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# Fostering Robust Governance

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Target Readers:

■ Employees / Labor Unions

■ Government

■ Shareholders / Investors / Financial Institutions

■ Customers or Partners or Industry Associations

□ Local Residents

■ NGOs



Material Topics	Purpose of Management	Management Approaches and Effectiveness Evaluating Mechanisms	
<ul style="list-style-type: none"> <li>Refine operational performance and strategies</li> <li>Implement sustainable development</li> </ul>	To pursue sustainable management and long-term benefits to maintain the position as industry leader and create diverse values for stakeholders.	<ul style="list-style-type: none"> <li>Continue to expand production capacity, production sites and diverse products.</li> <li>Provide the highest governing entity the opportunity to stay up-to-date on business performance through the Board meetings and other regular meetings.</li> <li>Spearhead various projects through the CSR committee and report CSR issues to the Board on a regular basis.</li> </ul>	<ul style="list-style-type: none"> <li>Propose concrete plans to bring in improvements needed through internal and external evaluation on effectiveness.</li> <li>Conduct regular review on development goals and action plans as well as the progress.</li> <li>Aim for setting the paradigm of sustainable business.</li> </ul>
<ul style="list-style-type: none"> <li>Govern with steady pace</li> <li>Perfect risk management</li> </ul>	To reduce potential operational risks, avoid financial loss and damage in reputation, as well as reinforce corporate management.	<ul style="list-style-type: none"> <li>Ensure proper governance in areas encompassing business integrity, CSR, regulatory compliance, rules of procedures and public information through corporate governance task force.</li> <li>Establish rules and regulations governing Board meetings and conduct annual self-evaluation.</li> </ul>	<ul style="list-style-type: none"> <li>Perfect the risk management system to achieve sustainable development.</li> <li>Evaluate the effectiveness of operational procedures through external corporate governance evaluation and internal control system.</li> </ul>
<ul style="list-style-type: none"> <li>Boost stakeholder dialogue</li> </ul>	To actively engage with internal and external stakeholders through various interactions and ensure that management strategies and future development meet their expectations.	<ul style="list-style-type: none"> <li>Offer multiple communication channels for stakeholders to provide comments, file for grievances and receive timely response.</li> </ul>	<ul style="list-style-type: none"> <li>Establish an independent investigation system to probe and report on the grievance claims.</li> </ul>

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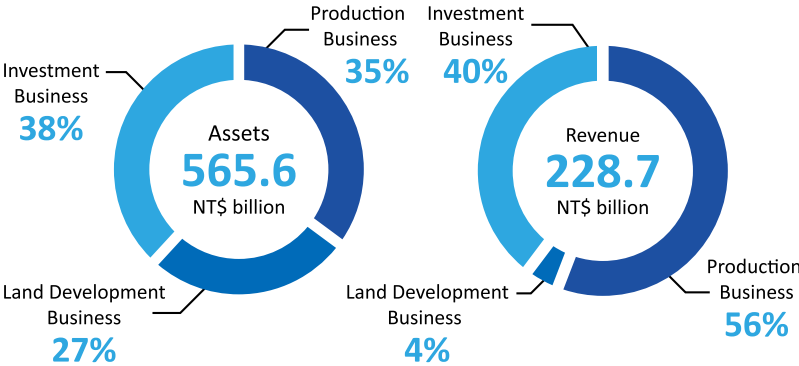
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1.1 FENC Profile

Far Eastern New Century Corporation, hereinafter referred to as “FENC” or the “Company”, is an enterprise listed on the Taiwan Stock Exchange. Initially established as a textile company, FENC has grown tremendously over the years. Armed with innovative technology and with a steady pace, the Company has been integrating vertically to encompass the entire spectrum of the textile industry, including petrochemical, polyester polymer, chemical fiber, cotton yarn spinning, knitted fabrics, dyeing and garment industries. We have streamlined the process from manufacturing to sales. FENC also spans horizontally into land development and reinvestment through diversified management strategies and highly efficient asset mobilization. The Company pursues sustainable development and long-term profits, and while doing so, continues to deliver noticeable results on environmental protection, social inclusion and corporate governance, creating diverse values for stakeholders.

FENC's Assets and Revenue in 2018



In 2018, FENC continued to expand to maintain its competitive edge, to revitalize existing assets and generate values. Efforts include the acquisition of the West Virginia PET plant and Ohio R&D base from M&G in the U.S., adding 360,000 tons in annual production capacity and started the subsidiary, APG Polytech. The third PTA production line of OPTC with 1.5 million tons of annual production capacity began production. The PET chip production line with an annual production capacity of 400,000 tons and phase II dyeing plant at FEPV began production. We have also won the right to jointly develop two production lines in Corpus Christi, Texas, one PTA production line with 1.3 million tons of annual production capacity, and one PET line with 1.1 million in annual capacity. Both are currently under construction. After obtaining the approval from U.S. Federal Trade Commission at the end of 2018, production and investment will begin in 2021. In order to integrate resources effectively, the yarn production line in Neili Texturizing Plant is relocated to Hukou Mill. In addition, due to eminent domain for urban development in Suzhou and Shanghai, operation of FEIZ, Sino-Belgium Beer (Suzhou) and Martens Beer (Shanghai) will discontinue.

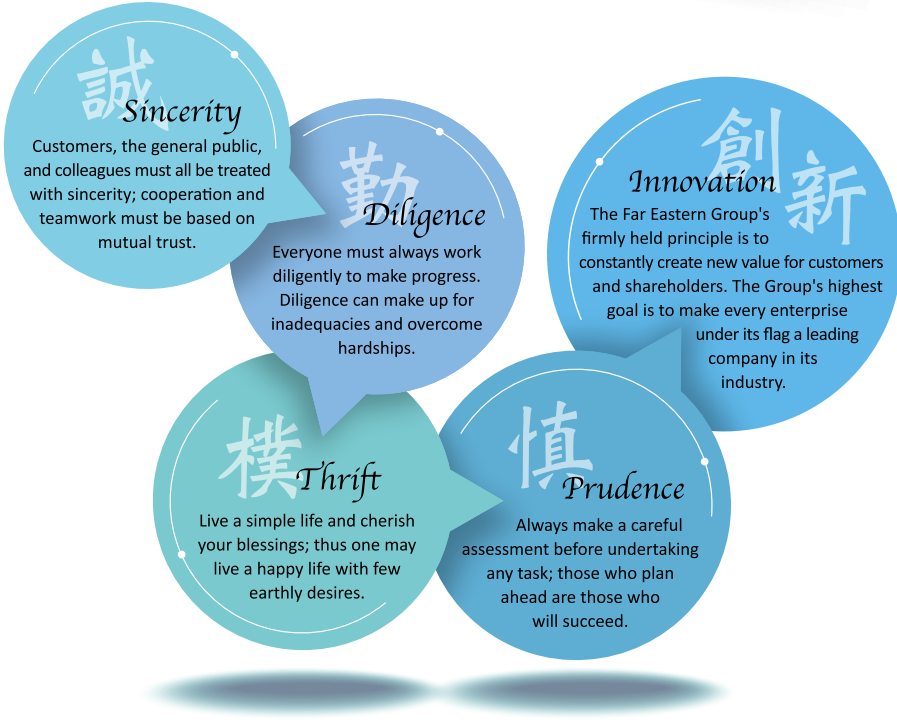
Founding Mottos and Mission

The Far Eastern Group's Founder, Mr. Yu-Ziang Hsu, has always taken “Integrity” as the upmost guiding principle in business management. In addition to the Group Founder's commitment to constancy, honesty, and openness, he has also enshrined “Sincerity, Diligence, Thrift, and Prudence” as Far Eastern Group's founding mottos. FENC's Chairman Douglas Tong Hsu further added “Innovation” to this motto, expecting the group to embrace a spirit of innovation and reform in the face of a rapidly changing and highly competitive environment.

Mission Statement

Having innovative thinking, superior technology, and excellent managerial skills, we aim to lead the polyester industry and maximize the value of our holdings in real estates and equity investments that shall bring happiness and prosperity to the community where we serve.

Founding Mottos



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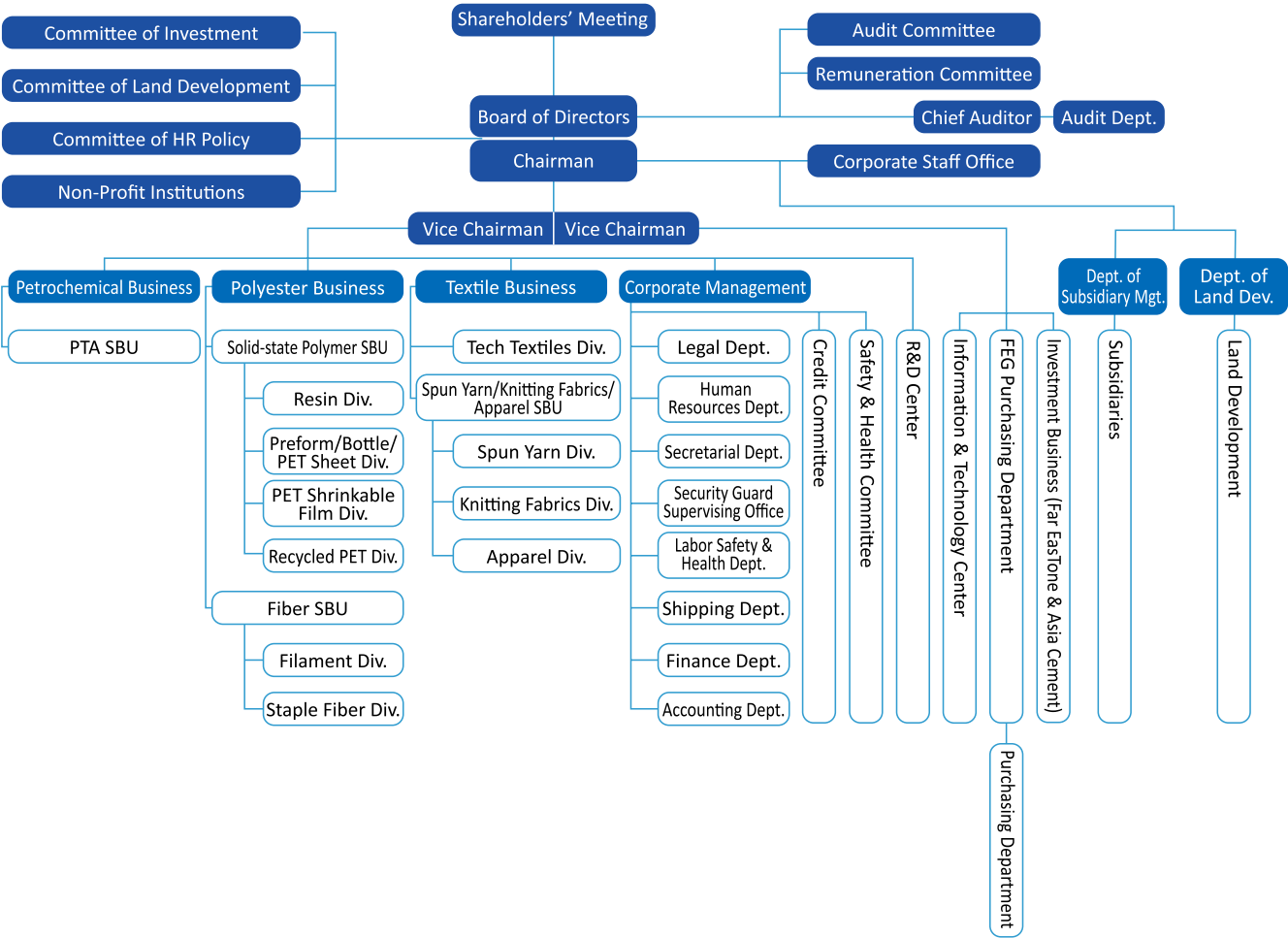
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FAR EASTERN NEW CENTURY CORPORATION

