offering abrasion-resistant and durable features to give better control for skateboarding.



A technique has been developed to produce light and thin outsoles, which pushes the lightweight limit, and has been successfully applied in mass production of Hyperdunk 2017.

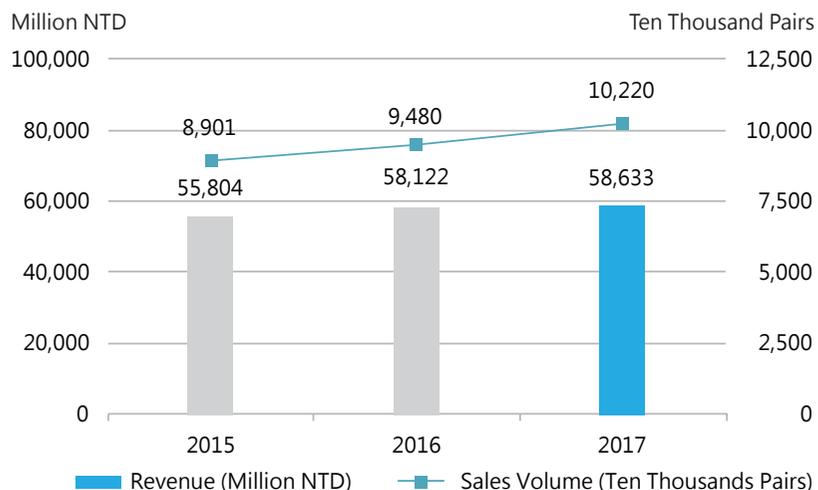
2.2.3 Mass Production

Feng Tay Group began its multinational operations in 1988. Skilled employees and continuously-improving management ability provide a solid support to R&D and innovation. Shoe production totaled more than 102 million pairs in 2017, 7% higher than in 2015 (9% decrease in China, 12% increase in Indonesia, 7% increase in Vietnam, and 13% increase in India). Moreover, we are planning to expand production capacity in major markets to meet customer needs for speedy delivery. In each region, the shoe production (% of the Group's total) in 2017 and the business strategy for 2018 are as follows:

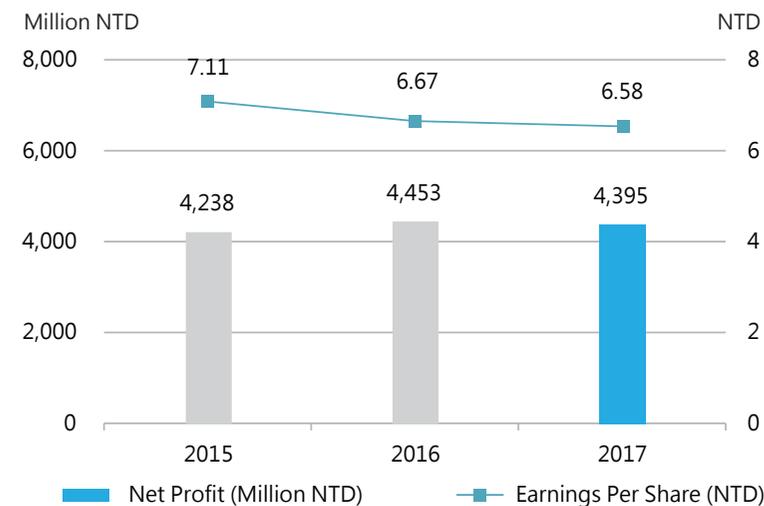
- China (11 million pairs, 11%): Continue to add automated production lines in order to cope with the rising operation cost.
- Vietnam (53 million pairs, 52%): Continue to raise the production skill, efficiency and output by improving production management and manufacturing process, and plan to establish the first automated production line in 2018.
- Indonesia (13 million pairs, 13%): Continue to improve production management and expand production capacity.
- India (25 million pairs, 24%): Continue to improve production management and technique and expand production capacity. Gradually add production lines in the second industrial zone, in Bargur, Tamil Nadu, which began mass production in October 2017.

2.3 Business Performance

2.3.1 Sales Revenue and Volume



2.3.2 Net Profit and Earnings Per Share



For detailed financial statements and annual reports, please visit "Investor Relations" section on our corporate website (<http://www.fengtay.com>).

2.4 Awards and Recognitions



To encourage enterprises to promote sports culture and support sports industry, the Ministry of Education Sports Administration has launched the certification of "2017 Sport Enterprise." A total of 61 enterprises were selected after evaluation by professionals and scholars. Feng Tay received the recognition for outstanding performance in promoting sports culture and sponsoring sport activities.

For a half-century, Feng Tay has been able to stay ahead of competitors, because we do not just make shoes, we also play sports. We encourage our employees to become not only experts in shoemaking, but also athletes in the categories of sports for which our products are made. We have established 13 sports clubs, including basketball, road running and baseball clubs. In addition, our top-level management team promotes sports culture by leading colleagues to participate in 3 on 3 basketball and FT triathlon competitions. We aim to cultivate good sports habits and team spirit in our employees, in order for them to better understand our products and continue to make breakthroughs in shoemaking from athlete and consumer perspectives.

Region	Item
Taiwan	<ul style="list-style-type: none"> Received the "2017 Sports Enterprise" certificate from Sport Administration, Ministry of Education Received recognitions for contribution to "Culture and Arts" from Yunlin County Government Received recognitions for superior performance in Yunlin County's emergency response team evaluation Received recognitions for superior performance in maintenance of surrounding roads adopted by the Company
China	<ul style="list-style-type: none"> Chosen as "AA-Level Credit Management Enterprise" by General Administration of Quality Supervision Inspection and Quarantine Received recognition for "AEO Advanced Certification Enterprise" from Fuzhou Customs Chosen as "Integrity Employment Enterprise" by Fuzhou City Bureau of Human Resources and Social Security
Indonesia	<ul style="list-style-type: none"> Received the blue certificate in environmental management and green rank for PROPER program (pollution control, evaluation and rating) from Ministry of Environment Chosen as excellent pilot company in implementing "ISO 50001 Energy Management system" by Ministry of Energy and Resources
Vietnam	<ul style="list-style-type: none"> Chosen as "Best FDI Enterprise" by Vietnam FDI Association Received recognitions for outstanding performance in corporate management and environmental sustainability from Ministry of Natural Resources and Environment Received recognitions for outstanding performance in fire safety, labor safety and health management from Department of Labor Invalids Social Affair (DOLISA) of Dong Nai Province
India	<ul style="list-style-type: none"> Received recognitions for outstanding performance in blood donation activities from Ministry of Public Health and Preventive Medicine Received "Export Excellent Award" and "Largest Employer Award" from Ministry of Commerce and Industry - MEPZ

2.5 Financial Assistance Received from Governments

Unit: Thousand USD

Region	Item	Amount
China	Subsidy to enterprises with outstanding contributions	12,769
	Subsidy for industrial transformation and upgrading	641
	Subsidy for environmental protection or energy conservation	621
	Incentive for growth in export volumes	282
	Other subsidies and incentives	269
India	Subsidy for investment	3,128
	Subsidy for employee training	196
	Other subsidies and incentives	16
Total		17,922

2.6 Involvement in External Affairs

2.6.1 Membership in Industry Associations

- Taiwan Footwear Manufacturers Association
- Yunlin County Industrial Association
- Taiwan Rubber & Elastomer Industries Association

2.6.2 Involvement in Public Affairs

Feng Tay Enterprises remains politically neutral and never makes political contribution to any party or candidate. However, we encourage our employees to fulfill their duties as citizens, participate in public affairs, and vote for the candidate whom they believe is the best. For details please refer to Section 5.2 "Social Engagement" of the Report.



Donating sport gears to students in India



Providing supplies to less privileged families in Indonesia

3

Corporate Governance



3.1 Corporate Governance

Feng Tay Enterprises maintains good corporate governance with spirits of integrity, compliance, operational transparency, and respect for shareholder rights. Our corporate governance structure is as follows :



3.1.1 Board of Directors

The Board of Directors, Feng Tay's highest governance body, monitors corporate long-term strategy, evaluates risks, and decides the appointments and rewards for the management team. In the Articles of Incorporation, the Company has specified the nomination process for election of Board members. The Board will conduct a prior examination of the eligibilities of the director and supervisor candidates nominated by shareholders or the Board, and provide results of the assessment to shareholders in order to elect qualified directors and supervisors. The Board is currently composed of 2 supervisors and 10 directors, including 2 independent directors and 1 female director. For background information of the board members, please refer to the company's annual report.

The Board Meeting is held at least once every quarter to evaluate operational performance, discuss important strategies, and review management team's business report. Through dialogue with the management team, the Board gets to understand the problems faced in operation, and to urge the management team to adjust accordingly. Acting in the best interests of the shareholders, the Board of Directors and the management team maintain smooth communication to concentrate on implementation of the instructions on business operations given by the Board of Directors.

Based on the "Rules of Procedure of the Board of Directors of Public Issuing Companies", the Company's Board of Directors set up the "Rules of Procedure of the Board of Directors" and guidelines to prevent conflicts of interest. Board members should avoid involving in discussions of any motions in which they have conflicts of interest, and should not represent other directors to vote on the motions in the Board meeting. Implementation of the conflicts of interest rule is disclosed in the company's annual report.

The supervisors have the responsibilities to oversee the quality and integrity in the execution of accounting, auditing and financial reporting. They also audit, with the CPA, the major components of quarterly financial statements to ensure reasonableness and adequacy of financial statements. In addition, the supervisors are responsible for verifying the independence of the CPA and the reasonableness of major stakeholders' transactions as well as ensuring the design and effective implementation of the internal control system. Remuneration to Board members is regulated in the Feng Tay's articles of incorporation. Details of the allocation should be resolved by the Board of Directors.

There were five regular Board meetings in 2017, The Board members were actively engaged, with 100% meeting attendance rate, and effectively monitored the implementation of business plan. All major resolutions passed at the meetings were announced on the company website.

Remuneration Policy for Board Members, Supervisors and Senior Management Team

The compensations for members of Feng Tay's Board of Directors, supervisors and senior executives include salaries, bonus and remuneration. The remuneration policy for members of the Board of Directors and Supervisors is specified in Feng Tay's Articles of Incorporation. The remuneration to senior managers includes fixed and variable compensations. The amount of variable compensation is based on each business division's annual performance review. The annual goals for each business division are set for various units at all levels in the top-down manner. Reviews are conducted regularly to fully reflect the performances of each team and each individual member. We regularly examine the justifiability of our salary levels and compare them with those in the job market, in order to ensure that our salary rates are competitive and thereby support our efforts to attract and retain the best talent. In compliance with government regulations, the remunerations of Board members, supervisors and the senior management team are reviewed by the compensation committee and passed in the Board Meeting. Related information is disclosed in the company's annual report to let stakeholders fully understand how the remuneration is linked with operational performance.

Compensation Committee

Feng Tay established Compensation Committee in 2012. The committee is responsible for "formulating and regularly reviewing the policy, system, standard and structure of performance evaluation and compensation for Board members, supervisors and the senior management team," as well as "assessing and setting the compensation for Board members, supervisors and the senior management team on a regular basis" in due diligence. The recommendations of the committee are used by the Board of Directors to make decision on compensations. Composed of three members (one of them serving as chairman) appointed by the Board, the committee meets at least twice a year. A total of two committee meetings were held in 2017 with an attendance rate of 100%. For background information of the compensation committee, please refer to the company's annual report.

Internal Auditing System

Feng Tay's internal auditors report to the Board of Directors Office directly. Audit Director, Audit Specialist at Group Headquarters, and auditors in the Board secretary office of each subsidiary are in charge of internal auditing.

The auditors carry out their work in an independent and objective manner with integrity. The appointment of Audit Director must be approved by the Board of Directors. The Audit Director submits periodic reports to the Supervisors and attends the Board meeting to report audit results.

Internal auditing is conducted at the Headquarters as well as in all subsidiaries according to auditing plans approved by the Board. The auditors are required to immediately report any deficiencies and anomalies to the Supervisors, who will urge the management team to respond properly at the earliest possible time. These requirements have the objective of continuously improving the effectiveness of internal controls, and are used as the basis for making necessary changes to the system and regulations. The process of internal auditing system is as follows:



3.1.2 Information Disclosure

Feng Tay seeks to enhance promptness and transparency of information disclosure. In addition to regularly disclosing information as required by the laws, Feng Tay actively participates in the investment forum held by domestic and foreign brokers and investor conferences, and explains released information such as financial and operating performance to help investors better understand Feng Tay's financial position.

Information Disclosure Channels

Appoint a spokesperson and a deputy spokesperson	To provide communication channels with the media, shareholders and investors
Material information announcements and media interviews	To keep investors and the public informed of Feng Tay's latest developments
Investor relations section of company website	To provide investors with the latest information on the company's operation, finance, and governance
Attend investor conferences and domestic (and foreign) investor forum	To elaborate on the company's operation, financial position, strategic plan, and operating principles

Information Disclosure Milestones

- Set up a company website, in both Chinese and English versions, which includes a section to disclose information on the company's operation, finance, and governance.
- Disclose information on monthly shoes production and sales volumes on the company website.
- Voluntarily disclose monthly operating income and earnings per share on the website of the Market Observation Post System and the company website.
- Voluntarily disclose information on monthly consolidated revenue breakdown by product on the website of the Market Observation Post System.
- Disclosed the "Major Resolutions of the Board of Directors" on the company website.
- Starting from 2014, all motions in the shareholders meeting have been voted on a case by case basis. The voting results are posted on the Market Observation Post System website and the company website.
- Received the highest Rating of "A++" in the 12th Annual Evaluation of Information Disclosure of Listed Companies.
- Attend investor conference at least once per quarter and upload presentation files to the company website.

3.1.3 Compliance with Regulations and Norms Integrity and Discipline

Feng Tay adheres to the highest principle of integrity and discipline; every employee should uphold the ethical values, protect the company's reputation, and comply with the law.

- Employee Ethics: We dismiss, and take appropriate legal action against any employee who is verified of committing embezzlement, stealing company properties, intentionally disclosing confidential technical or operating information, using the company name without permission to carry out non-official business activities or any other acts that are detrimental to the company's credibility and cause the company to suffer from severe losses.
- Risk Assessment: Internal auditors perform annual risk assessment for transaction cycles and operations to stay in compliance.
- Employee Training: New employee training includes courses in ethics, internal regulations and legal compliance.

Compliance with Regulations

Feng Tay's management regulations and code of conduct are established in accordance with our business philosophy, existing national laws and customer requirements to advance core values of integrity, discipline, diligence and craftsmanship. All employees, from top executives to shop workers, are required to comply with the management regulations and code of conduct. In addition to stating the responsibilities of the Feng Tay Board and the operational procedures of internal control, the management regulations carefully specify the conditions of working environment, protection measures of employee health and safety, and corporate security procedures, in order to maintain a healthy working environment and a sound corporate system. We pay close attention to any change in domestic and international policies and regulations that might affect the Group's finance and operations. We also actively respond to customers' concerns, and require all employees to receive trainings in relevant regulations and norms. In case corporate regulations are in conflict with government laws, we follow the most stringent requirements.

Communication and Reporting Channels

Internal:

In order to protect employee rights, employees may report to their supervisors when they have any complaint or suggestion. Employees may submit any complaint or suggestion through the "Grievance and Suggestion System" if their complaint or suggestion has not received a satisfactory response from their supervisors. (Detailed information is given in Section 5.1.5 of this report)

External:

The contact information of our spokesperson and shareholder services agent is disclosed on Feng Tay's website under "Investor Relations" and "Contact Us" sections. If stakeholders have any question or suggestion, they can send their inputs to us and we will respond promptly. We also have established a "Stakeholder Engagement" section on our corporate website, to provide a communication channel for our customers, employees as well as suppliers, and appointed designated units to respond to stakeholders' opinions.

3.1.4 Risk Assessment and Management

Feng Tay, an enterprise focusing on athletic shoes manufacturing, never engages in investments with high risks and leverage, and limits transactions of derivative products to forward foreign exchange contracts for hedging. Furthermore, it is clearly stated in the Group's management regulations that our capitals shall not be loaned to others and no endorsement shall be guaranteed.

The management of existing and potential risks is monitored by the Board of Directors. In addition, Feng Tay has established an independent internal auditing system to examine its risk management practices, thereby ensuring proper operation of its risk management mechanism.

Risk Type	Risk Management Mechanism
Operating risks management	Feng Tay's major shareholders have maintained stable shareholding ratios. During 2016, there was no mass transfer of stock shares by Board directors, supervisors or major shareholders that own more than 10% shares. There was no serious litigation, non-litigation or administrative litigation against Group Headquarters, Board directors and supervisors, General Managers, the highest executive of the group, major shareholders that own more than 10% shares, and factories. Furthermore, there were no mergers and acquisitions, restructuring, change of control, significant changes in business operation mode and contents, and important matters that might affect shareholders' interests.
Financial risks management	Feng Tay closely monitors the fluctuation of exchange rate and inflation due to dramatic changes in global financial markets, for the acute appreciation and depreciation of currencies and soaring material costs will affect our long-term profits. To maintain a steady growth of revenue and income, we make use of appropriate hedging techniques and flexible purchasing plans as well as devote ourselves to improving product quality, production efficiency and cost management.