2018 CSR Report

Organization Chart



Fostering Robust Governance

Department	Scope of Business
Petrochemical Industry	Production and sales of PTA.
Polyester Industry	Production and sales of polyester chips, polyester staple fibers, polyester filament, polyester films, polyester drawn yarn, polyester bottle, nylon filament and polyester products made from recycled PET bottles.
Textile Industry	Printing, dyeing and finishing of yarns, fabrics and cloths; production and sales of miscellaneous natural, man-made and synthetic fiber, yarn and fabrics, as well as blended yarns, fabrics, and woven finished clothing; production and sales of industrial filament and cloths, including tire cord and various mechanical reinforcement products.
Corporate Management	Arrange the planning and enforcement of the company's legal,human resources, general administration, shipping, security, labor safety and health, finance and accounting related matters
Reinvestment	As the parent company for Far Eastern Group (FEG), FENC has invested in a broad range of high quality businesses. FEG's listed companies are well-managed with exceptional performance, bringing in a steady stream of profits for the Company on a long-term basis.
Land Development	FENC owns approximately 1.9 million square meters of properties throughout Taiwan, and most of which are situated in prime locations in northern Taiwan. Among them, 700,000 square meters are investment real estate. Currently, multiple land development projects are underway, including Tpark and Spa Resort, which are expected to generate revenues as well as additional values for the assets.

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1.1.1 Financial Performance

Healthy financial performance is the cradle of success for sustainability projects. It is also the key to sustainable corporate development. Each year, FENC sets the annual operating and capital expenditure budgets. Once the budgets are approved by the Board of Directors, the Accounting Department presents the Company’s financial performance during each board meeting. The head of each department reports on the state of operation at the Board meetings and the monthly operation review meetings, which enables the highest governing entity to be fully informed to monitor budget status.

Since 2007, FENC has been receiving credit ratings from Taiwan Ratings (an S&P Global Company) and was awarded a twA+ rating in 2018. It is a strong sign of FENC’s financial state, demonstrating the Company’s ample ability to fulfill all financial obligations and be trusted by investors.

FENC has a worldwide deployment of production sites. Each fulfills its tax obligations in accordance with the local regulations. To avoid risks associated with regulatory changes, we have established tax risk identification mechanism to swiftly assess the situation and make necessary response, as well as considering gaps in tax obligations as a result of policy changes. FENC also designated a task force in charge of communicating tax related affairs with local tax authority in each country.



Financial Report

Financial Performance

Unit: NT\$1,000

Item	Year	2016	2017	2018
Total Assets		513,460,158	516,766,280	565,589,420
Total Liabilities		261,267,506	261,227,187	297,859,983
Shareholders’ Equity		252,192,652	255,539,093	267,729,437
Operating Revenues		215,855,921	217,846,948	228,661,933
Net Income (Attributable to Parent Company)		6,307,786	8,066,136	12,028,294

Note: FENC consolidated financial statement

Economic Values Distributed to Stakeholders

Unit: NT\$1,000

Item	Year	2016	2017	2018
Operating Cost		164,684,799	168,148,743	184,261,821
Employee Wages and Benefits		20,434,107	21,018,770	22,486,717
Payments to Investors (Interest Expense and Dividends)		15,549,867	14,671,201	16,872,295
Payments to Government (Income Tax)		3,257,420	2,690,954	2,663,528
Investments in Community		122,664	78,983	73,878

Note: FENC consolidated financial statement includes business locations in Taiwan, China, Vietnam and Japan.

Tax Contribution to Local Governments

Unit: NT\$1,000

Region	Year	2016	2017	2018
Taiwan		2,798,387	2,181,154	2,754,610
China		430,757	413,140	(59,382)
Others		28,276	96,660	(31,700)

Note:

1. The table indicates income tax expense (benefit).
2. The income tax listed under 2018 China and Other are benefits due to reversing allowance for deferred income tax and increasing deferred income tax assets.



Utilization of FENC  
Issued Green Bond

FENC issued NT\$3 billion of green bond on December 4th, 2017. Being the first green bond in Taiwan certified by third parties, the capital is allocated toward the funding of four green investments – recycled PET chip, new batch polymer, water free dyeing and green building. Each year, Deloitte prepares and presents the capital expenditure report. As of December 31st, 2018, NT\$1.9 billion has been allocated for various projects.



Green Bond  
Expenditure Report  
(Chinese)



Capital Expenditure for Green Bond

Unit: NT\$1,000

Project	Investment	Scale of Investment	Estimated Capital	Use of Green Bond Proceeds
Recycled PET		966,000	910,000	902,362
New Batch Polymer		463,000	460,000	453,000
Water Free Dyeing		98,000	80,000	42,376
Green Building (TPKD Project)		2,865,000	1,550,000	502,411
Total		4,392,000	3,000,000	1,900,149



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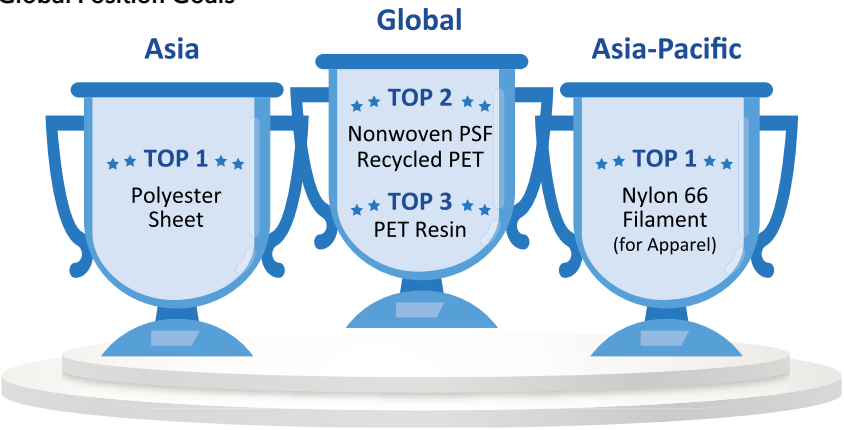
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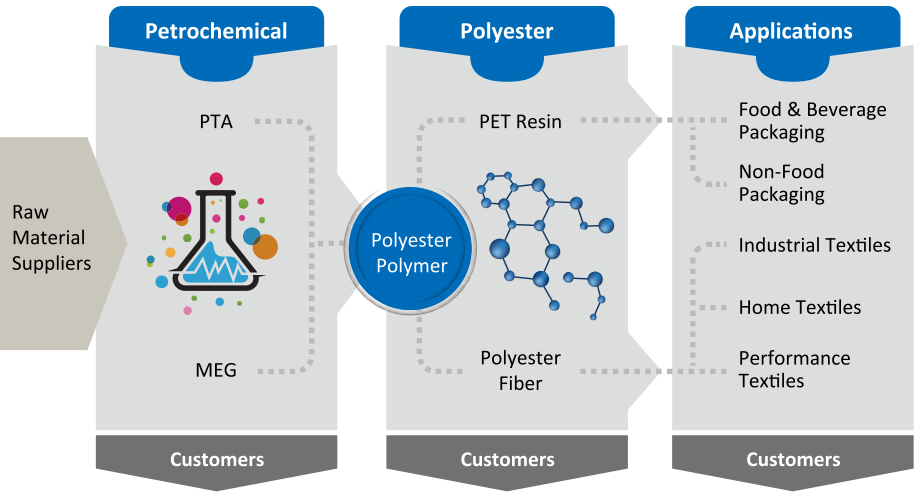
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1.1.2 Production Business

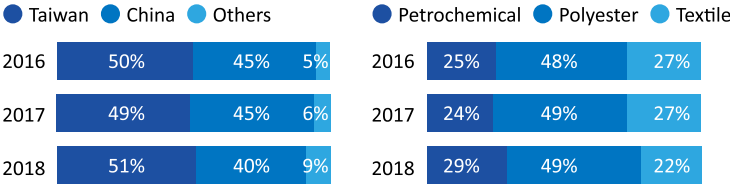
Global Position Goals



Main Products and Value Chain



Sales Ratio



Note: Please refer to our annual report for more information on the volume and value of the production in 2018.

Overview of Market Environment and Industry Summary in Production Business

FENC's core production business is polyester business. The Company leverages vertical integration by integrating the materials from its upstream business and the applications of the downstream business, thereby consolidating its leading position in the industry. For our upstream petrochemical business, we have stable supply of key raw materials and our new production equipment keeps us cost competitive. Our polyester business, as the midstream business, is leading in the industry. In addition to ramping up sales of differentiated products. We went further to acquire production sites in the U.S. in 2018. It has upgraded itself from a regional company to a global enterprise as it spanned its operations to the American continent, ready to deliver world-class performance. Our downstream textile business collaborates with global brands in a joint effort to develop high value-added products, such as the functional products that became famous in the world's major sports events.

In 2018, the global PTA output was 68.79 million tons, 9% up from 2017, the highest since 2011. PTA prices rose along with oil in 2018 and the expansion of downstream polyester production capacities increased the demand for PTA. These two factors combined tipped the balance of supply and demand in the favor of PTA manufacturers. The production output increased faster than the capacity was expanded, raising the capacity utilization rate to 80% globally in 2018, the highest since 2013.