Investment risks management	Before making an overseas investment, Feng Tay must first properly consider and evaluate local political and economic risks, environmental conditions, and cultural sentiments, and then develop management guidelines in accordance with local laws and the Group's values. All illegal acts are strictly prohibited.
Climate change risks management	To identify the risks that we may encounter because of climate change, Feng Tay considers regulatory, substantive, and other aspects, and set up relevant management measures to reduce the impact of climate change. In the future, we will continue to make improvement on our management measures in accordance with the trend of climate change as well as international and national responses.

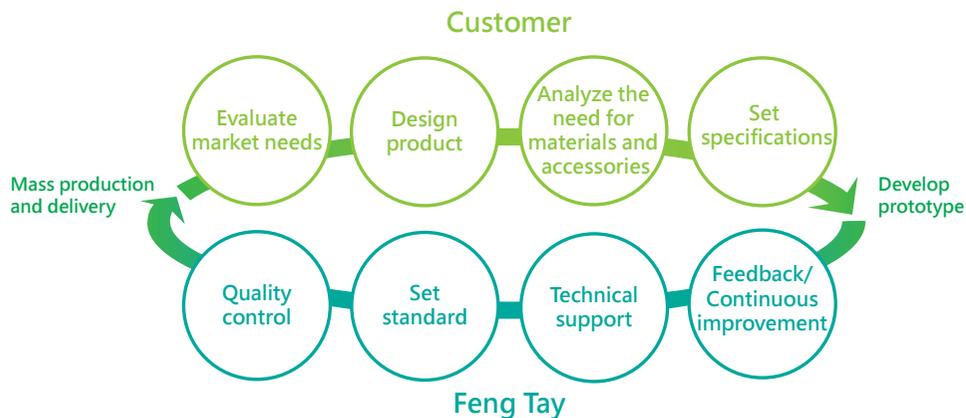
The Challenge of Climate Change

It is industry's responsibility to take action in response to the increasingly severe environmental issues such as global warming and extreme climate. Feng Tay has committed to the issue of environmental protection, and has identified the risks of climate change to establish corresponding measures to reduce the impact of climate change on business operation:

Category	Aspects	Challenges	Response Measures
Regulatory aspects	International protocol	National carbon reduction commitments and policies will promote the technology of low-carbon productions and energy-saving improvement, which will lead to the decrease of carbon footprint indirectly.	<ul style="list-style-type: none"> Conduct carbon reduction management to achieve the 2020 targets. Increase energy efficiency. Response to government's regulation. Follow international protocols such as Kyoto Protocol, United Nations Framework Convention on Climate Change and Paris Agreement.
	Renewable energy	Clients' emphasis on renewable energy.	<ul style="list-style-type: none"> Install renewable energy systems to generate electricity. Purchase renewable energy. Use renewable energy.
Substantive aspects	Changes in rainfall	The impact of change in rainfall pattern, which could increase the frequency of floods and droughts, on arrangement of water resources for manufacturing.	<ul style="list-style-type: none"> Conduct water resource management to achieve the 2020 targets. Increase the use of recycled water and rain water. Establish a flood and drought emergency response system. Elevate the foundation height for newly-built factories, and build retaining walls and gates in low-lying areas.
	Extreme climate	The impact of climate change, abnormal ambient temperature, El Niño-Southern Oscillation and Arctic Oscillations on production capacity.	
Other aspects	Corporate reputation	The impact of environmental protection performance on company image.	<ul style="list-style-type: none"> Comply with local and international regulations, while meeting clients' expectations and exceeding their demands, in order to improve environmental protection performance. Implement carbon reduction plans.
	Consumer behavior	The decrease in demand for high carbon footprint products.	

3.2 Customers Satisfaction and Product Services

Feng Tay has insisted on earning customers' trust by providing products with consistent quality and reasonable price. Making quality products at reasonable prices is not only our assurance to customers, but also our commitments to consumers. As technology evolves, designs become increasingly complex, and consumer tastes for products diversify. Therefore, we constantly make improvements to shoe model development, production process design, technology development, and production management. With decades of experience, we continuously add value to and refine our products to strengthen our partnership with long-term customers. We will strive to reduce the rate of returns for our products and, by raising awareness of product quality among employees, create a corporate culture that focuses on the quest for innovation and quality.



In order to elevate product values, improve comfort and lightness of shoes, minimize the rate of product returns, and reduce manufacturing costs, a quality control unit was established in Business Division which is charged with the following responsibilities:

- To assure good and consistent quality of products on production lines.
- To refresh classic long-serving product models.
- To engage in the design of new product structure and manufacturing process, and thereby assure the quality of new products in mass production.
- To capture fashion trends and the strengths of other brands.

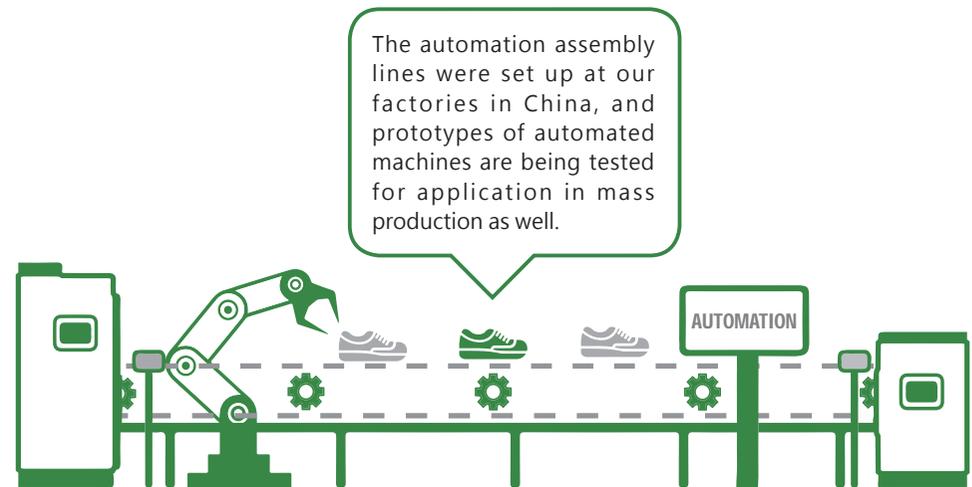
To continuously overcome technical challenges, optimize manufacturing technology database and ensure that the production lines follow the technical specifications, Feng Tay also established Tech, Quality Assurance, and Process departments. We continue to bring in and develop skilled professionals in advanced chemical engineering and footwear manufacturing technology. An inspection system is set up to ensure the implementation of best practices, provide feedback on deficiencies in operations specifications, and continue to make improvements.

3.2.1 Product Quality

3.2.1.1 Quality Improvement

We manage our operations with clearly specified division of manpower, operational process and decentralized responsibility. To assure product quality, we begin discussion on mass production plans with our customers at the initial development stage and provide timely feedbacks about product development, including materials and production process. Through the daily inspection mechanism, functional walk-through, and abnormal situation handling system (the Andon system) used by line operators, the management team is able to monitor product quality and production progress at all times, resolve unexpected issues, and help each unit to operate under the best conditions.

We are keenly aware that constantly surpassing our current technology is the key to holding a leading position in the footwear manufacturing industry, maintaining consistent product quality, and raising customer satisfaction. Best practices in manufacturing are established through testing, verification and correction at various stages before mass production. As a result, standardization and consistency are maintained in mass production even if the work is assigned to different people. In addition, Feng Tay has established automation department to develop automation technology for applications in production processes where high-risk machines are being used, the work is monotonous, or frequent repetition of the same action is required. The development of automation technology is aimed at eliminating the risks of manual operation and improving production efficiency and quality. To continuously improve our operations, we have implemented the "Propose for Improvement" system and an improvement team at each factory, and thereby encourage operators to participate in improvement of manufacturing operations.

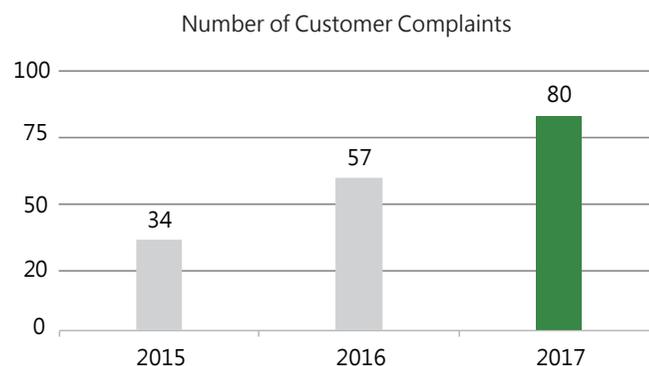


In order to give our customers a marketing advantage, we keep on introducing new machinery and developing advanced manufacturing technology. For example, we installed special sewing machines, which can turn 360° while stitching, and as a result, the one-piece 3D injected ice hockey quarter shell design can be done successfully. For production of helmets, we developed water-based foam powder and a vacuum foaming process to replace the traditional two step molding process, and thereby simplified the production process and reduced the defect rate of products.

3.2.1.2 Quality Control

A laboratory is established at each factory for material property analysis and performance testing. Advanced instruments are used to test products of various designs, material properties and market specifications. Based on the user's point of view, testing standards are set for each individual product with respect to performance, environmental adaptability and life expectancy. For example, testing of outdoor footwear is focused on flexibility, performance under different temperatures, durability and tensile strength. Analysis of material property and test data serves to facilitate prototype development and setting of standards for quality control during mass production, which enables us to create with our customers an exceptional user experience.

To maintain transparent communications with our customers, Feng Tay regularly provides them with reports on product quality and production progress, and accepts audits by them. When a customer's quality complaint is received either at a factory or at the Headquarters, the top executive of the business division is promptly notified. Progress reports on the reason for complaint, the cause of quality problems, corrective measures, and attribution of responsibility are submitted regularly until the improvement plan is completed. Through this feedback mechanism and regular interactions with the customers, we are better able to meet customers' needs, and to improve product and service quality. In 2017, we received 80 customer complaints, 40% higher than in 2016. This was mainly because of quality problems. We will continue to improve our management on product quality and ensure our factories follow the standard manufacturing process in order to satisfy customers' requirements.



3.2.2 Product Safety and Regulatory Compliance

As a leading footwear manufacturing company, Feng Tay is dedicated to protecting customers' intellectual property and supporting its brand customers in fulfilling their social responsibilities. Any potential health risk to users of our products is eliminated through extensive collaboration with our brand customers and material suppliers. From material development to product manufacturing, packaging and delivery, careful inspection is conducted at each step in order to meet international product safety standards, such as international SGS certification.

3.2.2.1 Safe and Environmental Friendly Material

All selected materials must comply with RSL, and tests are conducted to ensure that no material potentially harmful to human health and the environment is used during production processes and in our footwear products. If a new material is used, a report of the RSL test must be provided during the development stage. If an existing material with a different color is used, suppliers are requested to provide a report of the RSL test that is made within one year prior to mass production. Any material found non-compliant will be removed from our selected material list if the supplier cannot promptly make an improvement.

A specified number of samples are tested per month for high risk color materials to be used in mass production. When a material fails to meet customer requirements, the supplier is promptly requested to replace it with the material that is compliant with the standards. At the same time, finished and shipped products are checked for any abnormalities, and the results of inspection are reported to the customer for further actions.

Over the years, our continuous efforts to set a higher standard for suppliers have gradually improved the overall material quality. We have also developed a comprehensive material database to analyze high-risk materials. Most tested samples are now selected from materials with higher risk rather than selected randomly. Thus, even though the total number of tested samples decreased, we were still able to detect problems more effectively.

During 2015 to 2017, the numbers of samples tested and of tested samples that failed to meet the standards are listed as follows:

Year	Number of Samples Tested	Number of Tested Samples Failing to Meet the Standards
2015	390	4
2016	398	5
2017	157	5

We have also steadily increased the use of environmentally preferred materials and improved the manufacturing process to minimize the impact of our products on the environment. We have established a dedicated team - Green Team, which is composed of supervisors and engineers from product development department, to evaluate and improve product design, manufacturing process, and material selection at each stage of sample shoes development and mass production. The green team sets goals on environmentally friendly material, waste, energy, solvents, and chemicals used in products according to the characteristics of each shoes category. For example, the amount of biodegradable materials such as PU used in shoe soles was increased, the design was improved to reduce the amount of material waste, and water-based cement and primer were used to replace solvent-based cement and primer. Feng Tay is committed to developing eco-friendly manufacturing process. As an example in the development of new products, the disposable nylon bladder originally used in the thermosetting packing process was replaced with reusable silicone bags. In the production of soccer balls, we developed a latex laminating machine and used RHM (reactive-hot melt adhesive) with electric laminating machine. The improvement phased out the usage of solvent-based cement, and increased the rebound height of soccer ball by 5 centimeters. In the future, we will continue to develop and increase the use of environmentally friendly materials in our products, and fulfill our responsibility in environmental protection by continuously improving manufacturing processes to reduce our environmental footprints.

3.2.2.2 Product Safety Inspection

Feng Tay strictly conducts safety inspection on our materials and products. At our factories, the Purchasing management teams perform monthly inspections on locally-purchased materials and imported materials containing colors with high health risks. All the results are reported to the Headquarters. Moreover, all materials are subject to random inspections by Warehouse Department at the time of delivery. No disputed material will be used in the manufacturing of our products.

Take athletic shoes as an example. Every pair of shoes must be scanned for any unintended metal object before being packaged; product packaging is under the supervision of certified employees. These measures aim to ensure the safety of our products during the delivery process.

Among our growing product categories, some products need to stand for a specified length of time before testing. For instance, soccer balls need to stand for 48 hours before accelerated durability testing, and ice hockey sticks is required to stand for one week before testing for 3M Fatigue. Furthermore, additional tests are conducted for quality assurance. For example, injection skate shell is stored at -25°C for 4 hours before undergoing impact test. We set up the impact test for the injected footbed of the new generation skate, and test the flexibility of the product and the conversion degree of thermochromatic ink at specific temperature to ensure the quality of our products under variable temperature conditions.

3.2.2.3 Product Delivery Regulation

Feng Tay supports brand customers by cooperating with their procedures and requests for product labeling. Therefore, our products are manufactured in accordance with such requirements and in compliance with the national regulations upon export. We perform security checks on all outgoing shipments and receive third-party audits arranged by customers. The inspection covers security measures, monitoring of operation, monitoring and inspection of packaging process, and factory access control. All truck drivers must have prior registration and present their photo identification cards at the gate before entering the factory. We also specify shipping routes and use vehicle GPS tracking modules to ensure transportation security and obtain real-time updates on shipping status. Through the security management system, we help our customers obtain US Customs-Trade Partnership on Terrorism Tier-1 certification and AEO (Authorized Economic Operator) certification from the European Union.



3.2.3 Customer Confidential Information Protection

During the product development stage, shoe samples are created based on the initial design from our customers. We provide improvement suggestions throughout the development phase by considering material characteristics and functional requirements of sports shoes. We also work with customers to develop patentable technologies to gain their trust in our development capabilities and to give them a better marketing edge. It is extremely crucial for us to maintain confidentiality in order to protect our customers' intellectual property and retain our competitiveness, because we are constantly developing next generation products and technologies. Employees are required to sign confidentiality agreements upon employment with Feng Tay. To prevent leak of confidential materials, we strictly monitor and control personnel and vehicles entering and leaving the premises by implementing 24 hour security and surveillance systems. As information technology continues to advance, it becomes a challenge to safeguard product data. Fortunately, Feng Tay has already established a set of stringent and clear regulations regarding the use of cell phones, laptops, flash drives, the Internet and even the size of an email. System functions are restricted to authorized users. A valid authorization must be obtained from the top management before accessing confidential information. Internal audits are performed to assure that there are no abnormal behaviors. When working on particular technical projects with customers, we will sign confidentiality agreements with customers and suppliers to protect customers' best interests. No leakage of product information has ever occurred at Feng Tay.

3.3 Supply Chain Management

Suppliers are Feng Tay's close partners. In the product life cycle, we need suppliers' involvement to create synergy in corporate social responsibility related issues, such as environmental stewardship, occupational safety and health management, and workers' rights protection. Therefore, we constantly convey our values to the suppliers. We also collaborate with brand customers to audit and monitor suppliers' practices in the above mentioned issues of corporate responsibility. Through the implementation of various management and auditing measures, we strive to help suppliers keep up material quality and delivery timing, which in turn ensures a smooth flow of production and brings forth reduction in the rate of returns for raw materials to 0.56% in 2017.

3.3.1 Management of Suppliers' ESH and Workers' Rights

Feng Tay requires its suppliers to comply with the local legal system. Their working environment should conform to occupational safety and hygiene standards. Their workers must be paid reasonable salary and should not be forced to work overtime excessively.