In 2018, the global polyester output came to 79.32 million tons with an annual growth rate of 9%, and the capacity utilization rate increasing to 81%, the highest since 2013. The top five polyester producing countries are China, India, the United States, South Korea and Taiwan, making up 81% of the global output. Polyester is mostly used to produce PET and polyester fibers which include filaments and stable fibers. In 2018, PET accounted for approximately 30% and polyester fibers 70% of the global output.

In 2019, oil prices will gain support from OPEC's increased cuts in production. China's unreasonable expansion in the PTA industry has come to a halt; besides, the Chinese government plans to lower the rate of value-added tax (VAT) for manufacturers. The combination of these two factors is expected to boost the dynamism of the business world. FENC has been established for seven decades. We will keep expanding production sites in Vietnam, materialize green business opportunities to realize the environmental vision of Bottle to Bottle or Bottle to Fiber. FENC has initiated many smart projects to build a supply chain of smart manufacturing that consolidates petrochemical, polyester and textile businesses and reap the benefits of vertical integration. We will also truly translate into competitiveness essential to sustainable growth.

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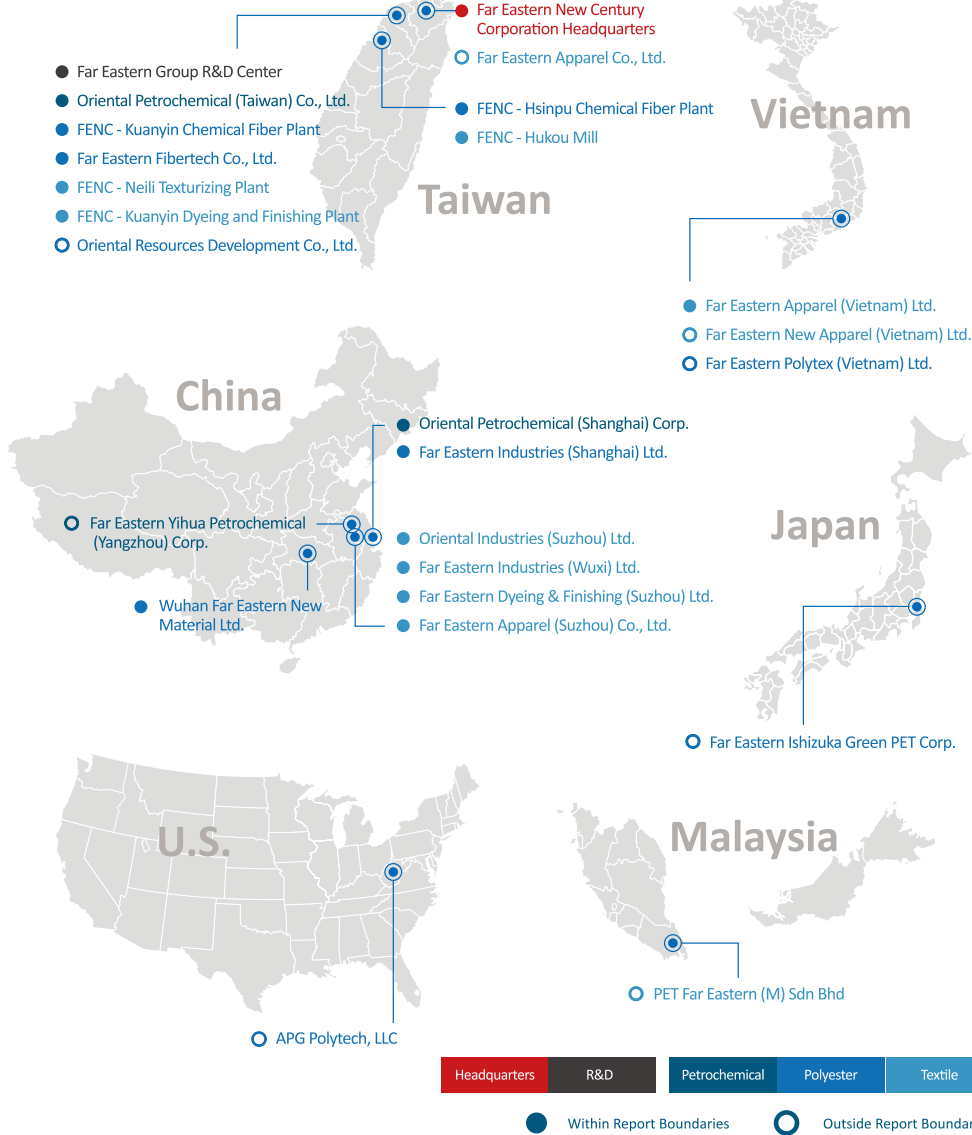
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Operation Sites



1.2 Corporate Governance and Sustainable Development

1.2.1 Reinforcing Corporate Governance

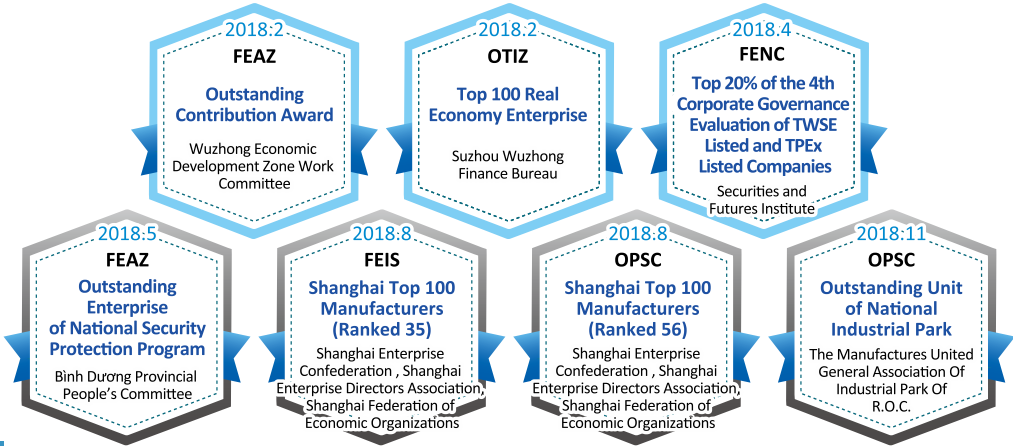
Sound corporate governance reduces operational risks while providing stakeholders with optimal sustainability. In order to continuously enhance corporate governance at FENC, the year 2018 is marked by multiple improvement projects, as listed in the following:

1. Amend FENC Articles of Incorporations to clearly state dividend policy.
2. Amend FENC Board Performance Evaluation Rule and commission external agencies to evaluate board performance once every three years.
3. The Remuneration Committee is hiring one additional independent board member, bringing the proportion of independent board members from 1/3 to 1/2 of the board.
4. Additional disclosure in 2017 Annual Report: Links to Board performance evaluation and remuneration, attendance of independent board members, number of employees attending training and total hours, as well as measures on occupational safety and health inspection.

FENC's Corporate Governance Evaluation Performance				
First Year	Second Year	Third Year	Fourth Year	Fifth Year
2015	2016	2017	2018	2019
Top 20%	Top 20%	Top 5%	Top 20%	Top 5%



Outstanding Achievements



1.2.2 Board Structure and Remuneration

Board Members

Man Woman 31-50 years old 51 years old or above

Title	Name	Education Background	Gender	Age
Chairman	Douglas Tong Hsu	National Chiao Tung University, Taiwan, Honor Ph.D. in Management Columbia University, USA, Post graduate study in Economics University of Notre Dame, USA, MS.	Man	51 years old or above
Vice Chairman	Johnny Hsi	Columbia University, USA, Master in Computer Science	Man	51 years old or above
	Peter Hsu	Stanford University, USA, Master in Operation Research	Man	51 years old or above
Independent Director	Bing Shen	Harvard University, USA, Master in Business Administration	Man	51 years old or above
	Johnsee Lee	Illinois Institute of Technology, USA, Ph.D. in Chemical Engineering	Man	51 years old or above
Director	Raymond Hsu	Australia Mining and Metallurgy College, Australia	Man	51 years old or above
	Shaw Y. Wang	National Taiwan University, Taiwan, the Executive Program in Business Administration National Chung Hsing University, Taiwan, Business Administration Department	Man	51 years old or above
	Richard Yang	American Graduate School of International Management, USA	Man	31-50 years old
	Tonia Katherine Hsu	Sarah Lawrence College, USA	Woman	51 years old or above
	Kwan-Tao Li	Kellogg-HKUST, MBA	Man	51 years old or above
	Alice Hsu	Sheridan College, Retail Management	Woman	51 years old or above
	Champion Lee	Texas A&I University, USA, Master in Business Administration	Man	51 years old or above

Note:

- Currently, there are no minority members on the Board. For details on diversity, please refer to “The Board of Directors Formulated Diverse Policies”
- Please refer to the annual report for Board members’ concurrent duties in other corporations as well as intersect holdings and disclosure on related party.



The Board of Directors  
Formulated Diverse Policies



Annual Report

Board Members, Election and Remuneration

Board members with a wealth of field and academic experience will lead FENC into an even brighter future. Board members are selected from nominated candidates. In addition to the above mentioned experience, FENC also takes independent Board members’ opinions into account, while Election Procedures of Director and Corporate Governance Principles ensure diversity and independence of the Board members. To effectively manage and avoid conflict of interests, the Board is also under independent supervision, and fulfilling its duties in accordance with the Articles of Incorporations, Rules of Procedures for Board of Directors (including provisions on conflict of interests) and all applicable regulations. The 23rd Board election was held in June 2018. Of the 13 board members elected, 2 are female and 3 are independent directors. Independent director, Mr. Sheng-Cheng Hu passed away in July 2018. As the entire company mourns for the sorrowful loss, election will be held during the 2019 shareholder meeting to fill the vacant seat. A total of 5 Board meetings were held in 2018.

To continuously equip the Board with well-balanced capabilities, external experts were invited to speak on economic and technological trends in 2018. The topics were “Industry 3.5 Smart Manufacturing Strategies and Empirical Studies”, and “Global Economic Strategies and Risk Management”. Thirteen Board members were in attendance during the lecture. In 2018, each of the board members underwent at least 6 hours of training, as recommended in Directions for the Implementation of Continuing Education for Directors and Supervisors of TWSE Listed and TPEX Listed Companies.

FENC conducts performance review on the Board and its members based on FENC Board Performance Evaluation Rule. The outcome is classified into “Excellent”, “Fair” and “Improvement Needed”. The 2018 review of the Board is “Excellent”. FENC Board Performance Evaluation Rule was amended in November 2018, which mandates that the Board review takes place every three years.



The Articles of Incorporations stipulates that during a fiscal year in which the Company is profitable, a percentage no higher than 2.5% may be appropriated toward remuneration for the Board members. Actual percentage and figure are recommended by Remuneration Committee after evaluation, and presented to the Board. Upon reaching a resolution, the decision is presented during the shareholder meeting. The 2018 remuneration for the Board members accounts for 1.89% of the after-tax revenue.

Evaluation Category for Board Member Performance

Evaluation Category	Details
Core Professional Capability	Fully comprehend the corporate core values, goals as well as stakeholder expectation; properly exercise the rights and fulfill the obligations of the Board; demonstrate leadership and management skills.
Environment	Establish and assist with goals related to the environment, including resource management, report on GHG emission, and creating sustainable production process.
Social	Establish and assist with goals related to the society, including social support for disaster relief, providing employee welfare and fostering competitiveness.
Governance	Establish and assist with goals related to governance, including the examination of operating budget and plans and review of the report on corporate accounting, finance, internal audit and other applicable reports.

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◆ Directors’ Remuneration

Bracket	Name of Directors
Under NT\$5 million	Sheng Cheng Hu 、Bing Shen, Johnsee Lee
Over NT\$5 million - NT\$15 million	-
Over NT\$15 million - NT\$50 million	Representative of Asia Cement Corporation: Johnny Hsi, Raymond Hsu, Peter Hsu, Shaw Y. Wang Representative of Far Eastern Department Stores Ltd.: Richard Yang, Tonia Katherine Hsu Representative of U-Ming Marine Transport Corp.: Alice Hsu, Kwan-Tao Li Representative of Yu Ding Industry Co., Ltd.: Champion Lee Douglas Tong Hsu

Note:  
1. Remuneration includes remuneration paid to Directors (base remuneration, severance pay and pension, Directors’ remuneration from distribution of earnings and operating allowances.)  
2. Independent Director, Mr. Hu Sheng-Cheng passed away on 11 July, 2018.

Audit Committee

In 2015, FENC established the Audit Committee, which is composed of all independent Board members and convenes quarterly. The objective of this committee is to monitor the appropriateness of financial reporting, implementation of internal control, compliance with company regulations, management of potential or existing risks, as well as selection and evaluation of the independence and performance of certified public accountants. The Audit Committee convened 4 times in 2018.

Remuneration Committee

Independent Board members serve as the convening body of the Remuneration Committee, which provides assistance to the Board in the establishment of performance review policies toward the Board members and managers, as well as remuneration policy, system, standards and structure. FENC conducts regular performance reviews of employees, managers and Board members through the Remuneration Committee and determines salary, bonus and other compensation. The Committee conducts industry wide comparison and provides recommendation to the Board for discussion. In 2018, the Remuneration Committee convened 2 times. In August 2018, the Board added one additional independent board member. In May 2019, 2 of the 3 members on the Board are independent board members.



Election Procedures of Director



Meeting Rules of Board of Directors



Board Performance Evaluation Rule



Audit Committee Charter



Communication Report of Independent Directors with Internal Audit Managers and Accountants in 2018



Remuneration Committee Charter

1.2.3 Shareholder Benefits

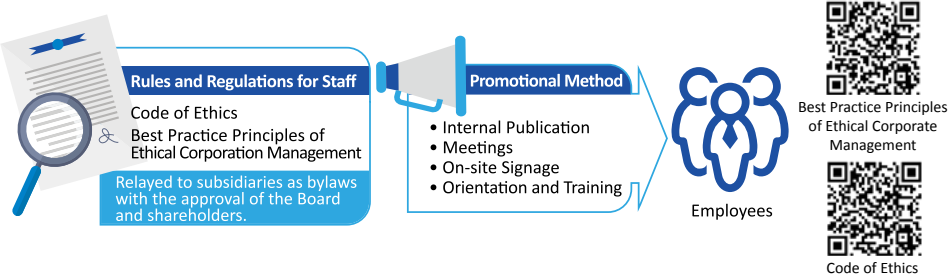
FENC values the rights of each and every shareholder and treats every one of them with equal importance, which is in accordance with Company Act, Securities and Exchange Act and other applicable regulations. Shareholders may exercise their rights to vote and participate in the decision making process during the shareholder meetings. Proposals pending ratification, matters for deliberation and elections are voted on as individual motions with the option of electronic voting. The result is disclosed immediately during the shareholder meeting. In addition, the Company designates special agents to handle investor relations, and provides contact information to investors and shareholders in order to strengthen stakeholder dialogues and respond to their comments and suggestions.



1.2.4 Corporate Sustainability

Integrity and Anti-corruption

Integrity is the highest guiding principle for FENC. Guidelines such as Best Practice Principles of Ethical Corporation Management and Code of Ethics work in conjunction with remuneration, internal control, authorization and specialization to ensure that the management of each and every department charges forward under the guiding light of integrity. Each quarter, reports of the self-evaluation on corruption is presented to the Board to prevent corruption. FENC found no incidence of corruption in the year 2018.



FENC promotes anti-corruption policies and conducts educational training based on Best Practice Principles of Ethical Corporation Management as well as Code of Ethics. In 2018, the Board has publicized anti-corruption policies to all Board members and full-time employees in Taiwan, China and Vietnam. In Taiwan, anti-corruption training is conducted at least once every two years for all new employees as well as departments that are more susceptible to the risk of corruption, including the Administrative Department, Audit Department, Procurement Department and R&D Center. Sales and factory managers are also subject to such training. The 2017 and 2018 percentages of staff receiving anti-corruption training are 32% and 19%, respectively with 2,262 people in attendance. The 2018 percentages for business locations in China and Vietnam are 96% and 100%, respectively. Two Board members underwent anti-corruption training in 2018, which accounts for 17%.



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Rules of Procedure for Board of Directors stipulates that donations from stakeholders or major donations to non-stakeholders must be reported to the Board to ensure prior supervision. Employees who are in contact with governmental officials are also subject to anti-corruption regulations and risk assessment measures. Procurement units, which are directly involved with dealings of interests, must undergo anti-corruption education and training. In addition, procurement contracts are to include anti-corruption clause, forbidding kickbacks, fees or other objects of value. Suppliers and contractors must also undergo such education and training; regularly publish notices; establish comprehensive internal control and enforcement rules. Supplemented with audits, these measures will prevent corruption and reduce operational risks. In 2018, 100% of the 10,078 suppliers and contractors already received the necessary information and training, and there were no occurrences of corruption among them.

Corporate Social Responsibility Policy

FENC is dedicated wholeheartedly to the integration of sustainable development and the Company's core businesses. The Board of Directors serves as the highest governing entity and facilitates sustainable governance with a top-down approach by establishing Corporate Social Responsibility Policy that is tailored to FENC and its subsidiaries. The policies exemplify the Company's commitment to sustainable development, while striking a balance among environmental protection, social inclusion and corporate governance.



Corporate Social Responsibility Principles

Key Point of "Corporate Social Responsibility Principles"

Item	Chapter
Promote Corporate Governance	1. Fostering Robust Governance
Promote Environmental Sustainability	3. Navigating a Green Future
Advance Public Interest	2. Enabling Unlimited Innovation 4. Creating Inclusive Society 5. Cultivating Compassionate Bonds
Enhance the Disclosure of CSR Practices	1. Fostering Robust Governance

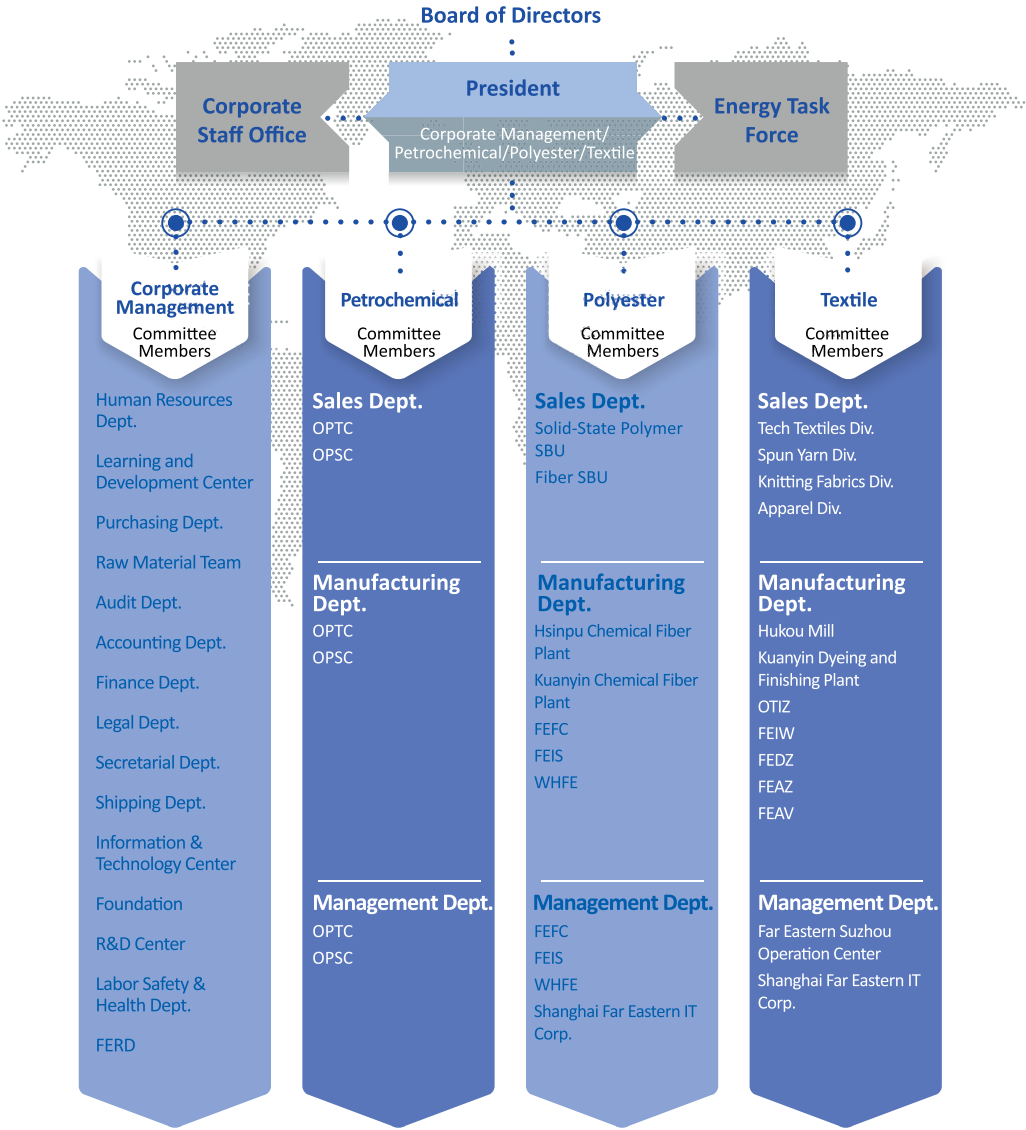
CSR Committee

FENC established the CSR committee based on Corporate Social Responsibility Policy set forth by the Board of Directors. The committee takes after the organizational structure the Board of Directors as the highest governing body. Three staff members from the Corporate Staff Office are appointed to oversee the implementation and coordination of sustainable governance. The 4 major business units also appointed 149 executive committee members and committee members to be in charge of promoting sustainable policies, project implementation, report on sustainability performance and stakeholder dialogue. Additionally, an interdepartmental energy task force is established to lead efforts in planning and managing energy and resource applications. The committee members typically utilize phone and email for routine communication, and the annual CSR meeting is conducted through videoconferencing. To solidify FENC's future direction toward sustainability, CSR committee members completed FENC Sustainability Strategic Blueprint in 2017. (Please refer to "Sustainability Strategy Blueprint" for more details.)