To meet the requirements of brand customers, all new suppliers must pass the SHAPE (Safety, Health, Attitude of management, People, Environment) evaluation before they can do business with Feng Tay. The SHAPE evaluation consists of 5 categories and 26 specific criteria. It is conducted at suppliers' premises, with a focus on safety, health, human resources management and environment. For existing suppliers, we conduct the Vendor Quality Audit (VQA) from time to time. The VQA has 11 specific criteria, of which the main categories include workplace environment, raw material storage management, employee training and emergency response.

In 2017, 19 suppliers were audited with SHPAE and VQA, enabling us to gain an understanding of suppliers' practices in corporate social responsibility. Any shortcomings discovered in the audit were recorded. Furthermore, our major suppliers were evaluated using a color rating system¹ and their subsequent performances were checked regularly. Currently 15 major suppliers were given green rating and 4 given yellow rating. The audit results were simultaneously sent to the supply chain management unit and the outsourcing management unit, and were included in the supplier evaluation files, which would be taken into consideration in future outsourcing decisions. We also share our experiences and achievements in corporate social responsibility with suppliers to help improve their performances. In 2017, 3 major suppliers improved their performances from yellow to green rating. For one supplier whose performances were downgraded from green to yellow rating, we worked out an improvement plan with them and tracked their progress to ensure timely improvement.

¹ Green rating: zero failures in critical items and over 90% pass rate in regular items. Yellow rating: fewer than 3 failures in critical items and over 70% pass rate in regular items. Red rating: more than 3 failures in critical items or less than 70% pass rate in regular items.

² For suppliers given a green rating in the preceding year, audits can be waived for the current year.



3.3.2 Development and Use of Environmentally Preferred Materials

Environmentally preferred materials (EPMs) refer to those materials that have less impact on the environment, consume less energy during their production, and do not contain chemical substances that are harmful to the human body. Most EPMs can be recycled and reused. By collaborating with suppliers, Feng Tay continues to increase use of EPMs and materials that are biodegradable and recyclable. Following are the details of 122 kinds of EPMs Feng Tay used in the shoe manufacturing process in 2017:

- Liner materials: 26 kinds. The major items are: EPM MERRY Recycled fabric (205,227 yards) and Recycled LJ-B728 fabric (67,131 yards).
- Upper materials: 43 kinds. The major items are: Recycled EPM CRONA fabric (66,827 yards) and LJ-A2279 EPM Recycled fabric (53,201 yards).
- Accessories materials: 53 kinds. The major items are recycled FA 3050 film (2,523,000 meters) and SJ-PET0986 recycled shoe laces (506,170 pairs).

3.3.3 Anti-corruption Provisions of Purchasing Department

The Purchasing Department personnel are the Group's employees who directly interact with suppliers. Their work ethics and attitudes will influence our overall assessment of a supplier. The Purchasing Department personnel are therefore required to comply with the following regulations:

- In the purchasing process, following the regulations and traditions are more important than price negotiation, which in turn is more important than purchasing efficiency.
- Negotiate with suppliers in accordance with the principles of integrity, law-abidingness, punctuality and courtesy.
- Any attempted bribery by suppliers should be firmly refused and promptly reported to the superior.
- Dining with suppliers is restricted to occasions when the payments are made by our side or by the supplier when the Purchasing Department manager also attends the meal. In the latter case, the meal expense per person should not exceed USD 10.
- Report any inevitable event hosted by suppliers before or after it occurs.

3.3.4 Partnership with Suppliers

Hosting of Materials Policy Seminar and Suppliers Fair

We treasure our interaction and communication with suppliers. Annual materials policy seminar, RBR (Regular Business Review), and VQA (Vendor Quality Audit) are held to strengthen our relationships with suppliers. The Group also uses the seminar as a platform to encourage suppliers to adopt energy-efficient production equipment, reduce water usage and cut down wastewater discharge. In the seminar, the suppliers who have demonstrated outstanding performance are commended in the presence of brand customers.

Materials Policy Seminar

- Date: October 2017
- Numbers of suppliers participating in the seminar: 14
- By region: 12 domestic suppliers, 2 foreign suppliers.
- By material category: 3 leather suppliers, 3 synthetic leather suppliers, 5 textile suppliers, 3 webbing and elastic gore suppliers.
- Numbers of participants: 28



RBR (Regular Business Review)

- Numbers of suppliers participating in the seminar: 20
- By region: 18 domestic suppliers, 2 foreign suppliers.
- By material category: 3 leather suppliers, 4 synthetic leather suppliers, 7 textile suppliers, 6 webbing and elastic gore suppliers.



VQA (Vendor Quality Audit)

- Numbers of suppliers participating in the seminar: 7, all domestic suppliers. .
- By material category: 1 leather suppliers, 3 textile suppliers, 3 webbing and elastic gore suppliers.

Fair Trade and Mutual Respect

Feng Tay interacts with suppliers in accordance with the spirit of mutual trust and respect. Following are some specific practices:

- Inform the suppliers about their overdue accounts receivable.
- Give long term contracts to the suppliers with good services.
- Provide suppliers with materials forecast, but do not force them to stock the materials in advance; transactions are accomplished by formal orders only.
- Ask for suppliers' agreement before cancelling an order.
- Make no claim to suppliers unless it is a critical quality issue.
- Promise to purchase the machinery or equipment developed jointly by a supplier and Feng Tay.
- Provide resources such as manpower, materials and equipment to suppliers at no charge to help them conduct research and development, make improvements, and obtain ESH certification for new machinery.

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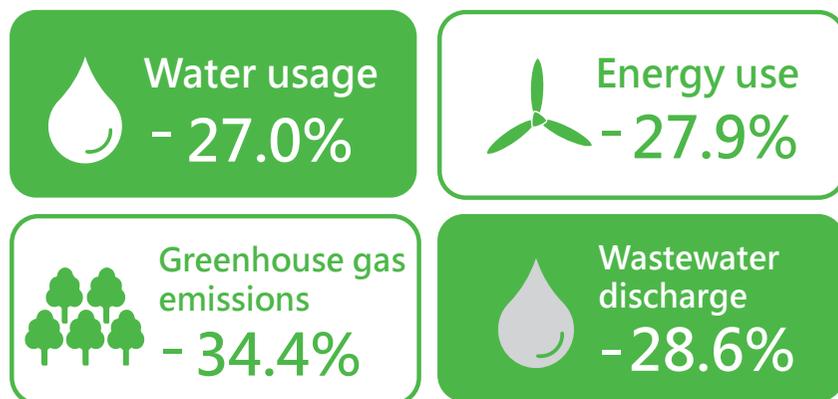
Environmental Protection



Feng Tay Group pays great attention to issues of environmental protection, climate change and ecological conservation. To improve our eco-efficiency, we have established the MESH system to optimize production method, manufacturing process and management system.

In accordance with the Group's "Energy and Water Efficiency Management Guidelines," Feng Tay continues to implement energy-saving projects. We have set up specific environmental impact reduction targets for our major footwear factories, increased our use of renewable energy and progressively installed solar power systems. Based on the 2013 levels, Feng Tay commits to the following reduction targets for every pair of shoes we make: 25% of water usage, 25% of wastewater discharge, 20% of energy use, and 35% of greenhouse gas emissions by 2018.

Reductions Achieved at Major Footwear Factories³ in 2017 (base on the 2013 levels⁴):
Per Pair of Shoes:



4.1 Expenditures on Environmental Protection

The 2017 environmental protection-related expenditures, totaled USD 10,440,416, are itemized in the following categories.

Category	Waste Disposal and Treatment	Wastewater and Emissions Treatment	Remediation	Prevention and Management
Expenditure (USD)	3,185,718	1,488,980	50,742	5,714,976

³ Major footwear factories include LF, HF, and SF in China; IW in Indonesia; LU1, LU2, EW1, and FA1 in India; DV, DP, DO, and DS1 in Vietnam.

⁴ Base on the 2013 levels. Starting from 2013, Feng Tay Group set reduction targets every year.

Category Details:

Category	Description
Waste Disposal and Treatment	<ul style="list-style-type: none"> Waste disposal Taxes and insurance costs related to waste disposal Installation, maintenance, and modification of waste collection facilities
Wastewater and Emissions Treatment	<ul style="list-style-type: none"> Wastewater treatment Installation, maintenance, and modification of wastewater treatment facilities Installation, maintenance, and modification of emissions (dust, fume, and organic solvent vapors) removal equipment and ventilation systems Discharge permit fees levied by Environmental Protection Bureau Taxes and insurance costs related to wastewater and emissions treatment
Remediation	<ul style="list-style-type: none"> Cleanup Improvement of sound insulation for noise abatement at borders of factories Addition and modification of facilities for remediation purposes
Prevention and Management	<ul style="list-style-type: none"> Environmental monitoring Environmental certification fees Environmental protection education and training Installation, maintenance, and modification of secondary structures for spill prevention (such as containment plates, drains for spill prevention, etc.) Making of environmental protection signs and posters Purchases and maintenance of instruments relates to environmental protection Additional cost of green purchases Salaries and bonuses for ESH personnel Energy conservation, water savings, and oil-fired boiler replacement projects

4.2 Biodiversity

Feng Tay Headquarters in Taiwan and the factories in Vietnam and India are located in industrial zones where environmental impact assessments (EIAs) had been conducted before these zones were developed. The companies in these zones have carried out environmental protection activities in accordance with commitments made in the EIAs and local environmental laws and regulations. Our factories in China and Indonesia are located in areas which were developed earlier, instead of industrial zones. These areas are not adjacent to any protected areas or habitats. Feng Tay Group has followed the commitments in the EIAs made by the industrial zones and by itself, and therefore has caused no additional impacts on the local ecological environment.

4.3 Energy Management

4.3.1 Energy and Water Efficiency Management Guidelines

Feng Tay Group uses its "Energy and Water Efficiency Management Guidelines" to promote the adoption of best practices in our operations, including equipment purchasing and production process, at all factories. The main guidelines are as follows:

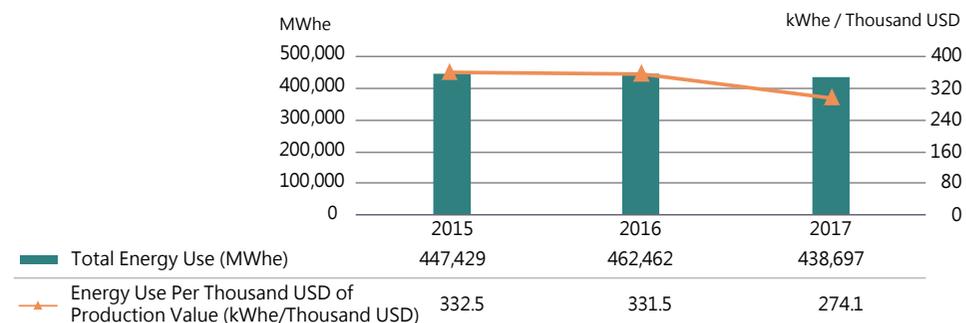
Category	Description
Equipment Purchasing	When purchasing new equipment, criteria such as electric power efficiency, fuel efficiency, water efficiency and greenhouse gas emissions must be taken into consideration. No purchase shall be made if, compared with the existing equipment, the new equipment has lower energy efficiency or water efficiency, or generates more greenhouse gas emissions.
Electric Power Management	Automatic power factor regulators must be installed and electrical equipment must be turned off when not in use.
Electric Generators	Only the minimum number of generators needed to meet power demand at any given time should be activated.
Lighting	Production buildings, canteens, and warehouses must make use of daylighting. Energy efficient fluorescent lamps or LED lights must be chosen for artificial lighting. General lighting shall be replaced by task lighting.
Ventilation and Cooling	Air conditioning units in office buildings may be used only when the indoor temperature exceeds 28°C. Building roofs are painted white.
Exhaust Systems	Perform periodic inspection on exhaust ventilation pipes. The fan devices are installed according to the airflow direction system and small local dust collectors must be used in place of central dust collection systems.
Boilers and Steam Systems	The overall distance between a boiler and a steam-using device must be minimized. Insulation must be installed and maintained throughout the entire steam distribution system, and all steam leaks must be promptly repaired. Condensate must be returned to the boiler for steam generation.
Compressed Air Systems	A centralized air compressor system must be installed when several processes require similar air pressure and flow rate during the same period of time. If multiple air compressors are required for a single process, then the air compressors must be connected in parallel. Compressed air lines must be inspected regularly, and all leaks must be eliminated promptly.
Heating and Insulation Systems for Process Equipment	Equipment operation scheduling must be optimized to reduce heat loss during idle and preheating periods. Phylon and rubber washing machines must be insulated to reduce heat loss.
Electric Motor Systems	Variable frequency drives are utilized for adjusting motor speeds to match the demands of specific process equipment. IE3 (premium efficiency standard) motors are adopted for newly purchased devices to reduce energy consumption by enhancing motor efficiency.

4.3.2 Energy Consumption

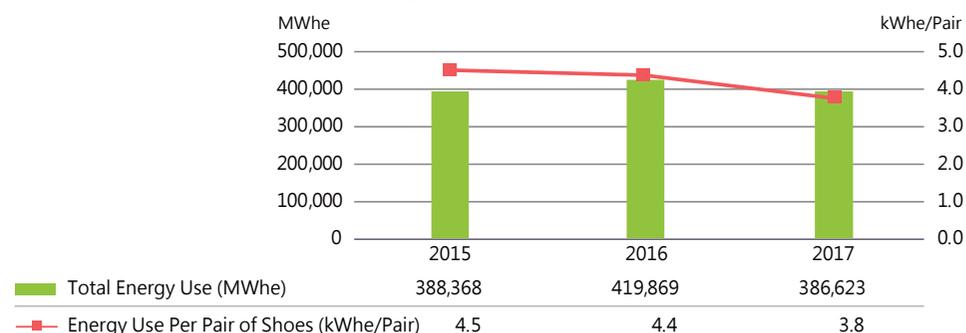
In 2017, we continued to implement energy-saving projects at subsidiary companies in all regions. Our total energy consumption in 2017 was 5.1% lower than in 2016. The energy consumption per thousand USD of production value decreased from 331.5 kWhe in 2016 to 274.1 kWhe in 2017, a reduction of 17.3%. The average energy use per pair of shoes in all footwear factories⁵ decreased to 3.8 kWhe in 2017 from 4.4 kWhe in 2016, a reduction of 13.6%. The data suggest that our energy-saving projects and continuous manufacturing process improvements have yielded good results.

⁵ All footwear factories include LF, HF, and SF in China; IW in Indonesia; LU1, LU2, EW1, EW2, and FA1 in India; DV, DP, DO, DS1, DS2, DS3, SM1, and SM2 in Vietnam.

Energy Consumption Analysis of the Group



Energy Consumption Analysis of All Footwear Factories



4.3.3 Implementation of Energy-Saving Projects

Since 2009 the Group has been following "Energy and Water Efficiency Management Guidelines" to promote electric power and fuel oil savings projects, including equipment purchasing, manufacturing process, and production environment. In 2017, the Group invested USD 304,499 in 89 energy-saving projects as listed below:

Category	Electricity-Saving Projects
New Equipment Purchasing	8
Electric Power Management	15
Lighting	32
Ventilation and Cooling	2
Exhaust Systems	10
Compressor Systems	4
Heating and Insulation Systems for Process Equipment	8
Others	5
Total Number of Projects (Average Daily Electric Power Savings)	89 (18,949 kWhe)

Electricity Savings:

A total of 89 electricity savings projects were launched in 2017, which led to a savings of 18,949 kWh (kilowatt hour equivalent) per working day for the Group. Here is one example.

China Region - Recycling waste heat from RB automatic hot press machine oil tank

In the original piping design, the waste heat generated in the cooling water for RB automatic hot press machine oil tank was not recycled. After the feasibility of recycling the waste heat and the related safety issue were assessed, the water pipes in RB automatic hot press machines and IP washing machines were rearranged. In the new arrangement, the waste heat was recycled to heat water for IP washing machines, saving about 490 kWh per working day.

Fuel Oil Savings:

Central Oil-Fired Boiler Replacement Plan at Major Footwear Factories:

In 2015, we initiated a plan to phase out central oil-fired boilers at major footwear factories before 2018. A total of USD 4,449,340 was invested in 2017 to replace and upgrade the equipment that used steam for heating. The oil-fired boilers, which provide steam to the molding process of shoe soles, account for about 30% of energy consumption at major footwear factories. As fuels are burned in a boiler to convert water to steam, which flows through pipes to process machines, energy losses occur at every point along the way. Therefore, replacement of boilers with electric heating systems will not only reduce energy losses, but also eliminate the safety concerns for fuels. In 2017, we phased out all oil-fired boilers at 7 factories in China, Indonesia and Vietnam.

4.4 Water Management

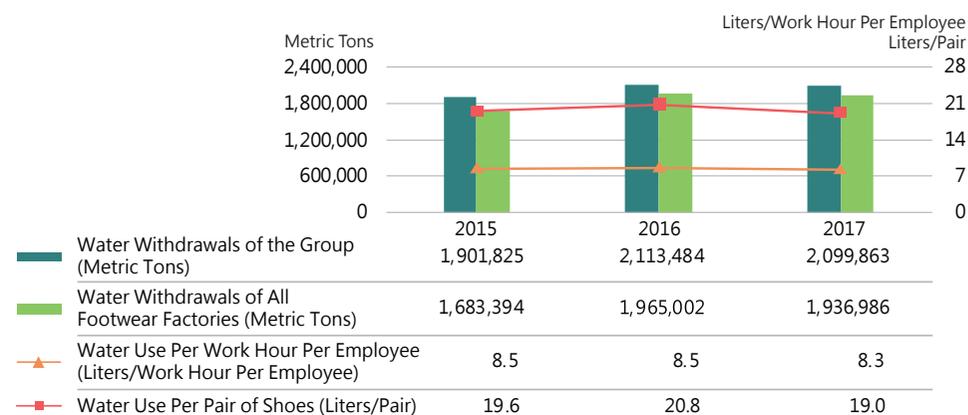
Water Use

Following our "Energy and Water Efficiency Management Guidelines," the Group has devoted to reducing the amount of water use and improving water use efficiency. We also look for alternative water resources, such as rainwater and recycled water, in the hope that our dependence on tap water and impacts on the environment will be reduced.

Total Water Withdrawals:

Compared with 2016, water withdrawals decreased by 0.6% in 2017, and the water use per work hour per employee⁶ decreased by 2.8%. In 2017, the total water withdrawal in all footwear factories was 1.4% lower than in 2016 and the average water withdrawal per pair of shoes⁷ was 8.7% lower. Because of climate change, ambient temperatures have risen in recent years. To provide employees with a comfortable working environment, evaporative cooling equipment was installed in factory buildings, which led to increase in water usage in summer. In the meantime, we have been developing water-saving projects in the hope of achieving zero wastewater discharge from the manufacturing process. For example, we evaluated the drainage system at each step in the manufacturing process to increase water recycling rates. We also set up water reclamation systems to reuse treated wastewater.

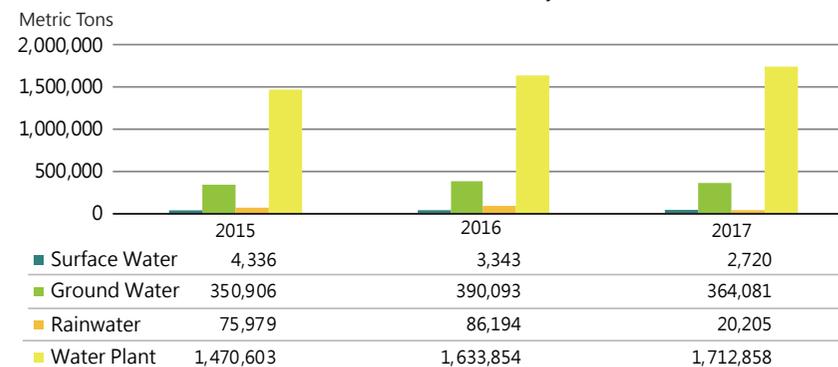
Water Withdrawals



Water Withdrawals by Source:

About 77% of the total amount of water used by the Group came from local water plants. Some factories, located in areas with limited water resources and municipal water-supply pipelines, also utilize ground water, surface water, and rainwater. Because of climate change, the amount of rainwater collected by a harvester fluctuated. We continue to assess the feasibility of establishing new rainwater harvesting systems in our factories. In 2017, we built rainwater harvesting ponds during construction of a new factory in India, and the water could be injected into underground aquifers for storage.

Water Withdrawals by Source



⁶ Water use per work hour per employee = total water withdrawal ÷ total work hours

⁷ Average water withdrawal per pair of shoes = total water withdrawal in all footwear production plants ÷ total footwear outputs (pairs) of all footwear production plants. According to this definition, data reported in 2016 have been revised in the 2017 report.

Water Saving Practices

The Group focuses on the following measures to reduce water use:

- Develop new water resources: Build rainwater harvesting systems.
- Increase the proportion of recycled water usage: Continuously recirculate cooling water for process equipment. Use treated wastewater for watering lawns and flushing toilets. Set up water reclamation systems to reuse treated wastewater for watering plants, flushing toilets and cleaning.
- Reduce water usage: Install low-flow faucets. Regularly inspect and repair water leaks. Develop water balance diagrams to better plan water-saving projects.

In 2017, the Group implemented 14 water savings projects. 507,464 liters of water were saved per working day. Following is an example of our major projects:

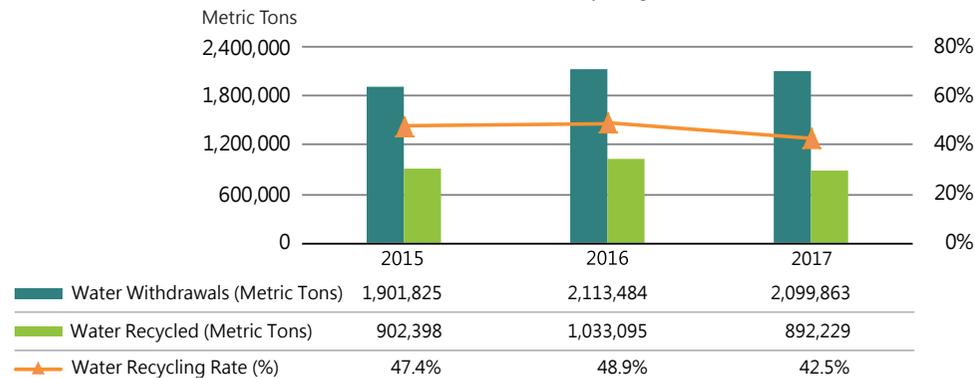
Optimized water usage of IP washing machines

After reviewing the water usage and the water inlet control mode of IP washing machines at four factories, the original inlet that supplied water continuously was replaced with a device that detected the water level to control the inlet for replenishing water. The improvements saved 294 metric tons of water per working day without having any effects on product quality.

Recycled Water

The Group started to collect recycled water data in 2011. In accordance with the "Energy and Water Efficiency Management Guidelines," recycled water is used repeatedly in the production process. For example, cooling water for process equipment is 100% re-circulated and treated wastewater from the wastewater treatment plant is used for flushing toilets and watering lawns. The percentage of recycled water⁸ decreased from 48.9% in 2016 to 42.5% in 2017.

Water Recycling Rate



⁸ Percentage of recycled water = amount of recycled water ÷ total water withdrawal. In accordance with GRI definition, data on harvested rainwater are included in the 2017 report.

⁹ GHG emissions are calculated using the new CO2 emission factor, which is provided by Center for Global Development Confronting Climate Change Initiative CARMA-Carbon Monitoring for Action.

4.5 Pollution Control

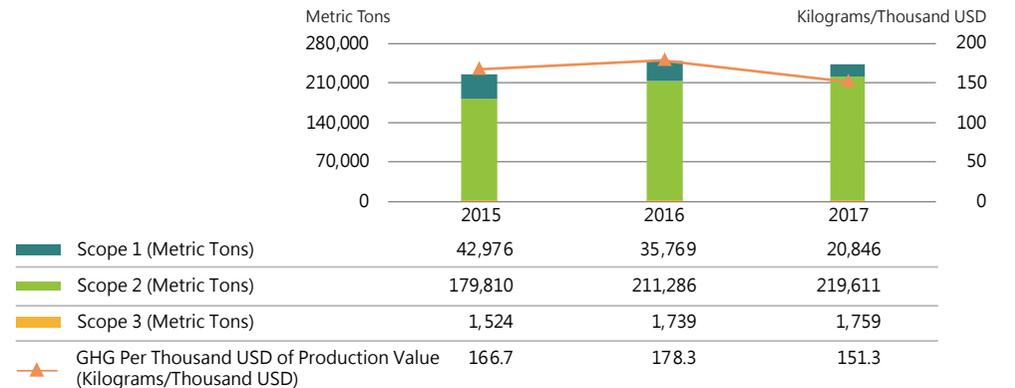
4.5.1 Greenhouse Gas Emissions⁹

Data on greenhouse gas emissions were analyzed in several ways. In accordance with the World Resources Institute/World Business Council for Sustainable Development (WRI/WBCSD) GHG Protocol Initiative, the greenhouse gas emissions are categorized into three scopes:

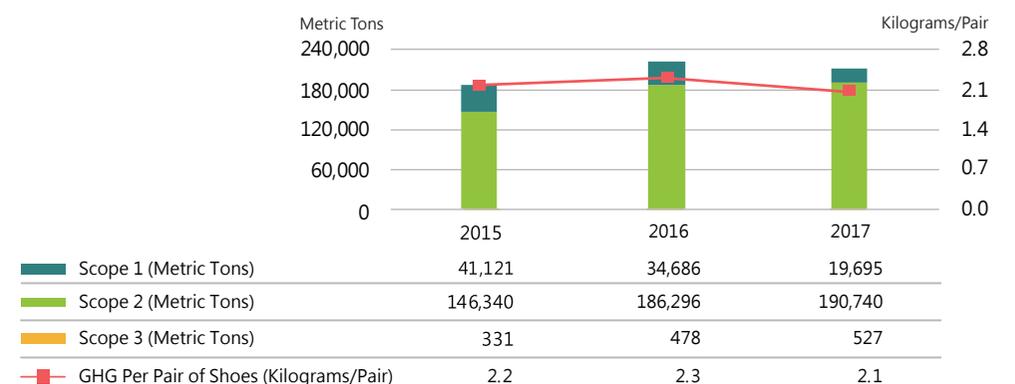
- Scope 1: generated from consumption of primary energy sources, such as diesel, fuel oil, liquefied petroleum gas
- Scope 2: associated with purchased electricity
- Scope 3: generated from transportation for employees' business trips, such as air travel

In 2017, our total greenhouse gas emissions decreased 3% compared with 2016. Greenhouse gas emissions per thousand USD of production value were 15% lower than in 2016. For all footwear factories, greenhouse gas emissions per pair of shoes decreased 0.2 kilogram CO2 equivalent.

Greenhouse Gas Emissions of the Group



Greenhouse Gas Emissions of All Footwear Factories



GHG Emissions Reduction Plan – Solar Power Systems

To reduce indirect greenhouse gas emissions from consumption of purchased electricity, the Group has established solar power systems at the factories in India and Indonesia. Each system supplies 33.5 kWhe of electricity per day, which is used for lighting and ventilation in the canteen. In 2015, one factory in China invested USD 109,090 to install an 85 kW solar power system on the rooftop of a factory building, which generated 84,906 kWhe of electricity in 2016. At the Group Headquarters and the factories in India, we utilize solar water heating systems to provide hot water for dormitory and other daily uses. At some factories in Vietnam, we have begun to replace electric heating systems with solar heating systems to supply hot water for production processes. Feng Tay continues to assess the feasibility of establishing more renewable energy systems in one factory in China to 515 kW, which generated 212,375 kWhe of electricity in 2017. In India, we plan to sign a Power Purchasing Agreement to import green energy produced by external wind power plants. In the meantime, we are assessing the feasibility of installing solar or wind power systems at our new factory in India. To increase renewable energy usage, we are also seeking opportunities to utilize geothermal energy in Indonesia.



In order to reduce the frequency of employees traveling to and fro among the Headquarters and factories and the consumption of vehicle fuels, we have adopted the following measures:

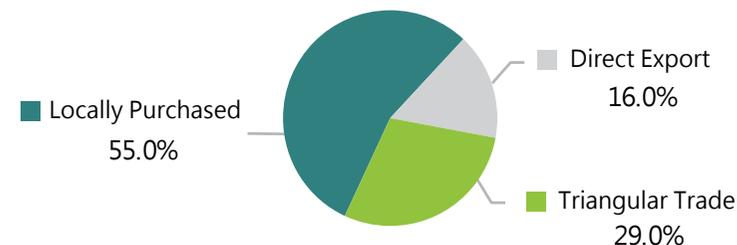
- Implementing multi-party video and phone conference systems at the headquarters and factories.
- Carpooling among factories located within reasonable distances of each other.
- Implementing Group-wide standardization of airplane flights taken, thereby enabling carpooling to and from airports; using public transportation, such as Taiwan High Speed Rail, when the number of travelers is small.

To encourage carpooling, incentives are given to the employees who do not use parking spaces at the Headquarters.

4.5.2 Raw Materials Transportation

Transportation of raw materials inevitably increases the burden on the environment. Therefore, Feng Tay Group works with suppliers to reduce the amount of packaging material to the minimum that still meets the needs for protection of the shipment. We also purchase raw materials as much as possible from local suppliers to avoid long range air and sea transport. The percentage of locally purchased raw materials steadily remained at 55% or higher. Raw materials that are not purchased locally, including direct exporting from suppliers in foreign countries and triangular trade, accounted for 45% or lower. Materials and commonly used chemicals purchased from suppliers in Taiwan are shipped to the Headquarters,

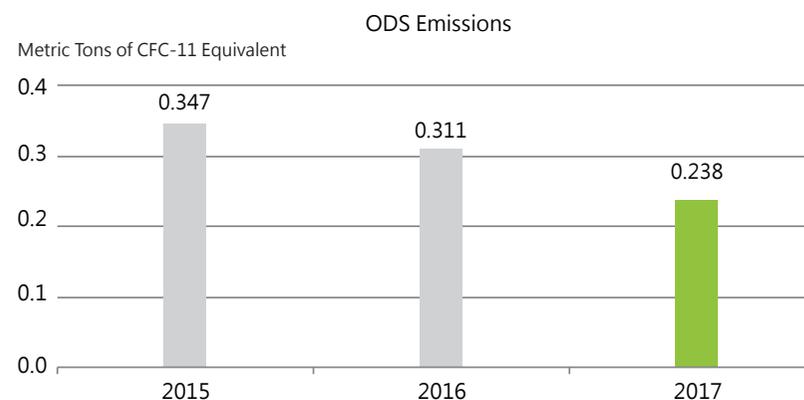
if only small amounts are needed at each factory. After inspection by Purchasing and Warehouse Departments at the Headquarters, all items for each factory are grouped into one shipment to reduce shipping costs and make full use of container space. To avoid unnecessary back and forth hauling, relatively large orders are handled with a triangular trade system and shipped directly by the suppliers from Taiwan or other countries to factories.



4.5.3 Emissions of Ozone-Depleting Substances (ODS)

The ODS used at our factories are refrigerants added into air conditioners, refrigerators, and chillers that are used to chill water for cooling in manufacturing processes. They were R-22 and small amounts of R-134a and R-404a. The Group has been gradually reducing emissions of ozone-depleting substances (ODS). The use of R-12 and R-502 was suspended. For all air-cooled chillers in major footwear factories, we have made the switch to the environmentally friendly R-410A refrigerant.

ODS emissions¹⁰ decreased to 0.238 metric tons of CFC-11 equivalent in 2017 from 0.311 metric tons¹¹ of CFC-11 equivalent in 2016. In 2017, we created a new internal regulation to stop purchasing any equipment that uses R-22. The Group will continue to undertake ODS reduction programs and is planning to replace R-22, the most commonly used refrigerant in the Group at present, with refrigerants containing substances of lower ozone-depleting potentials, such as R-404a, before 2020.

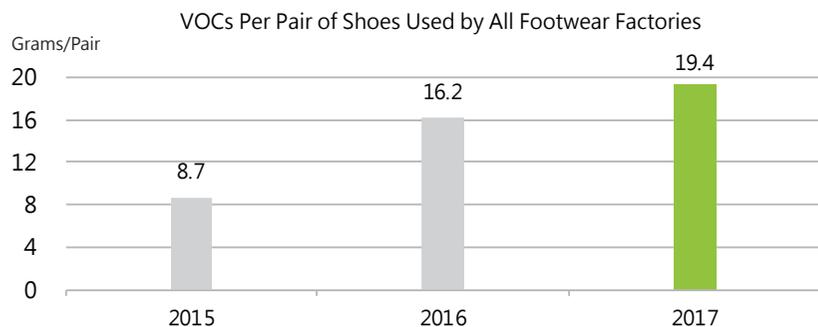


¹⁰ Emissions of ozone-depleting substances = Refrigerant Usage × Ozone Depleting Potential

¹¹ ODS emissions in 2016 is revised to 0.311 metric tons of CFC-11 equivalent.

4.5.4 Volatile Organic Compounds (VOCs)

Since 1997, Feng Tay has generally used water-based adhesives not containing potentially hazardous VOCs. Every adhesive used in production is rigorously tested before mass production begins. We also collaborate with suppliers to test new water-based adhesives in order to gradually lessen the usage of solvent-based adhesives. Over the years, we have successfully reduced the amount of VOCs emissions generated during production. In 2017, the average weight of VOCs used in producing one pair of shoes in our footwear factories was 19.4 grams, 19.7% higher than in 2016. The increase was because higher amounts of solvent-based adhesives and related materials were used in the factories that manufacture casual shoes and inline skates--products that use solvent-based adhesives to give desired appearance and bonding strength. However, calculations with the data boundaries reported in 2017 for major footwear factories show that the average weight of VOCs used in producing one pair of shoes in 2017 was 8.1 grams, 4.7% lower than in 2016.