The duties of the CSR Committee

Organization of CSR Committee



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Communication Between CSR Committee Members and the Board

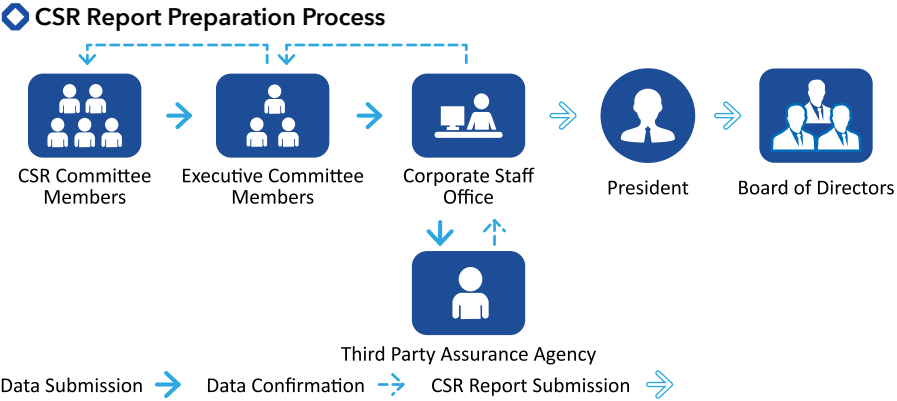
The president of each business presents CSR related issues to the Board on a regular basis. Issues include safety, health and environment (SHE), business strategy and performance, research and development, risk management, financial overview and stakeholder dialogue. In addition, each department gives several presentations to the highest governing entity each month to review the impacts each issue poses on the Company with corresponding solutions. (Please refer to “1.3 Risk Management” for more details.)

The 4 presidents and department officers present the following CSR issues during the Board meetings and regular meetings:

1. Operational Conditions and Market Conditions	5. Human Resources Management and Development	9. Environment, Safety and Health
2. Business Headquarters’ Industry Strategies	6. Risk Management	10. Energy and Resource Management
3. Financial Conditions	7. Implementation of Regulatory Compliance	11. Research and Development
4. Sales Overview	8. Internal Control and Audit	12. Charitable and non-profit events

CSR Report Preparation Process

Information covered in this CSR report is prepared by the CSR Committee from each unit. Once the committee members compile the information, the report is presented to the 3 appointed CSR staff at the Corporate Staff Office for data analysis, integration and internal audit. In the case of omission or irregularities, the CSR committee members are notified to submit additional information or explanation to ensure that the information provided is accurate and complete. The final report is certified by a third party, signed off by the president and submitted to the Board.



Participation in CSR Activities

As climate change intensifies, governments and NGOs are urging corporate entities to focus on environmental protection and energy conservation. Corporate sustainability is a key indicator for stakeholders. FENC also holds the corporate performance on environmental protection, social inclusion and corporate governance to high standards. FENC responds to surveys and evaluations conducted by external agencies by intently engaging in stakeholder dialogue and actively participating in various forums and activities to ensure that CSR policies are all-encompassing, and that specific plans of action are formulated to address improvements needed to achieve corporate sustainability.



Becoming Member of CCS and Co-hosting 2018 Q4 Board Meeting



FENC became a corporate member of Center for Corporate Sustainability (CCS) in 2018. The convener of CSR committee and President of Administrative Headquarters, Humphery Cheng, served as the Director and expressed the wish to strive for sustainable development alongside other flagship enterprises.

CCS conducts quarterly board meetings. During which, the board presents the latest trends and progress in sustainable development to the chairperson, and invites scholars and field experts to speak to corporate members. FENC co-hosted the Q4 board meeting in 2018 and invited two speakers, Ms. Yvonne Li, who was President of Far Eastone Telecommunications Co., Ltd. at the time and President Chien-Fu Lin of Taiwan Institute of Economic Institute. They shared the approaches Far Eastone adopts towards sustainability and the latest economic trends.



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### CSR Captain Program

FENC's exceptional performance in CSR also caught the attention of the stakeholders. On October 27th, 2018, CTCI Education Foundation invited FENC to speak during the 2018 CSR Captain Program – Winter Action. FENC representatives introduced the CSR programs carried out by the Company. Among those in attendance are teams of college students from Taiwan and other parts of the world. Keynote speeches by corporate representatives gave students insights into how CSR is implemented in corporations worldwide. The concept of CSR is now ingrained in the minds of these youngsters. The international students will be sharing FENC's CSR spirit with the world.



### Seminar on Exchange of Manufacturing Technology in Circular Economy

On October 23, 2018, Chang Gung University, Yuan Ze University and National Chi Nan University co-hosted this seminar. During the event, experts from around the world shared their experience on circular economy. FENC was among those in attendance and discussed the manufacturing technology using recycled PET bottles, collaboration with adidas on manufacturing yarns out of recycled plastic ocean waste, and the use of water free dyeing technology to reduce water consumption.



### Sponsoring CSR@COMMONWEALTH and Co-creating New Value for Taiwan

In March 2017, the Common Wealth Magazine founded CSR@COMMONWEALTH, a website providing coverage on the CSR experience of corporations and NGOs to raise the awareness. In 2018, FENC sponsored CSR@COMMONWEALTH, advocate the spirit of CSR and create a brighter future for Taiwan.



### Training on Corporate Sustainability and Competitiveness Improvement

Center for Corporate Sustainability and Cathay Financial Holdings co-hosted the training session on Corporate Sustainability and Competitiveness Improvement. FENC was invited to lecture on adaptability and risk management amid climate change.

FENC is renowned worldwide for the capability of manufacturing new products out of recycled PET bottles. Therefore, FENC chose "Technological Revolution of the Polyester and Textile Industry on Sustainability" as the topic and shared 30 years of exploration and pioneering with this technology. During the lecture, the speaker also talked about a proposal in 2016, which involves the use of recycled plastic ocean waste in manufacturing yarns. In 2018, FENC immersed in the research and development of reusing recycled textile in hope of enhancing the circular economy in the textile industry. The talk was well received by the audience, who discussed with the speaker about possibilities and alternatives to adapt to impacts brought by climate change.



### Joining Alliance for Sustainable Development Goals (A•SDGs) to Build Sustainable Development Platform

Alliance for Sustainable Development Goals (A•SDGs) was founded in 2018 by stakeholders from wide-ranging disciplines, including corporations, governmental entities, academic and research institutes and NGOs to promote the United Nations Sustainable Development Goals (SDGs).



A•SDGs encourages members to actively engage in SDGs and voluntarily set goals on environmental protection, social inclusion and corporate governance. Members are also encouraged to make yearly commitments and implementation. FENC had been spearheading several CSR projects with goals related to SDGs. Identifying with the founding principles of A•SDGs, FENC became one of the first corporate members of A•SDGs and an avid CSR advocate.



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Outstanding CSR Achievements

The top-down management model helps FENC fully integrate the concept of sustainability into corporate development. In 2018, FENC won multiple awards and nominations for exceptional performance on sustainability.



Winning 8 Awards, Including 2018 TCSA and 2018 Global Corporate Sustainability Awards (GCSA)

In 2018, FENC won 8 awards for the efforts, including 2018 Taiwan Corporate Sustainability Awards (TCSA) and 2018 Global Corporate Sustainability Awards (GCSA). Chairman Douglas Tong Hsu won the award of “Outstanding Corporate Sustainability Professionals.”

8 awards include the The Most Prestigious Sustainability Awards - Top Ten Domestic Corporates for the first time and won 3 consecutive Best Report of the Year award. FENC also won the first GCSA for the Reporting Awards category. The triple crown is a testament for FENC’s dedication in promoting sustainability. The 5 additional awards FENC accepted include 4 best performance of specific categories and the newly introduced English Reportage Award.



Winning Top Honor at Global Views CSR Awards

In 2018, FENC was the Winner of the Category of Manufacturing Industry for The 15th Annual Corporate Social Responsibility Award by Global Views Monthly. Chairman Douglas Tong Hsu accepted the award and joined the panel discussion.

Chairman Hsu shared the success stories of implementing CSR measures at FENC with the audience. FENC provides green solutions, including long-term R&D in green products, providing recycling, and reducing energy and resource consumption. Chairman Hsu also remarked on future directions, “In addition to sustainability, we still need to innovate. CSR requires never-ending efforts, and our work toward CSR will never stop. We need everyone to contribute.”





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### 1.3 Risk Management

FENC has a sound risk management system in place to reduce risks, support growth and help achieve sustainable development. In 2013, the Company established the regulatory compliance system to assist all units review compliance practices. With continuing education and quarterly self-evaluation, the Company is able to strengthen staff awareness toward compliance and reduce the risk of violations. To move one step further and prevent risk events, the Corporate Management initiated the risk alarm system in 2015, which provides preventive measures after regular tracking and reviewing corporate risk factors and evaluate potential risks.

FENC conducts loss prevention inspection to enhance workplace safety at production sites and monitor the effectiveness of risk management and control. The Company carries out the Risk Ranking project once every three years. In 2015, external experts inspected 23 plants in Taiwan and overseas locations for loss prevention. A total of 229 risk factors were identified with monthly follow up for improvements. All required improvements were completed by the end of 2017. Another Risk Ranking project was initiated for 21 plants worldwide in the end of 2018. The review covered 44 aspects, including factory layout, mechanical safety characteristics, environmental control, and emergency response. External experts helped identify weaknesses and high risk areas to strengthen corporate integrity. The evaluation is expected to conclude in July 2019.

FENC conducts several regular meetings each month to ensure that the highest governing entity treats each risk issue with utmost attention and proper management.

#### FENC Regular Meetings

● Environment ● Social ● Governance

Corresponding Issue	Important Meeting	Interval	Highest Ranking Attendee
● ●	Management Meeting	Annual	Chairman
● ●	Human resources management and development	Semi-annual	
● ●	Special report on R&D	Annual	
●	Seminar on industry strategies	Semi-annual	
●	Budget review	Annual	
●	Energy conservation	Annual	Presidents of petrochemical, chemical fiber and textile headquarters
● ● ●	Operation review meeting	Monthly	
●	Risk management meeting	Monthly	
●	Sales Meeting	Semi-monthly	

Note: Please refer to the chapters in this report for other risk management measures.



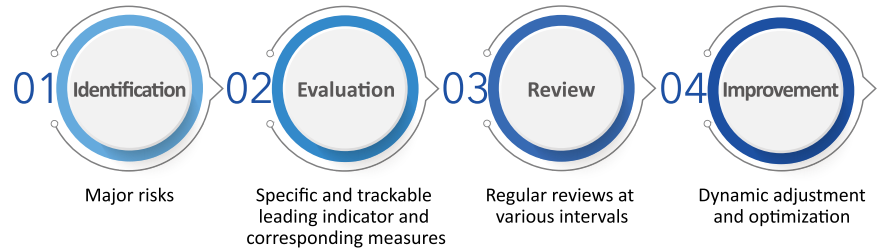
#### Risk Alert System

Regularly tracking risk factors and proposing preventive measures.

Establishment of the risk alert system starts with risk events identified by each administrative unit. The risk events are ranked and the most important are selected to develop leading indicators and corresponding measures that are specific and trackable. The appointed primary and secondary owners oversee the inspection of each corresponding measure, which is set at certain intervals, and the Corporate Management conducts the monthly risk management meeting, an interdepartmental effort for performance review, ongoing dynamic adjustment and optimization.

The risk alert system provides a common framework where the major risk events from each department can be managed with regular and systematic review to ensure the effectiveness of the protective mechanism while helping staff to grow from institutional knowledge. Under such framework, the administrative departments established various corresponding measures at the end of 2018 in case of irregularities from the indicator, which creates a stronger risk alert system.

#### Risk Alert System



#### Scope of Risk Alert System

Human Resources	External Environment	Corporate Assets	Legal Affairs	Finance and Accounting
<ul style="list-style-type: none"><li>• Employability</li><li>• Benefits and health</li><li>• Turnover and recruitment procedure</li><li>• Labor relations</li><li>• Performance review</li></ul>	<ul style="list-style-type: none"><li>• Geopolitics</li><li>• Trade liberalization</li><li>• Corruption</li><li>• Non-tariff trade barriers</li></ul>	<ul style="list-style-type: none"><li>• Intangible asset protection (intellectual property rights)</li><li>• Tangible asset protection and sustainable operation</li><li>• Financial asset management</li></ul>	<ul style="list-style-type: none"><li>• Regulatory training and corruption prevention</li><li>• Filing, records and information management</li><li>• Regulatory updates and compliance</li><li>• Contract agreement and management</li><li>• Litigation and dispute resolution</li></ul>	<ul style="list-style-type: none"><li>• Fair presentation of financial reports</li><li>• Compliance and totality of information disclosure</li><li>• Management of client vetting and accounts receivable</li><li>• Audit and tax compliance</li><li>• Financing and capital management</li><li>• CapEx procedure and control</li><li>• Investment management</li><li>• Insurance and hedging</li></ul>

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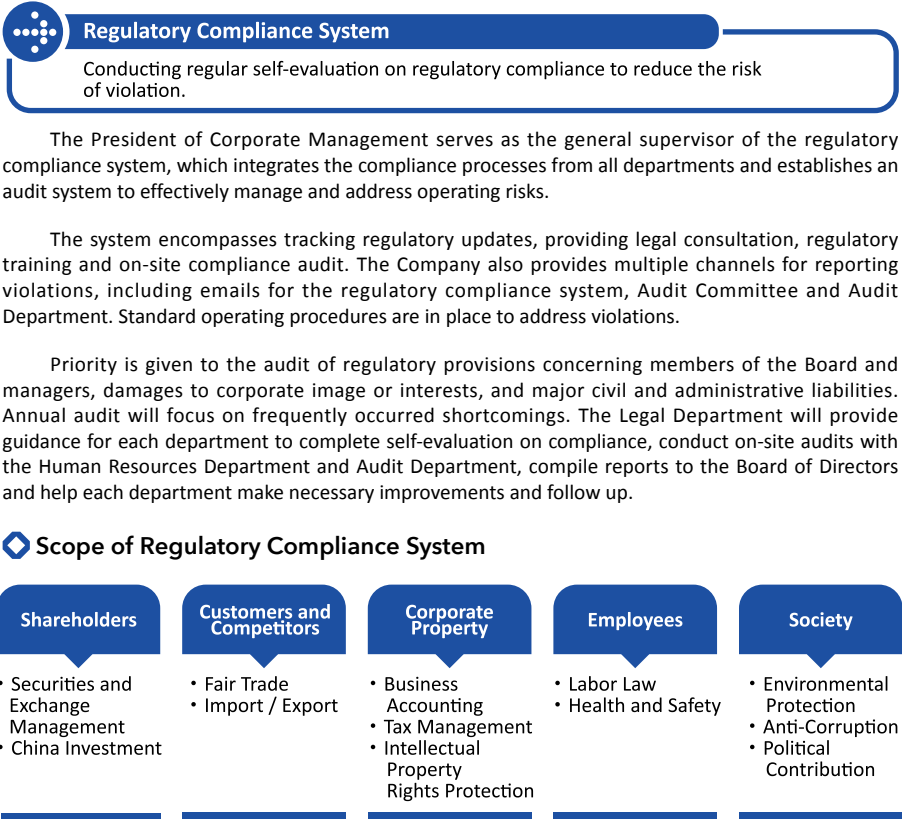
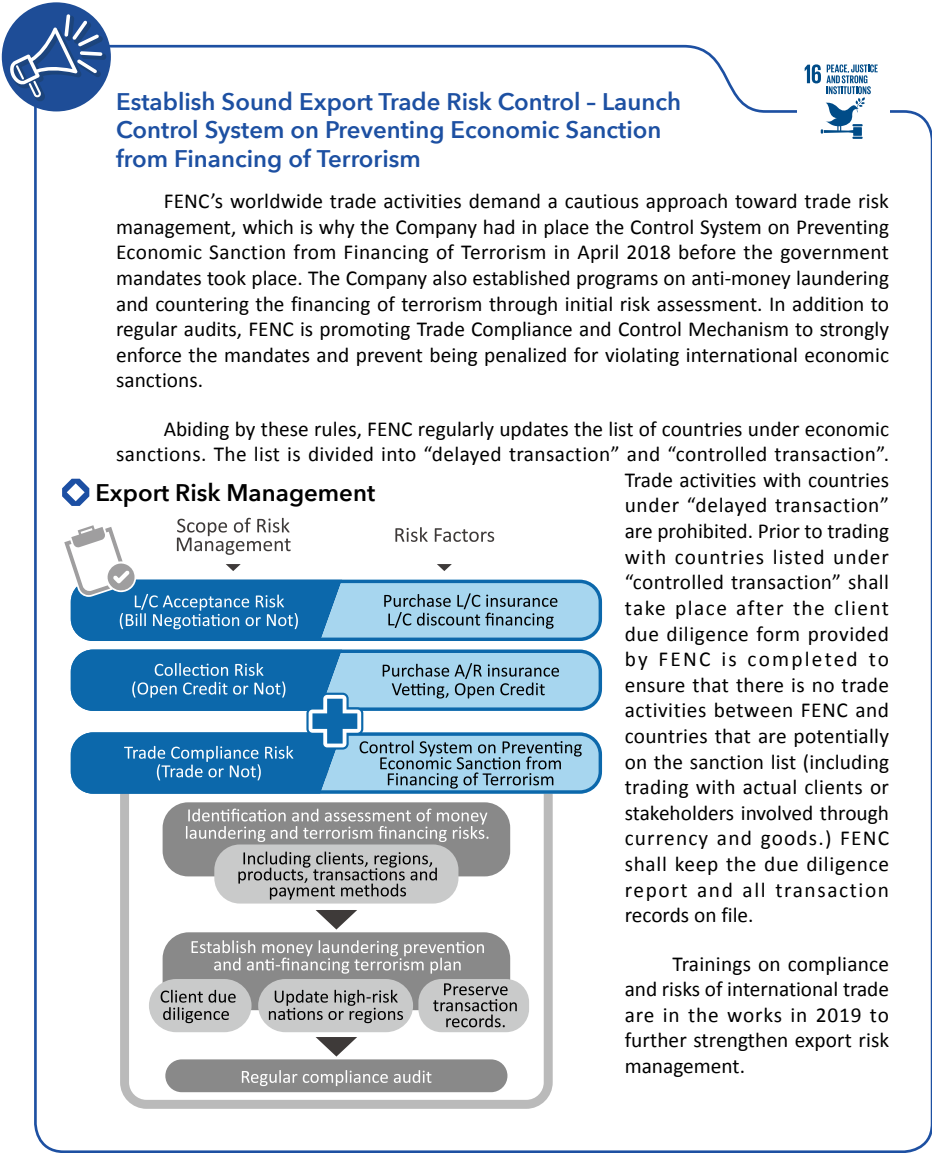
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Since 2017, FENC provided online courses and exams on regulatory compliance at FENC Academy. Criminal Code and Corporate Corruption, Copyrights Law, and Trade Secrets are three mandatory courses for all new recruits as well as staff at Corporate Management, Audit Department, Procurement Department and R&D Center. Antitrust Law as well as Criminal Code and Corporate Corruption are mandatory for Sales Department at Polyester and Textile Businesses. Credit Risk Management is an optional course for all staff. As of the end of 2018, 1,873 employees completed the regulatory compliance courses and exams. We will continue to expand the curriculum to enhance staff’s legal knowledge to reduce corporate risk on compliance.