4.5.5 Wastewater Treatment

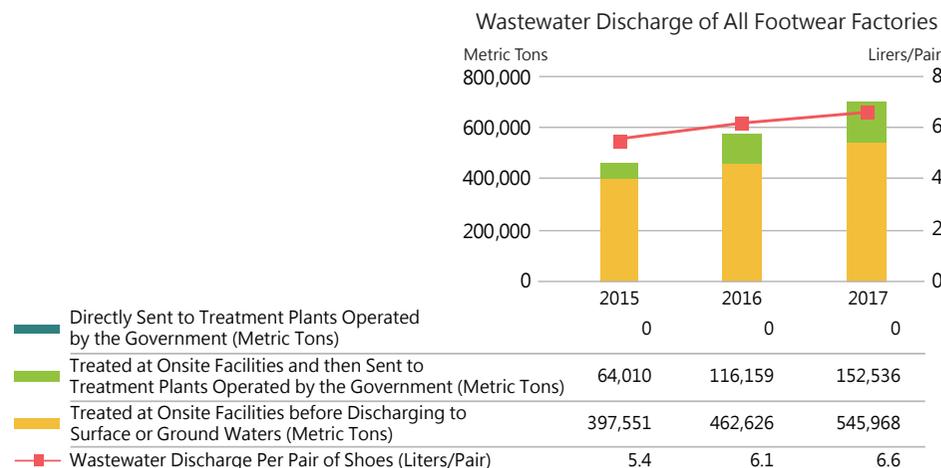
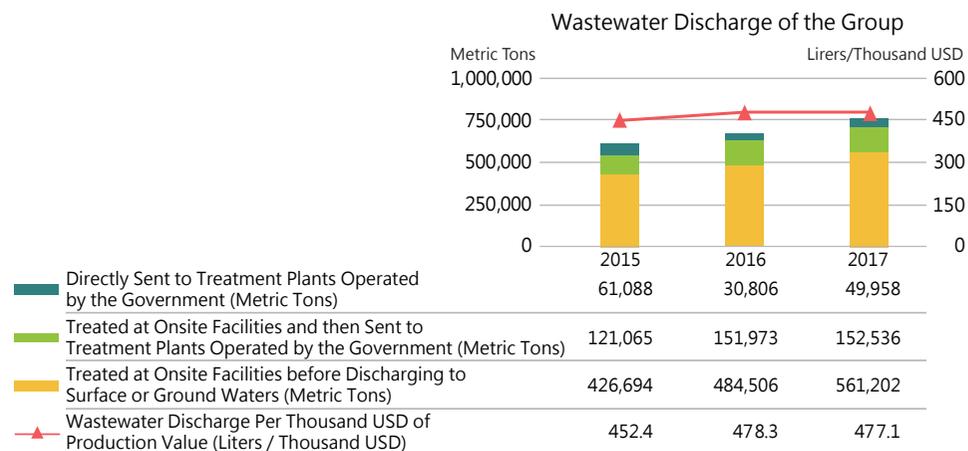
Feng Tay Group is devoted to preventing water pollution. To comply with our regulations in "Environmental Engineering: Water pollution prevention," all factories are required to develop water pollution prevention plans and increase the usage of recycled wastewater. The wastewater that could not be recycled is handled in the following ways:

- Directly sent to treatment plants operated by the government.
- Treated at onsite facilities and then sent to treatment plants operated by the government
- Treated at onsite facilities before discharging to surface or ground waters

Most of the Group's factories handle wastewater by the third method. Except the Group Headquarters and one factory each in Vietnam and China, all factories have built on-site wastewater treatment plants (WWTPs) to provide adequate treatment for wastewater generated in different production processes. ESH personnel at factories are required to test the treated wastewater monthly and report the results to SMD Department at the Headquarters. The Headquarters SMD Department provides consultation and suggestions, and conducts random audits at factories.

In 2017, the Group discharged 763,696 metric tons of wastewater, 14% higher than in 2016. The wastewater discharge per thousand USD of production value was 0.2% lower than in 2016. For all footwear factories, the total amount of wastewater discharge was 668,699 metric tons, 17% higher than in 2016. The average wastewater discharge per pair of shoes increased to 6.6 liters in 2017, 8% higher than

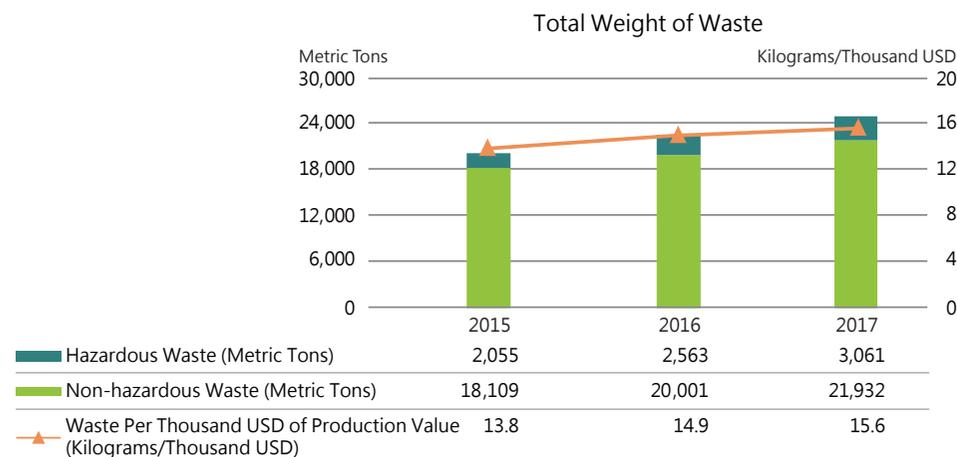
in 2016. The increase was mainly because two factories in Vietnam cut down the amounts of recycled water used for toilet flushing and gardening, in order to improve the treated wastewater quality. In the meantime, the two factories were also expanding the capacity of WWTPs. The factory in Indonesia stopped using recycled water when the project was underway to construct separate pipelines for fresh water and recycled water. To ensure compliance with wastewater discharge regulations, all of our factories in Dong Nai Province, Vietnam, implemented the plan to discharge wastewater to the WWTP in the industrial zone. The Group continues to assess the feasibility of adding recycling systems for water used in the manufacturing process. For example, the water reclamation system under construction at the Headquarters in Taiwan, which is scheduled for completion in the middle of 2018, can increase the water recycling rate by 45%.



4.5.6 Waste Treatment

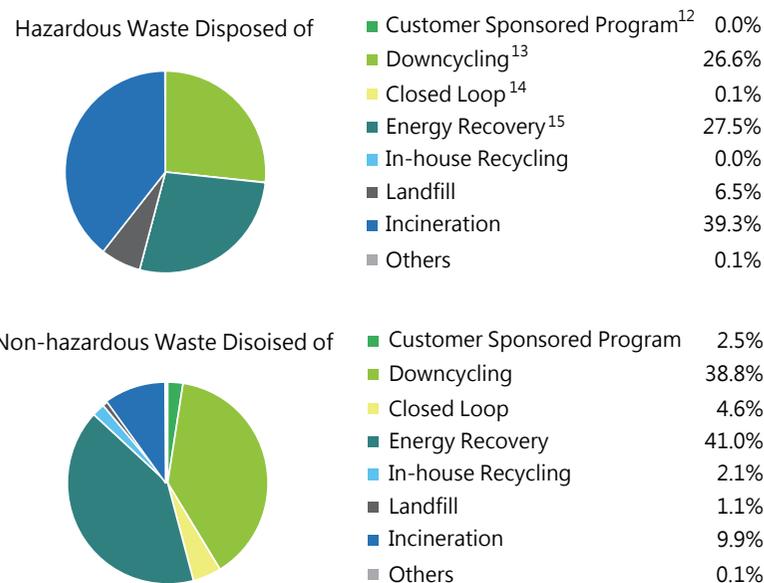
All waste is properly collected and classified to improve recyclability, and environmentally preferable methods are used for disposal. Hazardous waste generated in the production process is treated and disposed of with special caution. We classify hazardous waste into 5 categories, and specify for each category the proper storage method such as container and storage location. Hazardous waste must be clearly labeled and emergency contact information shall be posted in the storage area. All related documents, including waste generation sources, treatment procedures and employee training records, must be carefully kept. Waste is properly disposed of or recycled by licensed external vendors.

The total amount of waste generated in 2017 was 24,993 metric tons, 11% higher than in 2016. Waste generated per thousand USD of production value was 5% higher than in 2016. Regarding the increase in manufacturing waste, we immediately conducted an internal review and developed a waste reduction plan. We will continue to work with suppliers to minimize the amount of packaging materials and non-recyclable containers. In 2017, the amounts of materials used in packaging 137 chemicals were cut down by an average of 20% from the 2016 level. Our factories will keep on tracking the volume of manufacturing waste, while improving manufacturing tools and production processes. In the meantime, we will actively search for better waste recycling techniques to further reduce manufacturing waste. In 2017, a total of 101 metric tons of wood and textile waste, accounting for 86% of waste at the Headquarters in Taiwan, was recycled by licensed external vendors.



Feng Tay pays great attention to waste treatment and disposal, and aims to reduce waste at the source. Over the years, we have gradually reduced the use of less eco-friendly disposal methods such as incineration and landfill. For example, two factories in India changed the leather waste disposal method from energy recovery to downcycling in 2017. By downcycling, the leather waste was converted into fertilizer and thereby returned to the environment in a more eco-friendly way.

In 2017, 41.8% of the waste was disposed of by either energy recovery or in-house recycling, which was 1% higher than in 2016. The total percentage of incineration and landfill increased to 15.3% in 2017 from 14.6% in 2016. In order to further reduce our environmental footprints, we will continue to increase the use of energy recovery waste disposal method and minimize the use of incineration and landfill. The percentages of hazardous and non-hazardous waste disposed of by various methods in 2017:



4.6 Environmental Compliance Records

In 2017, the major incident of non-compliance with environmental laws and regulations is as follows:

- Vietnam Region: In February 2017, Vietnam Dona Pacific Co., Ltd. received a citation of about USD 18,745 (VND 425,666,300) from Ministry of Natural Resources and Environment for discharging wastewater that did not meet the quality standards.

¹² Customer sponsored program: waste materials are approved and managed by customer for recycling into secondary products.

¹³ Downcycling: waste materials are collected and recycled by local vendors into a lower-value usage that does not permit further recycling.

¹⁴ Closed loop: waste materials are processed by external vendors for reuse or recycling into the same or similar material as that originally supplied.

¹⁵ Energy recovery: waste materials are collected and processed by incineration, gasification, anaerobic digestion or other technology that can recover the inherent useful energy.

5

Employee Relationship and Social Engagement

5.1 Employee Relationship

At Feng Tay, employees are our essential partners to help us move forward. Our vision is to foster a group of people who are committed to the value of work, supported by family, and proud of the company. We strive to provide a safe workplace and a clear career path to our employees. To work together toward a sustainable future, we will continue to strengthen our partnership with employees and deepen our employees', as well as their families', understanding of Feng Tay through more direct communication and care.

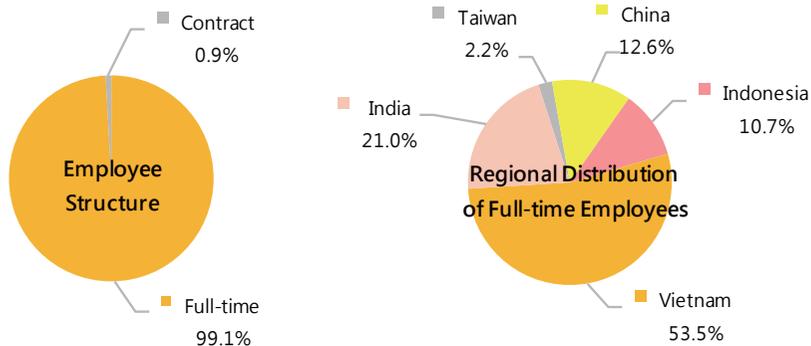
5.1.1 Employment

The employment policy of Feng Tay Group strictly follows national labor laws. We recruit workers through open channels and in a fair manner. Moreover, our principles are to employ local workers whenever possible and to prohibit hiring foreign migrant workers or workers under 18 years old.

Employee Compositions

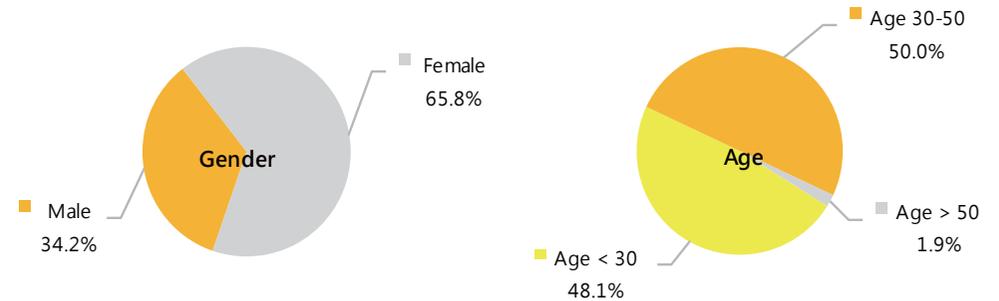
By the end of 2017, the workforce of Feng Tay Group was 116,008, of which 99.1% were full-time employees, while the others were workers of contract companies for food service, gardening and medical service. Among full-time employees, 2,534 worked in Taiwan; 14,438 in China; 12,339 in Indonesia; 61,510 in Vietnam; and 24,107 in India.

Among contract workers, 162 were in China, accounting for 15.0% of the total number of contract workers; 16 in Indonesia, accounting for 1.5%; 438 in Vietnam, accounting for 40.6%; and 464 in India, accounting for 43.0%. All employees in Taiwan worked full time.



Full-time Employee Compositions in All Regions

Female employees comprised 65.8% of the total workforce at Feng Tay. The percentage of female employees in the workforce in China Region was 75.7%, the highest among all regions. In terms of age, employees who were under 30 comprised 48.1% of the total. In Taiwan, China and Indonesia, the largest age group was between 30 and 50 years old. The majority of employees in Vietnam and India were under age 30.



Unit: Percentage

Full-time Employee Composition	Male	Female	Age < 30	Age 30-50	Age > 50
Taiwan	53.2	46.8	16.0	62.2	21.8
China	24.3	75.7	8.5	84.3	7.2
Indonesia	40.4	59.6	40.0	59.4	0.6
Vietnam	31.2	68.8	51.8	47.4	0.8
India	42.6	57.4	70.1	29.9	0.0
Feng Tay Group	34.2	65.8	48.1	50.0	1.9

Full-time Employee Grade Levels

The workforce can be divided into three categories – top-level management, first- and mid-level management, and non-management. When a factory is established, members of the initial management team are mostly dispatched from the Headquarters for the purposes of establishing regulations and systems, and helping local staff to develop leadership and management capabilities. We strive to cultivate local talents and appoint them to leadership positions.

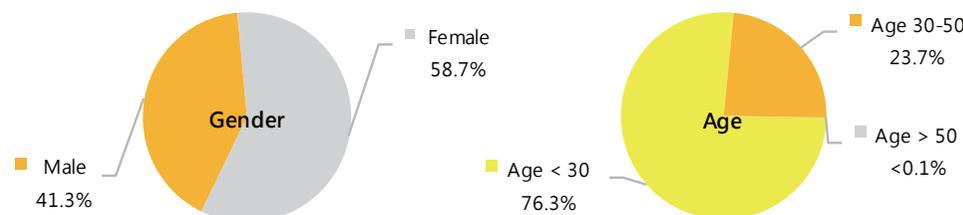
As of the end of 2017, five locals in China, four locals in Vietnam, one local in Indonesia and five locals in India have held the positions of General Manager at factories. Locals accounted for 100.0% of top-level management in Taiwan, Indonesia and India, 83.0% in China, and 24.0% in Vietnam.