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Amendments to Labor Standards Act, Enforcement Rules of the Labor Standards Act, Air Pollution Control Act, Criminal Code of the Republic of China, Foundations Act and Company Act were enacted in 2018. FENC brought all production and business locations into full compliance by collecting regulatory updates, educating staff and adjusting the management system. Measures taken are listed in the following table:

Regulatory Amendment	Date	Regulatory Updates
<div><div>• Labor Standards Act</div><div>• Enforcement Rules of the Labor Standards Act</div></div>	<div><div>• January 2018</div><div>• February 2018</div><div>• November 2018</div></div>	The Legal Department and Human Resources Department notified all production sites of the regulatory changes and conducted compliance audit on “overtime hours”, “overtime pay”, “compensatory time” and “vacation”. The two departments shared case studies of government on-site audits on labor inspection, as well as food and accommodation for migrant workers.
<div><div>• Air Pollution Control Act</div><div>• Criminal Code of the Republic of China</div></div>	<div><div>• June 2018</div></div>	Air Pollution Control Act expanded the power of the competent authority, which may enforce stricter standards on emission of air pollutants and raise the minimum sentence and maximum fine for violators. The Criminal Code also expanded the scope and violations concerning environmental pollution that are subject to penalty. All plants were notified of the regulatory amendments with recommendations on assessing the need to replace equipment or install preventative equipment.
<div><div>• Foundations Act</div><div>• Company Act</div></div>	<div><div>• June 2018</div><div>• July 2018</div></div>	Provide recommendations and alternatives to address regulatory changes concerning terms of holding Board meetings and issuing stock dividend while avoiding conflict of interests. Addendums will be reported and published.

The Legal Department in Shanghai is in charge of regulatory compliance concerning production sites in China, including notification on the latest regulatory mandates, latest case analysis, internal training, addressing violations and the establishment of online compliance platform. Regulations cover civil and commercial law, economic law, social law, administrative law, and procedural law. The latest mandates, legal updates and interpretation are provided on an ad hoc basis for all production sites in China. The 2018 regulatory mandates covers customs, foreign investments and e-commerce.

The Legal Department in Shanghai held 9 internal training courses in 2018, covering labor law and antitrust act. There were 80 participants in the two training sessions held in 2018. They are “Case Studies on Legal Risks during Sales Contract Agreement,” and “Stamp Management and Risk Control”. In addition, FENC collaborated with the IT Department in China and developed the online regulatory compliance platform, “A-TEAM.” The platform sends the latest news on legal updates, case analysis and training. In September 2018, survey was conducted to assess the understanding of risks involving operation in 8 departments, including human resources, environmental safety, procurement, business, and storage and transport in FEIS, and provide timely regulatory consultation and service on related matters.

Major Violations in 2018

Company / Department	Violation	Fine (NTD)	Improvement Plan
Hsinpu Chemical Fiber Plant	Safety measures for equipment/worker/ workplace are not in compliance.	\$1,440,000	The designated agency will follow up on the violations and make improvements to avoid future occurrence. In addition, training and education will be enhanced, and protection measures will be added.
FEIS	The north plant exceeded the odor limit.	\$900,000	Additional scrubber has been installed to conduct regular odor inspection. (Please refer to “1.4.4 Grievance Procedures” for details.)
Hsinpu Chemical Fiber Plant	Contractor operation was not in compliance.	\$420,000	The designated agency will follow up on the violations on a regular basis and adamantly demand that the subcontractors make improvements. In addition, inspection and audit have been reinforced.
FEIS	The night time noise level exceeded the limit.	\$400,000	Noise buffer has been installed where violation occurred. (Please refer to “1.4.4 Grievance Procedures” for details.)
Kuanyin Chemical Fiber Plant	Operation was conducted with an expired permit and without a test drive permit.	\$200,000	The violation is the result of delayed installation of pollution control equipment. The permit has been issued and the operational procedure has been reviewed.
OPTC	Suspended solids discharged into the river exceed the maximum.	\$168,000	Wastewater discharged into the river contains suspended solids that exceed the maximum permitted. However, the cause may not be related to the plant. After filing an appeal, the Environmental Protection Agency will test the wastewater on-site at the factory outlet in the future. In addition, the reclaimed water system will recycle wastewater and reduce discharge. Massive discharge will also be prevented to avoid disturbance to the bed rock.
FENC	Overtime hours were not addressed in accordance with regulatory requirements.	\$120,000	Employees were working overtime without registration. Improvements have been made towards human resources management, and the attendance system has been adjusted to automatically log overtime hours. Automatic email notifications are generated to remind staff to register for the overworked hours.
Kuanyin Chemical Fiber Plant	The 2016 diesel usage exceeds the permitted volume by more than 10%.	\$100,000	The 2016 summer power shortage led to diesel usage over the permitted level. Application has been filed to increase the cap.
OPTC	The operation of precipitator was against the standards stipulated on the permit.	\$100,000	Leakage occurred in the aging wiring of the precipitator. The Company has scheduled regular inspection in accordance with the stipulations set forth on the permit. Aging equipment has also been replaced.

Note: NT\$100,000 is the threshold for disclosure.

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From 2016 to 2017, Hsinpu Chemical Fiber Plant was penalized because the type A pressure vessel was in use before passing the inspection. It was fully operational. However, it did not include all the necessary measures. A comprehensive review was conducted and a three improvement measures were proposed: replace the outdated equipment, prepare all required documents for review, and categorize the equipment as non-type A pressure vessel. The Company conducted monthly follow up meetings. By December 2018, the plant was in full compliance.

### Oversight and Management of Internal Control System

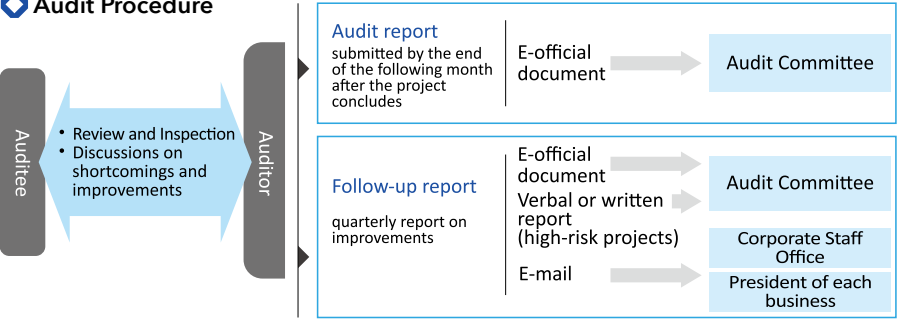
The Audit Department establishes and implements the internal control system and management rules. Each department and subsidiary establishes an internal control system and conduct regular self-evaluation. The audit unit then prepares the internal control report to help members of the Board to review, recheck and reinforce the implementation so that mistakes and loopholes can be minimized to improve operational performance and increase Company benefits.

The Audit Department is composed of four sections, the procurement audit, operation audit, finance audit, as well as MIS audit. Trainings are conducted yearly in accordance with the regulatory requirements, including educational courses and seminars. Staff also attends the annual meeting of the Institute of Internal Auditors to reinforce their professional knowledge and risk management awareness.



Internal Auditing

### Audit Procedure



### Management of Information Security

FENC places high emphasis on information security and management. The Company introduced ISO 27001 Information Security Management in 2014 and continues to enhance the professional skills of the information security staff while improving information processing technology. In response to Cybersecurity Act, which took effect in China in June 2018, the information department in China formed an information security management team to consolidate the information security management policies from all production sites in China. Solutions targeting cyber security and promoting information security were also proposed to increase awareness among staff.

### 1.3.1 Climate Change Risks and Opportunities

FENC values long-term operational performance and therefore bravely takes on challenges posed by climate change, turning risks into business opportunities. In 2018, the Company has taken stock of the risks and opportunities brought by climate change using the framework of “Recommendations of the Task Force on Climate-related Financial Disclosures” released by Financial Stability Board (FSB), as well as our responses. They are tabulated as follows:

Note: Some risks and opportunities are addressed through identical approaches. After deducting redundancies, the total management costs come to NT\$3 billion.

#### Climate Change Risk - Physical Risks

Company (Direct Impact) Supply Chain (Indirect Impact) Customer (Indirect Impact)				
Risk Type	Details	Impacted Target	Management Approach	2018 Management Costs (NTD\$1,000)
Chronic Risk	Rising Average Temperature	Rise in average temperature would require additional cooling facility, which increases procurement and electricity costs.		\$1,204,279
		Rise in average temperature may lead to sales and revenue decline in thermal wear.		
		The temperature may affect product storage and damage the goods.		
	Drought Caused by Change in Precipitation	Drought may lead to the lack of water necessary during production. Lower production capacity increases the unit costs and decreases revenues.		
		Decrease in precipitation reduces water resources, and increases the unit price and costs.		
	Rising Sea Level	Rising sea level will damage the plant and equipment along the coast, increase maintenance and repair costs, and interrupt production.		
	Extreme Weather Pattern	Temperature drop as a result of climate change may lead to declining beverage sales. The sales of beverage container and packaging may be influenced indirectly. The sales of cooling shirts and moisture-wicking textiles may also decrease, which leads to lower revenues.		



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<div><div> Company (Direct Impact)</div><div> Supply Chain (Indirect Impact)</div><div> Customer (Indirect Impact)</div></div>				
Risk Type	Details	Impacted Target	Management Approach	2018 Management Costs (NTD\$1,000)
Acute Risk	Typhoon / hurricane may result in damages to material suppliers' plants and lower production. Lower material supply will lead to increase in unit price and higher costs.		<ul style="list-style-type: none"><li>• Reinforce material loss prevention</li><li>• Establish fulfillment center at different locations</li><li>• Strengthen disaster prevention equipment and facility against typhoon</li><li>• Introduce corporate risk adaptability and response system</li><li>• Properly manage production and sales</li></ul>	\$407,803
	Typhoon / hurricane may interrupt transportation. Change of delivery options will lead to increase in shipping costs and delay.			
	Typhoon / hurricane may lead to power outage, resulting in lower production, higher unit costs, and lower revenues.			
	Typhoon / hurricane may damage production equipment, increase maintenance and repair costs, and interrupt the production process.			
	Typhoon / hurricane leads to lower demand and production, hence increasing unit costs and decreasing revenues.			
	Storm / flood may damage the production equipment and increase maintenance and repair costs.		<ul style="list-style-type: none"><li>• Reinforce waterproof equipment and measures</li><li>• Introduce corporate risk adaptability and response system</li><li>• Increase water reclamation facilities</li><li>• Introduce water conservation machinery such as low liquor ratio dyeing and water free dyeing</li></ul>	
	Storm / flood increases water turbidity, which leads to lower tap water supply. Insufficient water supply may interrupt the production process, increase unit costs and lower revenues.			
	Storm / flood may prevent parking rental and lead to lower rental revenue.			