Top-level Management	First- and Mid-level Management	Non-Management
<ul style="list-style-type: none"> General Managers at the Headquarters Vice General Managers at the Headquarters Regional General Managers Chief Directors at the Headquarters General Managers at Factories 	<ul style="list-style-type: none"> Monitors at the Headquarters Directors at the Headquarters Managers at the Headquarters (Administrative Managers, Production/Manufacturing Managers) Supervisors and Team Leaders at the Headquarters 	<ul style="list-style-type: none"> Special Assistants to General Managers at Factories Executive Vice General Managers at Factories Monitors at Factories Vice General Managers at Factories Directors at Factories Managers at Factories Supervisors at Factories
		<ul style="list-style-type: none"> Engineers Technicians Staffs Specialists Project Managers Clerks Operators



The Compositions of New Recruits

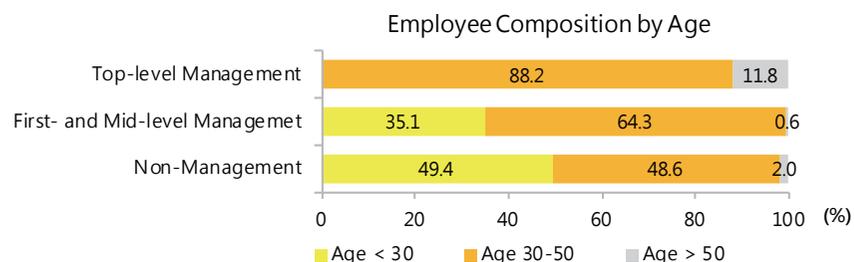
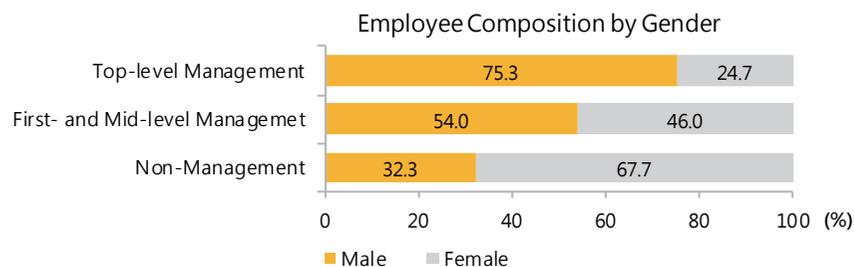
To meet our business growth needs, we recruited 25,419 new employees in 2017, of which 14,918 were female, accounting for 58.7% of the total new recruits. New employees younger than 30 years of age made up 76.3% of the total new recruits.



New Recruits Composition	Unit: Percentage				
	Male	Female	Age < 30	Age 30-50	Age > 50
Taiwan	52.8	47.2	72.8	27.2	0.0
China	30.2	69.8	36.2	63.0	0.8
Indonesia	6.1	93.9	90.8	9.2	0.0
Vietnam	41.7	58.3	72.4	27.6	0.0
India	48.0	52.0	92.2	7.8	0.0
Feng Tay Group	41.3	58.7	76.3	23.7	<0.1

Among full-time employees, 9,908 were at management levels, accounting for 8.6% of the total workforce, with the majority of them in the 30-50 age range. And 93 employees were at the top-level of management, accounting for 0.1% of the total workforce. The first- and mid-level management comprises 9,815 employees, accounting for 8.5% of the total workforce.

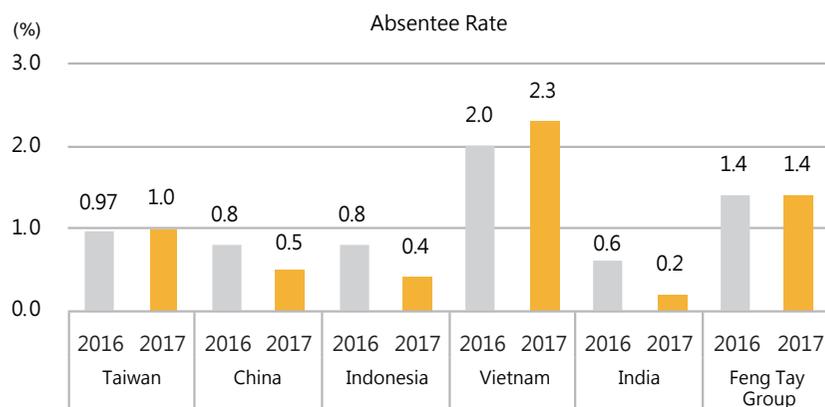
The Group had 4,534 female employees at management levels, a 7.6% increase over 2016, which made up 45.8% of management levels. Among all female managers, 23 were at the top-level of management, making up 24.7% of the top-level management; 4,511 were at the first- and mid-level of management, making up 46.0% of the first- and mid-level management.





Absentee Rate¹⁶ and Monthly Turnover Rate¹⁷

A variety of communication channels have been established within Feng Tay Group to enable the management team to listen to the employees, to solve the difficulties at the workplace, and to understand the causes that lead to their absence. The average absentee rate was 1.4%; the same as in 2016.



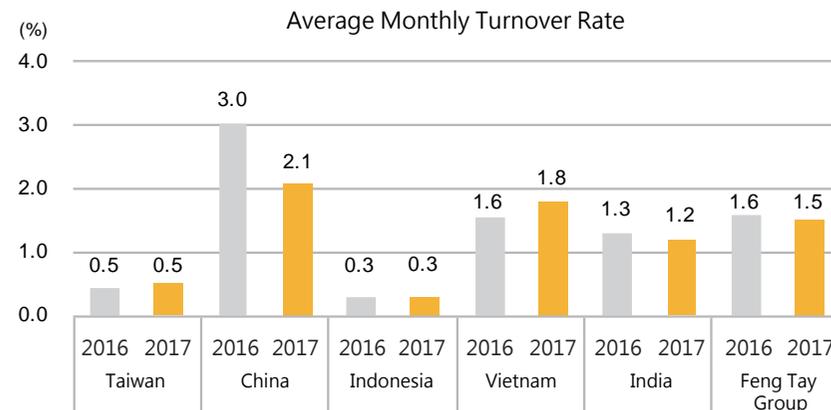
Regarding employee turnover management, once an employee has submitted his or her resignation, the human resource staff will conduct an exit interview to understand the reason for his or her resignation, and do the best to show our care and to retain the employee. The average monthly turnover rate¹⁸ of the Group in 2017 was 1.5%, compared with 1.6% in 2016, with the highest in China (2.1%) and the lowest in Indonesia (0.3%). For employees who had completed more

¹⁶ Absentee rate refers to the number of actual absentee days expressed as a percentage of the total number of days scheduled to be worked by the workforce for the same period. Absentee days include work days lost due to injury or illness (either work or non-work related) and absences without approval. Permitted leaves of absences such as annual leaves, personal leaves, marriage leaves, compassionate leaves, and maternity leaves are excluded from absentee rates.

¹⁷ Monthly turnover rate refers to the monthly number of employees who leave the company expressed as a percentage of the total number of employees.

¹⁸ Average monthly turnover rate refers to the sum of 12 monthly turnover rates in 2016 divided by 12.

than one year of service, the average monthly turnover rate was 0.8%, compared with 0.6% in 2016, with the highest in China (1.1%) and the lowest in Indonesia (0.2%). Employees younger than 30 had the highest turnover rate at 2.0%, while the 30-50 age group had the lowest turnover rate at 1.1%.



Unit: Percentage

Average Monthly Turnover Rates		Overall	Male	Female	Age < 30	Age 30-50	Age > 50
Taiwan	All employees	0.5	0.3	0.4	1.2	0.3	0.0
	Employees with more than one year of service	0.3	0.2	0.3	1.0	0.2	0.0
China	All employees	2.1	2.6	1.9	7.0	1.5	1.9
	Employees with more than one year of service	1.1	1.1	1.1	2.3	0.9	1.6
Indonesia	All employees	0.3	0.3	0.4	0.4	0.3	3.4
	Employees with more than one year of service	0.2	0.2	0.3	0.3	0.2	1.7
Vietnam	All employees	1.8	2.3	1.6	2.4	1.2	1.4
	Employees with more than one year of service	0.9	1.0	0.8	1.0	0.7	1.4
India	All employees	1.2	1.0	1.3	1.4	0.8	2.1
	Employees with more than one year of service	0.7	0.5	0.9	0.8	0.6	2.1
Feng Tay Group	All employees	1.5	1.7	1.4	2.0	1.1	1.3
	Employees with more than one year of service	0.8	0.8	0.8	0.9	0.7	1.1

5.1.2 Protection of Workers' Rights

Feng Tay protects the rights of all employees and stays in compliance with local laws and regulations. Appointment, discipline, attendance, leaves, salary, benefits, reward and penalty, retirement, and the compensation for occupational injuries and illnesses are clearly specified in the management regulations, which are strictly enforced.

Non-discrimination Policy

An individual's qualifications are the only criteria that Feng Tay Group would consider when hiring a new employee and setting the starting salary. Furthermore, subsequent evaluations, reward and penalty are solely based on performance. None of our employees would be unfairly treated because of his or her gender, race, religion, age, disability, sexual orientation, pregnancy status, marital status, nationality, political inclination, union membership, social and ethnic background, or any other status that is under legal protection.

Feng Tay recruits people with disabilities to comply with the "People with Disabilities Rights Protection Act" in Taiwan. Employees with disabilities are assigned suitable work and provided with comprehensive trainings. As of the end of 2017, we hired a total of 39 employees with disabilities at the Headquarters, 56% higher than required by the regulations in Taiwan.

Approaches to Preventing and Handling Sexual Harassment, Harassment and Abuse

In order to prevent sexual harassment, harassment and abuse at the workplace, and uphold equal rights and dignity between female and male workers, Feng Tay Group has established the "Approaches to Preventing and Handling Sexual Harassment, Harassment and Abuse," which is posted in main workshops and rest areas. The regulations are explained in the orientation program for new employees, and at least once a year during on-the-job trainings and management trainings. When employees or job applicants suffer harassment or abuse at workplace, they may file complaints through a special telephone hotline, an electronic mailbox or a regular mailbox, all of which are available at the Headquarters and all factories. Once a complaint is received, the executive in charge of the case shall invite a representative of the Labor Union and the head of internal auditors to join the investigation team. A written report on the results of investigation and deliberation is sent to the executive in charge of harassment and abuse prevention for a final ruling.

Care for Female Employees

In addition to keeping female employees safe from harassment and discrimination at workplaces, Feng Tay has developed several protection measures and benefits. At our factories International Women's Day is celebrated on March 8 and a series of activities are held during Women's Health Month in May. Each region also has its own special measures. In China, female employees receive free health examination every year. Female employees who work the night shift are provided with shuttle bus service in Indonesia. In Vietnam, female employee representatives participate in festival planning committees to assure that the traditional values of Vietnamese women will be reflected in the festivals. We also hold culinary and flower design contests to further enhance our female employees' sense of accomplishment and active participation. In India, female workers do not take shift work. Monthly awareness training classes are offered to nursing mothers at the Crèche and female police officers are invited to give instructions on prevention of sexual harassment.



Hold Culinary contest in Vietnam



Hold Activities on International Women's Day in India

India Factories- SAKHI Program

SAKHI means "female friend" in Tamil language

SAKHI program empowers female employees to reach their full potential through courses in professional skills training, computer and English.

To promote gender equality in society, we have made an effort to provide female employees with access to higher education. We have invited local education scholars and university representatives to our factories to share information about school curriculum, admission requirements, and career opportunities. Since 2012, SAKHI program has helped 54 female employees to earn college degree. A total of 130 employees took part in this program in 2017.



For employees who are pregnant or nursing babies, we provide the following measures in addition to complying with national laws:

- The company should not dismiss female employees or reduce their basic wage when they are pregnant or nursing babies.
- For employees who are not able to handle their original jobs because of pregnancy, the company should assign them to suitable jobs.
- Employees who are pregnant or working within one year after giving birth are prohibited from operating high risk machines, exposing to dust and chemicals, engaging in duties that require frequent bending, climbing or crouching, and taking shift work.
- Employees are entitled to paid maternity leave after delivery (the duration varies from two to six months in accordance with national laws).
- Nursing rooms are provided at the Headquarters and factories for employees who are nursing babies to use one hour a day during working time.
- At factories, Pregnant and physically challenged employees clock in through special lines to avoid crowding or waiting. Rest areas are provided at workshops for pregnant employees to use whenever they need a rest.

5.1.3 Overall Compensation Entry-level Wage

To reward our employees for their good performance and long-term contribution, Feng Tay Group offers a competitive salary scheme that is superior to the standard of the industry. Our entry-level salary is higher than the local legal minimum wage. All employees are paid based on their performance, regardless of social status, gender, religion, race, nationality or political affiliation. The ratio of basic salary of men to women in each employee category is one to one. Comparison of legal minimum wage and entry level wage of Feng Tay Group in 2017:

Region (Currency)	Local Legal Minimum Monthly Wage	Entry-level Wage of Feng Tay Group
Taiwan (NTD)	22,000	25,200
China (RMB)	1,500 / 1,650 / 1,940*	1,700 / 1,700 / 2,400
Indonesia (Rupiah)	2,463,461	2,490,000
Vietnam (VND)	3,750,000	4,030,000
India (Rupee)	3,906+DA**	5,573+DA

* RMB 1,500 is the local legal minimum monthly wage in Putian, Fujian Province; RMB 1,650 is the local legal minimum monthly wage in Fuzhou, Fujian Province; RMB 1,940 is the local legal minimum monthly wage in Taicang, Jiangsu Province.

** DA: Dearness Allowance, an amount adjusted by the government every month based on the consumer price index

Employee Bonus

Year-end bonuses based on the Group's earnings of the year are given as a way to share the good results with our employees. In addition, Feng Tay provides several kinds of job based premiums to reward employees' outstanding performances, such as performance bonus and achievement bonus. We gave out these bonuses to encourage our employees to devote themselves to their career, as well as to attract and retain the best talents.

The "Propose for Improvement" system is established at factories in China, Indonesia, Vietnam and India. A mail box is installed at an easily accessible location to collect proposals and is checked every day. Once a proposal is adopted, the proposer is rewarded with a bonus which is added to the salary of the month. The adopted proposal is posted on the bulletin board to give recognition to the proposer and to inspire other employees. The system has fully demonstrated the creativity and continuous improvement mindset from the shop floor. In addition, the "Best Kaizen Award" program is also established to encourage employees to strive for improvement and breakthrough in their work, thereby creating business value for the company. Award recipients are invited to the Headquarters to receive their awards at the Group anniversary celebration. There were 12 recipients in 2017.

At Group Headquarters, employees who have completed 8 years of service receive travel allowance. Employees who have completed 25 years of service receive trophies and souvenirs, in addition to words of appreciation from the management at the Group anniversary celebration. At the 2017 anniversary celebration, 92 employees with 25 years of service were commended. An "Improvement and Innovation Award" program is established in Taiwan to encourage employees to be constantly improving and innovative in daily work. In 2017, there were 166 winning works.

5.1.4 Career Development

Feng Tay believes that our employees are the most valuable assets. In order to help our employees reach their full potential and accomplish their career development goals, we provide them with a clear career path, comprehensive professional trainings, an excellent salary scheme and a transparent performance evaluation system.

Job Assignment

All new employees are assigned positions according to their educational backgrounds and work experiences. We assess their adaptation status and career potential through regular interviews and department visits, and arrange suitable trainings for them to fit into the team in the shortest time possible. Internal promotion is preferred at Feng Tay. Promotions are mainly based on work performance.

In Feng Tay's performance management system, staff performance evaluation criteria are based on position level and job duties. We carry out performance evaluation and performance appraisal interview with employees regularly. Many executives at the Headquarters and factories were gradually promoted to their current positions from entry level by going through various challenging assignments and obtaining good performance evaluation results.

Education and Training



Continuously implementing human resource development program is one of the management strategies we adhere to. In order to develop management and professional skills, Feng Tay implements a comprehensive training system to help employees grow with the company. We create a specific training plan for each employee, from new hires to managers, based on the employee's job-related needs and career development goals. The training plan includes one or several of the following measures: on-the-job training, mentoring, job counseling, e-Learning and job rotation. To improve the capabilities of our employees and thereby strengthen our competitiveness, we strive to provide better development opportunities by regularly inviting external lecturers and

encouraging employees to attend learning field trips and external training courses.

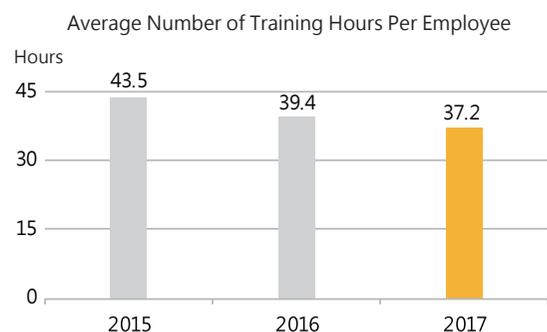
Category	Content	Objective
Core Competence	<ul style="list-style-type: none"> New employee orientation General education for employees 	Help new employees settle into their work environment and company norms. Raise employee life values and promote team spirits.
Management Competence	<ul style="list-style-type: none"> Training for first- and mid-level management Training for top-level management 	Use E-learning, classroom lecture, case study, and practical training to strengthen management capability so that managers can effectively lead team members to achieve organizational goals.
Professional Training	<ul style="list-style-type: none"> Professional training for new employees Professional training in 7 occupational competencies 	Help employees gain an understanding of the latest technologies and industry trends to develop professional talents.

Self-Learning Center

At the Headquarters in Taiwan, we joined the Company's clubs to offer after-work self-study courses in 2017. To offer courses that were oriented toward employees' learning needs, the employees who were specialized in related fields were invited to be lecturers. By providing one computer to each individual for classroom practice, we created a learning group that can be continuously improved and a platform for employees to share their experiences and technical knowledge. In 2017, we held a total of 47 courses with 451 people participating.



In 2017, the total training hours in the Group reached 4,179,982 hours, 3.2% lower than in 2016. There were a total of 999,714 attendees. The average number of training hours per employee was around 37.2 hours, 5.6% lower than in 2016. The average numbers of training hours per employee in all regions are as follows:



Unit: Hours

Region	Top-level Management	First- and Mid-level Management	Non-Management	All employees
Taiwan	15.9	23.3	40.3	38.1
China	6.5	27.0	46.5	44.9
Indonesia	1.5	12.1	12.3	12.3
Vietnam	0.5	21.2	35.3	34.1
India	1.7	58.8	51.8	52.5
Feng Tay Group	11.6	29.6	37.9	37.2

5.1.5 Employee Communication and Rights

The Feng Tay management team regards the dialogue with employees as a basic responsibility; we make use of various communication channels, including the permanent General Manager Mailbox, the Grievance and Suggestion System and the Labor Union to listen to employees' voice. To continuously improve our management system, we hold new employee orientation seminars, face-to-face meetings with employees, exit interviews and supportive conversations to understand the issues that concern the employees.

The management team strengthens its ties with employees through daily announcements and the Group anniversary celebration. Held at the end of each year, the anniversary celebration is an important event which all high-level expatriates at factories will come back to the Headquarters to attend. The management team takes this opportunity to report to all employees the results of operations over the year that has just past and future prospects, and to reaffirm the Group's values and common goals.

Grievance and Suggestion System

To protect employee's rights and interests, Feng Tay established the "Grievance and Suggestion System" in 2009. Any complaint or suggestion that has been submitted to the department leader but has not received a satisfactory response will be properly handled via this system. The communication channels in this system include GM mailbox, GM Hotline voice mail, GM email, holding company GM, Labor Union, or company website.

Instructions for the grievance and suggestion system are posted on the bulletin board at every factory for employees to understand their rights. Upon receipt of grievances or suggestions, the management will make appropriate responses according to the standard procedures, and the relevant departments and parties will be informed of the results.

In 2017, 536 cases of grievances and suggestion were received, and 528 were resolved. 97% of the cases received in 2017 were related to labor practices, mainly concerning management style, work arrangement, and work environment. There were 494 cases of grievances, 56.8% higher than in 2016, which suggests that there is room for improvement in employee relationship. This also indicates the implementation of the Grievance and Suggestion System has helped individuals and workplaces move toward a culture of openness, transparency and two-way communications. The grievance and suggestion cases received in 2017 are shown below:

Region	Taiwan		China		Indonesia		Vietnam		India	
	G*	S**	G	S	G	S	G	S	G	S
Social	0	0	0	0	0	0	0	0	0	0
Environment	0	0	0	0	0	0	0	0	0	0
Labor	30	0	108	4	7	7	175	14	157	16
Human rights	0	0	1	0	5	0	11	0	0	1

*G: Grievance; **S: Suggestion

Freedom of Association

Feng Tay supports employees' rights to form labor unions and engage in collective bargaining with the management. Established at all factories, Labor Unions serve as the communication medium between employees and the management to resolve issues of concern to both sides. Union dues are deducted from the wage of employees who voluntarily join a union. The percentages of employees belonging to unions are as follows:

Taiwan	China	Indonesia	Vietnam	India
100%	100%	92%	99%	99%

Working Hours and Overtime

At Feng Tay, overtime is only allowed under special circumstances, which may be caused by either internal or external factors such as late changes to specifications from customers, planning difficulties caused by seasonal fluctuations in orders, and material quality issues. Overtime is strictly controlled at the Headquarters and subsidiary companies in each region. Except for executives at top-level management, an application for overtime must be approved by the employee's immediate supervisor. When there is a need for overtime, department managers are required to notify employees in advance so that the employees can make appropriate arrangements. Forced labor is strictly prohibited at Feng Tay Group. Human Resources and CR personnel check authorization forms and employee attendance records to ensure that any requested overtime is approved in advance and that maximum allowed overtime limits are adhered to. Working hours and maximum allowed overtime in all regions:

Region	Working Hours	Local Legal Maximum Allowed Overtime	Feng Tay Maximum Allowed Overtime
Taiwan	8 hours a day, 40 hours a week	4 hours a day, 46 hours a month	2 hours a day, 24 hours a month
China	8 hours a day, 40 hours a week	3 hours a day, 36 hours a month	3 hours a day, 36 hours a month
Indonesia	8 hours a day, 40 hours a week	3 hours a day, 14 hours a week	3 hours a day, 14 hours a week
Vietnam	8 hours a day, 48 hours a week	4 hours a day, 32 hours a month	2 hours a day, 30 hours a month
India	8 hours a day, 48 hours a week	4 hours a day, 12 hours a week	2 hours a day, 05 hours a week

Insurance and Paid Leaves

Feng Tay provides employees with sound insurance programs and flexible leave policies in accordance with local laws. Insurance programs vary in different countries. In Taiwan, we provide labor insurance, national health insurance and pension plans. Employees in China and Vietnam are covered by social security, including retirement and pension, unemployment, occupational injury, illness and childbirth. In Indonesia, we provide health insurance. In India where insurance is not yet popular, expenses for employees' injury and illness at the workplace are covered by the company. Regulations on leaves differ from region to region. Employees may take leaves for various reasons, such as official duties, personal affairs, sickness, marriage,

compassionateness and maternity. Except for employees at factories in India which have special regulations on paid leaves, the employees in Taiwan who have worked for six months and the employees in China, Indonesia and Vietnam who have worked for one year are entitled to paid annual leaves.

5.1.6 Employee Care and Welfare Employee Family Day

We hold "Employee Family Day" events at factories. Employees of the year are recognized at the event and they can invite their families to share the moment of glory together. We also take the opportunity to explain the company's visions to employees' families to help their families understand their work and their importance to Feng Tay. We hope to obtain from employees' families the support to and the sense of identifying with the company, which will be the best backing for the company to move forward.



Employee family day at a factory in Indonesia



Employee family day at the Headquarters

EAP Employee Assistance Program

In India, we have launched an EAP program to offer professional consultations to those employees who have alcohol, marriage, or psychological problems and to help them overcome their difficulties in life. In 2017, 8,495 consultations were provided in this program, and 113 individuals overcame their suicidal thoughts after consultations. To closely meet the needs of employees, the management team also holds regular meetings with the EAP consultants to review the program implementation status and feedback from employees.

Nursery Schools for Employees' Children

To reduce the child care burden on our employees and to help them concentrate on work, Feng Tay establishes nursery schools at the Headquarters and factories in China and Vietnam, and crèches in India to provide attentive care for children of our employees during working hours. Certified teachers of preschool education are employed to help children's physical and mental development, and to lay a good foundation for their future learning. Tuition fees of nursery schools are used for children's meals and simple education materials, and the crèches are completely free of charge. The construction and maintenance of the facilities and the salaries of teachers and supporting staff are all covered by the company. Female employees at the factories in Vietnam who have children between six months and six years old can receive a monthly allowance of VND100,000 per child.

Taiwan: Feng Tay Nursery School

Feng Tay is one of the earliest companies that established nursery school in Taiwan. It has been repeatedly awarded top prizes in the "Evaluation of Public and Private Nursery Schools in Yunlin County." Feng Tay Nursery School values the interaction between parents and teachers, and emphasizes parents' involvement, which is also its most outstanding feature. In each semester, it holds a "parents walk into school" event, in which the parents act as school teachers. By attending the event, parents are able to observe their children's school life and interaction with the classmates closely, and thereby understand them better.

• Year established	1979
• Area (square meters)	8,000
• Student age range	2-6 years old
• Number of students	217
• Number of teachers	27
• Number of alumni	2,760

China: Li Feng and Xie Feng Nursery Schools

With green school environments and several kinds of educational playground equipment, both schools have been repeatedly rated as schools of exceptional quality by local educational authorities. Li Feng is currently designated as the "showcase" nursery school in Putien and the pilot center of teaching and research for model teachers of nursery schools. It is also open for study to all preschool education institutions in the region.

• School name	Li Feng / Xie Feng Nursery Schools
• Year established	1993
• Area (square meters)	10,000 / 23,300
• Student age range	3-6 years old
• Number of students	220 / 368
• Number of teachers	20 / 30
• Number of alumni	2,397 / 3,919



Vietnam: Nursery Schools

Two nursery schools, one in Trang Bom District and another in Xuan Loc, are both rated as excellent nursery schools repetitively. They are highly commended by the Vietnamese Central Government and recognized as the role models for the operations of FDI companies in Vietnam. As a follow-up, the Government is planning to require all future industrial zones to reserve a part of the land for nursery schools.

• School name	DO / DS Nursery Schools
• Year established	2008 / 2016
• Area (square meters)	12,000 / 22,400
• Student age range	3-6 years old
• Number of students	843 / 852
• Number of teachers	58 / 64
• Number of alumni	1,711 / 82

India: Crèches

The crèches are capable of caring for babies as young as 84 days old. Nursing mothers who have babies under the age of 3 are able to work at ease because they can visit and feed their babies during rest time at noon and two nursing sessions (30-80 minutes per session), with one in the morning and another in the afternoon.

• School name	LU1 / LU2 / EW1 / EW2 / FA1 Crèches
• Year established	2009 / 2014 / 2011 / 2012 / 2017
• Area (square meters)	608 / 801 / 351 / 416 / 583
• Student age range	Under 6 years old
• Number of children	166 / 100 / 122 / 98 / 24
• Number of teachers, caregivers and assistant teachers	1 / 1 / 0 / 1 / 0 certified teacher 17 / 13 / 10 / 12 / 4 caregivers 0 / 0 / 1 / 1 / 1 assistant teachers
• Number of alumni	1,024 / 28 / 16 / 87 / 0



Employee Benefits

In Taiwan, the Group Headquarters has a gym and a recreation center, which provide the employees with facilities for exercise and relaxation after work. Facilities at the recreation center include an indoor swimming pool, a hydrotherapy spa, a basketball court, a tennis court, a volley ball court, a golf short game area, a skateboard-practicing facility, barbecue equipment, a karaoke system, a banquet room, and a multi-functional room. In 2017, the facilities were used over 21,100 times by employees. Other benefits include gifts or allowances on special holidays, birthday and wedding gifts for employees, condolence money, free meals or meal subsidies, and dormitory.

Other measures are implemented to meet special regional needs. For example, free or subsidized shuttle bus services are available for employees commuting at some factories. Free uniforms are provided to employees in Vietnam and India. In Indonesia, employees may receive free medical services at the clinic established by the Group, and every year three employees go on a fully-sponsored pilgrimage trip to Mecca. In India, free vision and hearing examinations are made available to employees and their children; and nutritional supplements are supplied to pregnant employees on every workday.



Employee Welfare Committee

The Employee Welfare Committee at Group Headquarters is composed of company representatives and members elected by employees. Its operating funds, derived from company contributions and the monthly welfare fee collected from employees, are used to provide gifts or gift cards on special holidays, emergency assistance grants, and subsidies for domestic tours, year-end party, educational seminars and club activities. Furthermore, our employees can enjoy discounts at over 169 stores which have signed special agreements with Feng Tay. Educational seminars are held quarterly. Outside lecturers and internal instructors are invited to share their professional expertise with employees. The seminars cover a variety of subjects, including job skills, financial management, mental health, culture and entertainment.

To promote employee physical and psychological health, we provide spaces and subsidies for our staff to organize various clubs. By the end of 2017, we gave a total of NTD 1,526,000 to subsidize the activities of 20 clubs at the Group Headquarters. Among the 20 clubs, 60% are sports clubs. Uncommon clubs, such as board game club, survival game club and wind ensemble club, provide the employees with more activity choices.



Wind ensemble club



Survival game club

5.1.7 Employee Safety and Health

5.1.7.1 Environment, Safety, and Health (ESH) Management Organizational Structure of ESH Management

Personnel of ESH are appointed at the Headquarters and factories as explained in Section 1.2 Organizational Structure of Corporate Responsibility. The ESH personnel at each factory assist all departments to handle ESH related issues in accordance with the Group's policy and operational procedures. Their responsibilities include executing routine ESH operations, protecting workers' right, minimizing safety and health hazards at workplace, and submitting periodic reports to the Group Headquarters. ESH personnel at the Headquarters use these reports to evaluate the performance of each factory, provide advice and guidance, and conduct audits from time to time. Another responsibility of ESH personnel at factories is to push for improvements in response to the requirements from external parties such as customers, suppliers and governments.

Starting in 2015, a quarterly review meeting on ESH management performance is held at the Group Headquarters. A supervisor at the vice general manager level or above chairs the meeting, and all supervisors at the manager level or above at the Group Headquarters are required to attend. In the meeting, key ESH performance indicators are reviewed, the progress of major ESH projects reported, and serious incidents tracked and reviewed, with the objectives of sharpening supervisors' attention on ESH management and strengthening their management skills. Starting in 2016, a quarterly review meeting on ESH management performance is also held at each factory. Chaired by the factory executive vice general manager, the meeting provides a forum for the management team to discuss ESH policy and strategy, with the aim of sharpening the focus on ESH issues and project execution.

ESH Committee

Feng Tay has established an ESH committee at the Headquarters and at each factory. The chairperson is elected by committee members, which include an equal number of management and worker representatives.

The committee meets at least once a month. The meeting agenda includes investigation of on-site occupational injuries, review on implementation of preventive measures, discussion of ESH projects, and safety awareness promotional activities. To provide a more friendly work environment, quarterly ESH inspections are conducted and deficiencies found during the inspections are promptly corrected.

Workplace Safety Management

Feng Tay has established specific workplace safety management regulations. All aisles in workshops should have an appropriate width and should be cleared of any objects, emergency exits should be free of obstacles, and fire protection equipment needs periodic maintenance. To reduce injury risk, we inspected nearly ten thousand high-risk machines in 2016, conducted risk assessments on the safety features of these machines, and made improvements accordingly. Starting in 2017, we have been creating standard instructional diagrams for high-risk machines, which fully illustrate the prescribed safety measures and make existing and newly purchased machines at all factories comply with the Group standards. The standard instructional diagrams have been created for 240 types of machines. Manufacturing processes and equipment layout are designed ergonomically to minimize injuries from sustained postures. Personal protective equipment is provided to employees for protection when performing special tasks. And warning signs are posted at high-risk workplaces to remind operators to wear protective gear, thereby reducing exposure to hazards. All new employees are given general safety and health trainings before starting their work. Special safety and health trainings are required prior to using particular types of equipment or performing certain tasks.

5.1.7.2 Employee Health Management Health and Medical Facilities

We set up health facilities such as health care centers or clinics at the Headquarters in Taiwan and all subsidiary companies in each region. All health facilities employ certified medical professionals and are equipped with emergency medical supplies. At each factory, health promotion activities are held and occupational medicine physicians are regularly invited to provide health and medical consultation services.



Employee Canteen Management

To supply our employees with safe meals, Feng Tay Headquarters and factories impose strict hygiene standards on practices in canteens. Meals are prepared in three different ways: cooked by our full-time employees in our kitchens, cooked by contract workers in our kitchens, and cooked by contractors in their kitchens. Related personnel at the Headquarters and factories eat at employee canteens once a week to check food quality and hygiene conditions in canteens. We also set up a Meal Quality Supervisory Committee at every canteen to monitor food quality and provide advice. Committee members are elected by employees. On each day a set of meal from the canteen is kept at the health service office as a sample to be analyzed in case any food poisoning incidents occur. In 2017, there were no food poisoning incidents in the entire group.

Use of Organic/Non-toxic Agricultural Products¹⁹

To provide our employees with healthy food options and to support local farmers who adopt eco-friendly farming practices, the canteen at the Group Headquarters launched an "improvement project on use of Organic/non-toxic agricultural products" in 2015. Our plan is to have the percentage of organic or non-toxic agricultural products from local farmers in the total amount of produce used for canteen lunch exceed 60% by 2017, and exceed 80% by 2018. As of the end of 2017, rice and fruits have been switched to organic/non-toxic and two out of four vegetable dishes has been prepared with organic/non-toxic products, which together account for around 60% of all agricultural products used for canteen lunch.

Drinking Water Management

Drinking water supplied to employees is obtained from three different sources: produced from tap water using drinking water equipment, produced at our own drinking water factories, and purchased from external drinking water producers. Different testing procedures are set up for drinking water from different sources. For example, related personnel at factories are required to conduct monthly hygiene inspections at our own drinking water factories. The department in charge of drinking water management is different from the one in charge of drinking water quality inspection. ESH department is responsible for system operation and supervision of regulatory compliance. In addition to conducting daily testing by our own staff, the drinking water provided at factories in China, Vietnam, Indonesia and India is tested monthly by government laboratories or government-licensed organizations. If there is any concern of health or hygiene after water analysis, we will immediately stop the supply. All water quality test results are kept on file in CR department at the Headquarters for two years. To strengthen drinking water hygiene management, we started in 2016 to conduct monthly inspections on drinking water equipment to ensure the cleaning and maintenance procedures meet hygiene requirements. Since 2017, the Headquarters in Taiwan has established standard operating procedures (SOP) for the maintenance and improvement of drinking water equipment. Through an SOP flow diagram and video demonstration, the steps to clean drinking water equipment are described in detail and the frequency of maintenance are prescribed, in order to reduce the water quality noncompliance rate. As of the end of 2017, the test results for drinking water at all factories fully complied with the standards.

5.1.7.3 Disaster Prevention and Emergency Response Measures

Emergency response plans are developed at the Headquarters and all factories according to potential risks. Emergency evacuation plans are practiced every half year at all factories and dormitories. Emergency exits and evacuation routes are clearly marked in workshops. Buildings are equipped with automatic fire alarms and automatic fire extinguishing systems, which are inspected and tested periodically to provide protection against fire risk. Arrangements are made for some employees to attend emergency first-aid training, in order for them to give first aid in case of an emergency.

The emergency response team at the Headquarters receives training once a year, as required by law, for firefighting, emergency evacuation, and emergency response to accidents in special workplaces. For nine consecutive years, we have placed number one in Yunlin County's emergency response team evaluation.

¹⁹ According to Council of Agriculture, Executive Yuan, Taiwan, a non-toxic agricultural product refers to a product that does not use chemical pesticides, chemical fertilizer or antibiotics during its growth and is tested free of pesticide and heavy metal residues.

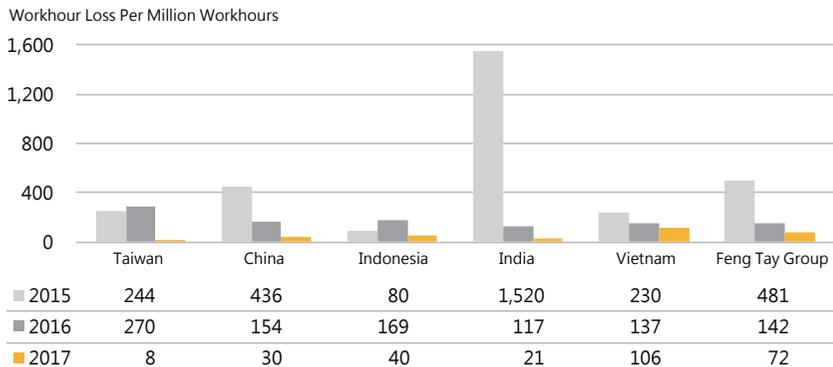
5.1.7.4 Occupational and Commuting Injuries²⁰

In 2017, we made significant progress on safety performance because of our continuous promotion of safety culture. Compared with 2016, the on-site occupational injury frequency decreased by 42% and the on-site occupational severity rate was reduced by 49%. We have appointed ESH auditors to examine the safety performance at each factory regularly. We have also reviewed the safety features of all high-risk machines and corrected any deficiencies discovered accordingly. In 2017, a total of 9,911 machines were inspected and safety improvements were made. Prior to being introduced into production processes, any new machine must be examined by ESH Department to ensure the safety features meet our standards. Moreover, we continue to implement machine safety improvement projects and set up standard operating procedures for all machines. A simulation-based safety training center has been established at each factory to let employees experience the effects of accidents at workplaces. The supervisors at each factory are required to conduct hazard awareness training for employees to improve the safety culture. In 2017, we developed a system to evaluate the safety performance of supervisors and promoted training on safety awareness for them. To raise the safety consciousness and responsibility within the workforce, safety campaign activities were undertaken in each department. Through case study and data analysis on injury, safety training and inspection of operational permit were strengthened for workers in the department that had a high injury frequency rate, and their safety performance was used in job evaluation. The performance in 2017 indicates that the improvement projects on ESH management and safety culture have yielded good results. We will continue to improve our management system and safety culture to achieve zero occupational injuries.

Occupational Injury Frequency Rates

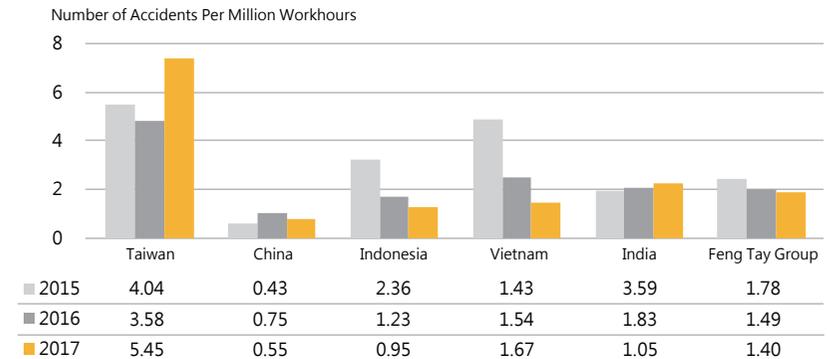


Occupational Injury Severity Rates

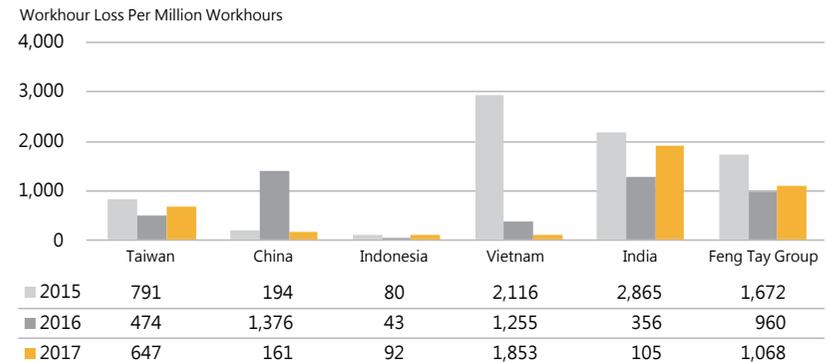


In 2017, the commuting injury frequency rate decreased 6% compared with 2016, but the commuting injury severity rate increased 11%. Four employees at factories in Vietnam lost their lives in traffic accidents. Several employees at factories in India suffered injuries when a privately operated commuter vehicle they were riding in overturned because it was overloaded. In addition to traffic safety instructions and quiz contests which are routinely given to employees, our employees' attention is called to dangerous road sections where accidents have occurred frequently and traffic accident videos are played to raise employees' safety awareness. And efforts are made to persuade our employees not to take overloaded commuter vehicles. Evacuation drills are conducted to increase employees' familiarity with the correct way to escape from bus in case of emergency. We have since worked with local government agencies to help employees obtain valid driver licenses and to make sure they have acquired basic driving skills. Regulations have been set up by which an employee is required to have a valid driver license in order to park his or her motorbike on the factory premises, and all employees are required to wear helmets when riding motorbikes. In 2017, all employees who parked their motorbikes on the factory premises possessed valid driver licenses. We also plan to collaborate with local governments to improve road quality, with the aim of continuing to work toward a safer workplace.

Commuting Injury Frequency Rates



Commuting Injury Severity Rates



²⁰ Occupational injury frequency and severity rates do not include cases incurring less than eight hours of work loss. The data for 2015 and 2016 was recalculated accordingly.

5.2 Social Engagement

Feng Tay believes that a long-lasting company is rooted in a sustainable community. Since day one, it has taken on the mission put forward by the founder, Mr. Chou-Hsiung Wang—to care for the community and give back to society. Through the programs of the foundations we established in Taiwan and China, as well as the efforts of our factories in each region, we continue to fulfill this mission.

Following are the contributions made in 2017 by Feng Tay Group and its foundations to support public welfare activities in the communities where its operations are located.

Unit: USD (rounded to the nearest thousand)

Taiwan	China	Indonesia	Vietnam	India
2,434,000 (NTD 73,030,000)	283,000 (CNY 1,842,000)	26,000 (IDR 353,828,000)	112,000 (VND 2,544,724,000)	138,000 (INR 8,828,000)

5.2.1 Giving Back to Our Local Communities Emergency Aid to Disadvantaged Families

We strive to support disadvantaged families and victims of natural disasters to overcome economic difficulties. The foundations and factories in each region would arrange volunteers to visit the disadvantaged families to understand their actual needs before providing emergency aids and supplies.

● Taiwan (The Feng Tay Cultural and Educational Foundation)

Once notified by schools or communities, the foundation would arrange volunteers to visit the disadvantaged families to help them receive support immediately. In 2017, the Foundation gave a total of approximately USD 17,000 (NTD 500,000) to 18 families who had experienced unexpected financial hardships.

● Vietnam

The factories continued to give support and care to less privileged families by providing supplies and building houses. In 2017, we gave a total of USD 16,000 (VND 350 million) to 47 less privileged families in 6 nearby villages, in hopes of improving their living conditions.

● India

The factories gave free supplies and foods to victims who suffered from flooding, helping a total of, about 5,000 families in 5 neighboring villages in 2017.



Sponsoring Community Activities and Resources

Feng Tay's Headquarters and factories continue their efforts, such as sponsoring community activities and providing resources, to meet the needs of local residents and to support community development activities.

● Taiwan (The Feng Tay Cultural and Educational Foundation)

To improve library resources in remote villages, the Foundation has donated NTD 50,000 a year to each village library since 2015. A total of USD 100,000 (NTD 3 million) were donated in the past three years.

● China

The factories held clothing donation campaigns, encouraging our employees and neighboring residents to help people in need and thereby creating a good atmosphere of mutual care in the community.

● Vietnam and Indonesia

The factories in Vietnam and Indonesia donated living supplies and gifts to about 750 children in 9 nearby orphanages in 2017.

● India

The factories sponsored the Pongal festival to support local traditional culture and continued to strengthen our partnership with the local community.



Sports and Arts

To promote sports, the Feng Tay Cultural and Educational Foundation and Yunlin County Government jointly hosted Yunlin Legend - a national running event. Other activities, such as annual Tee-ball Tournaments, 3 on 3 basketball games and dodgeball competition, were held to provide sports opportunities for local residents and students. Moreover, the Foundation and Yunlin County Government hosted a Special Olympics Lawn Bowls competition for children with disabilities. Through their participation, we hope to help these children build their confidence and sense of accomplishments. The Foundation also collaborated with local musicians and artists to hold concerts and workshops, in an effort to promote arts and culture in our local community.



5.2.2 Educational Resources Financial Aids for Less Privileged Students

To support the education of economically disadvantaged students, the Feng Tay Cultural and Educational Foundation has provided financial aids to less privileged college students since 1987, to less privileged primary and intermediate school students since 2002, and to less privileged high school students since 2015. Through these financial aid programs, we hope to give timely assistance to less privileged students in Yunlin and nearby counties at every educational stage. By the end of 2017, a total of USD 5,650,000 (NTD 169,432,000) has been given to 9,571 students.

Improving Educational resources in remote villages

To help students from disadvantaged families, we have provided after-school tutoring and educational resources to remote villages.

● Taiwan (The Feng Tay Cultural and Educational Foundation)

The foundation has collaborated with National Yunlin University of Science and Technology to conduct an after-school tutoring program since 2011. The program offers various educational activities and organizes field trips for students from disadvantaged families. As of the end of 2017, more than 3,000 students have participated in the program.

The foundation has provided financial resources to schools and non-profit organizations in remote villages for them to continue their after-school tutoring programs. The programs offer free after-school classes (from 17:00 to 21:00) to help children, whose parents cannot return home from work until late at night, receive appropriate instruction and care in a safe environment. In 2017, we donated a total of USD 270,000 (NTD 8,200,000) to offer 100 classes with 841 students participating.



● China (The Da Feng Cultural Foundation)

Since 1991, the factories has provided scholarships to 6,727 students in elementary school, intermediate school and university, and has supported the construction or maintenance of 160 buildings, including classrooms and dormitories in primary and junior high schools in over 30 counties in the Province, with a total donation of USD 8,470,000 (RMB 55,035,000).

● India

To promote learning culture in local community, the factories in India donated books to libraries. We also offered after-school tutoring, English classes, handicraft workshops, and arithmetic courses to provide local students with better educational resources. In 2017, a total of 240 classes were offered. More than 800 students in the program were motivated to improve self-confidence through personal growth and development.

Summer Camps and Science Events

The Feng Tay Cultural and Educational Foundation in Taiwan hosted Reading and Creative Writing Summer Camp and Summer Music Camp, in hopes of helping students learn peer interaction and mutual respect through group activities. In 2017, 360 students attended our summer camps. The Foundation also held, jointly with Yunlin County Government, a robotics competition event to promote science education and to inspire creativity in students. The event attracted a total of 550 contestants and teachers.



5.2.3 Health Care and Hygiene Improving Medical Resources

Through our factories in each region, we provided free medical clinic and health check, and held blood donation events, in order to improve local healthcare quality and to promote healthy lifestyles.

● Offshore factories

Sponsor blood donation activities, in which around 4,600 employees have participated.

● Vietnam

The factories held 17 events to provide free health examinations and medical services to local residents.

● China and Vietnam

The factories donated resources such as medical equipment and medicine to local health care facilities and underprivileged families, helping to improve local healthcare environment.

● Indonesia

The clinic at our factory provides services, which include blood tests, prenatal examinations, dental care, health promotion, and pharmaceutical services, to residents in the neighboring villages. By sharing the resources we hope to help improve local health care quality. In 2017, we provided a subsidy of around USD 9,000 (IDR 120 million) to the clinic.



● India

Based on the Beyond program, one of our primary targets is to promote healthy life style in community. We have worked with an NPO—Hand in Hand—to set up Kairasi clinic and provided medical service and free medicine to residents in remote villages. We also launched a short-term collaboration project with a medical service team from Changhua Christian Hospital (Taiwan). Through this project, we worked with a medical team in India, provided free medical assistance in remote villages, and also ran a health camp for local police families and village residents. In 2017, a total of 2,984 people benefited from the Beyond program.

Furthermore, we built public toilet blocks and conducted sanitation campaigns to improve hygiene and living standards of the community. Public toilet blocks were built in 3 elementary schools and 21 villages in 2017. A total of 2,390 people benefited from the project.



5.2.4 Environmental Protection Environmental Protection Projects

To raise public awareness, our factories in each region were actively engaged in environmental protection projects. We sponsored environmental protection programs in school and participated in tree planting events in the neighborhoods of our factories.

● China

The factories sponsored an environmental knowledge competition at First Experimental Elementary School in Li Cheng district, Putian city, which attracted 150 student volunteers. On Earth Day 2017, we held an event to urge students, teachers and residents in the community to participate in tree planting projects, in the hope that the students can learn environmental protection knowledge from a young age.

● Indonesia

The factory took part in the reforestation program initiated by the West Java Green Committee and planted 1,000 trees in 2017. In addition, we sponsored Ecovillage activities in the community, in an effort to encourage residents to participate in riverside tree planting.



Organic Farming— AGRIC Social Enterprise

Recognizing the importance of environmental protection and food safety, the Feng Tay Cultural and Educational Foundation established AGRIC Social Enterprise Co., Ltd. in September 2016. The company aims to promote organic farming products, improve food safety, and help local farms to raise product value. With the vision of working toward a better environment, fair trade and ecological balance, AGRIC hopes to utilize innovative ideas and advanced technology to support organic farming and promote food and agriculture education in Taiwan.

The first rice crop grown by contract farmers was harvested in July 2017. AGRIC has documented in detail the planting process for every contract farmer to ensure the quality. AGRIC also gradually implemented the farm management system, Foodprint, with the aim of providing consumers with traceable agricultural products.

- Contract farming area: 19.8 ha
- Organic farming area: 17.3 ha
- Transitional farming area: 2.5 ha



Gu Chi, the brand of organic rice produced by AGRIC, contract farmers, was introduced to consumers in August 2017. The brand mainly targets canteens at various organizations and corporations. AGRIC has now begun supplying organic / transitional rice and vegetables to Feng Tay canteens and organic / transitional rice to Feng Tay Nursery School canteen.



In the second half of 2017, the contract farmers switched to growing black soybean.

- Contract farming area: 5.2 ha
- Organic farming area: 1.2 ha
- Transitional farming area: 4 ha

In the future, AGRIC hopes to encourage more farmers who are interested in organic farming to become contract farmers. Moreover, we hope more consumers will cherish the environment and buy more organic products.



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301-1	Materials used by weight or volume	-	Not applicable
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306-4	Transport of hazardous waste	-	Not applicable
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404-2	Programs for upgrading employee skills and transition assistance programs	34	5.1.7.1 Environment, Safety, and Health Management
404-3	Percentage of employees receiving regular performance and career development reviews	-	Feng Tay Group carries out performance evaluation with each employee regularly.
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413-2	Operations with significant actual and potential negative impacts on local communities	-	There was no such negative impacts on Feng Tay Group
GRI 414: Supplier Social Assessment			
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414-2	Negative social impacts in the supply chain and actions taken	-	There was no such negative impacts on Feng Tay Group
GRI 416: Customer Health and Safety			
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416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	-	There was no such negative impacts on Feng Tay Group
GRI 418: Customer Privacy			
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	-	There was no such complaint against Feng Tay Group
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