Climate Change Risk - Transition Risk

<div><div> Company (Direct Impact)</div><div> Supply Chain (Indirect Impact)</div><div> Customer (Indirect Impact)</div></div>				
Risk Type	Details	Impacted Target	Management Approach	2018 Management Costs (NTD\$1,000)
Policy and Legal Risk	Increase in Emission Costs Due to Regulations Concerning Green House Gas Emission	The cap on carbon emission in Shanghai may result in the need to purchase carbon rights or paying fines when carbon emission exceeds regulatory requirements, which would lead to increased costs.	<ul style="list-style-type: none"><li>Regulations stipulate the minimum renewable energy mix. The inability to meet the requirement would prompt the purchase of additional green energy or installation of renewable energy facilities, which will result in increasing -costs.</li></ul>	\$612,113
		If the provision of carbon trading in Greenhouse Gas Reduction and Management Act is enacted in the future, costs associated with carbon emission will increase.		
		Suppliers of raw materials have devoted resources into adjusting production and management, which leads to higher procurement costs, and in turn driving up the cost.		
	Enhanced Emissions-Reporting Obligations	The Taiwanese government has mandated greenhouse gas inventory and third-party certification for specific businesses. Such mandate will expand to other fields. Conducting inventory for greenhouse gas, certification or facing possible fines may both increase costs.		
	Exposure to Litigation	The petrochemical industry runs potential risks in ligation due to climate change, which would increase costs and damage corporate reputation.		
	Mandates on and Regulation of Existing Products	If the government strengthens regulations governing greenhouse gas emission, production costs will increase.		
	Elevation of Energy Efficiency Standards in Means of Transportation	If the government poses more stringent requirements on greenhouse gas emission for transportation, production costs will rise.		
	Regulations Concerning Renewable Energy Development	The inability to meet the requirement for minimum renewable energy mix would prompt the purchase of additional green energy or installation of renewable energy facilities.		

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Company (Direct Impact)

Supply Chain (Indirect Impact)

Customer (Indirect Impact)

Risk Type		Details	Impacted Target	Management Approach	2018 Management Costs (NTD\$1,000)
Technology Risk	Substitution of Existing Products and Services with Lower Emissions Options	Carbon reducing production process and low-carbon product techniques continue to advance. The introduction of such process and techniques will lead to increased costs.	<div></div>	<ul style="list-style-type: none"><li>• Research and develop innovative products</li><li>• Promote energy saving and carbon reduction measures</li><li>• Access investment risks</li></ul>	\$1,301,180
	Costs to Transition to Lower Emissions Technology		<div></div>		
	Unsuccessful Investment in New Technologies	Shifts in market demand prevent recovery of investment in the production process and products, which leads to loss in investment.	<div></div>		
Market Risk	Changing Customer Behavior	Demand for green products and product certification are on the rise. The inability to meet market demand and provide proper product mix will lead to drop in revenues.	<div></div>	<ul style="list-style-type: none"><li>• Research and develop innovative products</li><li>• Manage material supply</li></ul>	\$828,608
	Increased Cost of Raw Materials	Climate change may impact the suppliers, which will lead to higher costs. The inability to manage material costs will decrease revenues.	<div></div>		
Reputation Risk	Increased Stakeholder Concern or Negative Stakeholder Feedback / Stigmatization of Sector / Risks Concerning Reputation Due to Climate Change / Shifts in Consumer Preferences	Stakeholders are highly concerned about any negative impacts on the environment from corporate management. Poor reputation may lead to plunging stock price or less willingness to invest.	<div></div>	<ul style="list-style-type: none"><li>• Enhance stakeholder dialogue</li><li>• Engage in CSR projects</li></ul>	\$77,764

Climate Change Opportunity

Company (Direct Impact)

Supply Chain (Indirect Impact)

Customer (Indirect Impact)

Opportunity Type	Details	Impacted Target	Management Approach	2018 Management Costs (NTD\$1,000)
Energy and Resource Efficiency	Use of More Efficient Modes of Transport	<div></div>	<ul style="list-style-type: none"><li>• Optimize transportation management</li><li>• Promote energy conservation and carbon reduction measures</li><li>• Promote waste recycling and reuse</li><li>• Obtain green building certification</li><li>• Introduce water conserving production process and projects</li></ul>	\$727,946
	Use of More Efficient Production and Distribution Processes	<div></div>		
	Use of Recycling	<div></div>		
	Move to More Efficient Buildings	<div></div>		
Market	Reduced Water Usage and Consumption	<div></div>	<ul style="list-style-type: none"><li>• Devote to product innovation, research and development</li></ul>	\$825,930
	Access to New Markets	<div></div>		
Resilience	Participation in Renewable Energy Programs and Adoption of Energy-Efficiency Measures	<div></div>	<ul style="list-style-type: none"><li>• Construct solar power station</li></ul>	\$92,412

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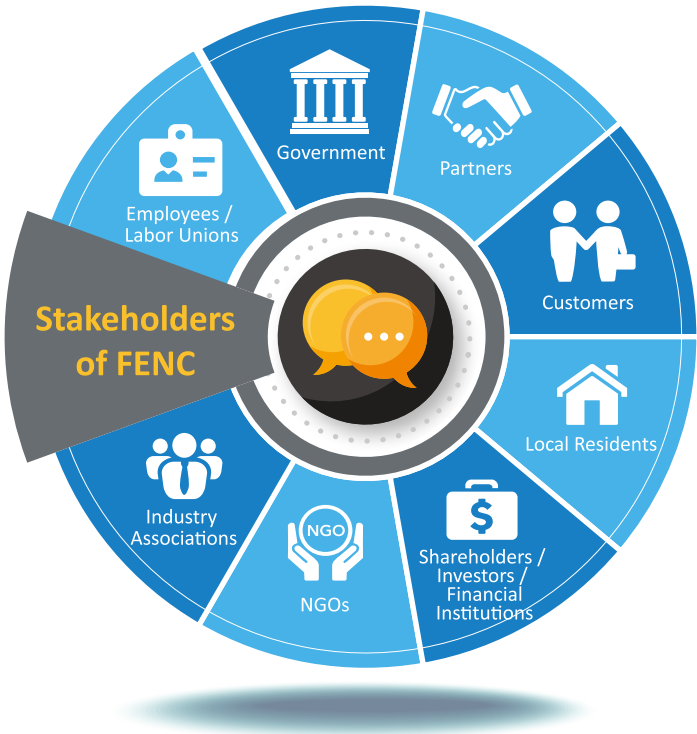
<div><div> Company (Direct Impact)</div><div> Supply Chain (Indirect Impact)</div><div> Customer (Indirect Impact)</div></div>				
Opportunity Type	Details	Impacted Target	Management Approach	2018 Management Costs (NTD\$1,000)
Energy Source	The use of low-carbon power may reduce greenhouse gas emission. Complying with government regulations will prevent fines.		<ul style="list-style-type: none"><li>Implement energy saving and carbon reduction measures</li><li>Establish carbon trading management team</li></ul>	\$489,307
	The use of low-carbon power may keep the crude oil prices from escalating and production costs from rising.			
	Using low-carbon power may enhance corporate image, hence increasing the willingness to invest.			
	The cap on carbon emission in Shanghai may result in the opportunity to sell excess carbon rights when carbon emission is capped by regulatory requirements.			
Products and Services	Carbon trading mandates may be enacted in Taiwan. When the system is in place, FENC may sell carbon rights, which is an additional source of revenue.		<ul style="list-style-type: none"><li>Engage in product innovation, research and development</li><li>Promote green products</li></ul>	\$2,021,441
	Preferences for low-carbon products are on the rise. If the production capacity for recycled PET increases to meet the market demand, the Company will see higher profits.			
	Rising temperature leads to higher demand for beverages. Indirectly, the demand for beverage containers also increases.			
	Drastic temperature changes caused by climate change have resulted in higher demand in hi-tech special fabric, such as thermal and cooling wear, which will bring in additional revenues.			
	Low-carbon products and technology continue to improve. Obtaining cutting edge technology will bring more business opportunities.			
	Customers are increasingly interested in low-carbon products. The ability to address such shift in market demand will increase revenues.			

1.4 Identification of Stakeholders and Material Topics

1.4.1 Stakeholder Identification

FENC identifies stakeholders through the use of questionnaires that were designed based on the 5 principles in AA1000 Stakeholder Engagement Standards – dependency, responsibility, influence, diverse perspective, and tension. The Company also solicits opinions from all CSR committee members as the basis for stakeholder identification.

To ensure that FENC can timely identify the stakeholders and the issues of concern, the Company reinstated the stakeholder and material topic identification project, which is expected to conclude in 2019.



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1.4.2 Identification and Responses of Material Topics

To identify material topics, FENC consulted the materiality principle of the GRI standards and global trends in sustainable development, including analysis on material topics from United Nations Conference on Sustainable Development (UNCSD), World Business Council for Sustainable Development (WBCSD), World Economic Forum (WEF), and Sustainability Accounting Standards Board (SASB). The Company also takes into consideration material topics from global flagship enterprises and domestic peers, and those distilled from social trends. We have identified 27 material topics relevant to the Company.

In 2016, FENC conducted a survey to assess the degree of influence material topics pose on stakeholders and the level of impact on the Company. A total of 416 questionnaires were collected. In 2017, the CSR Committee also assessed the level of impact of material topics on the external economies, environment and society. With approval from high-level management, 22 material topics were identified.

For sustainable governance to be more focused, the CSR Committee consolidated the 27 material topics into 16 for the year 2018 in order to concentrate on the core topics and enhance communication.

When several material topics are consolidated into one, the topic most relevant to “level of impact on the sustainable development of the Company, as well as the external economies, environment and society” and “degree of influence on stakeholders” chosen for the modified material topic matrix.

Process of Identifying Material Topics 2016-2019



Material Topics Corresponding Table

E: Environment, S: Social, G: Governance

Pre-adjustment Material Topics	Adjusted Material Topics
Sustainable strategies and governance	Implement sustainable development (E, S, G)
Well-established communication channel Technical exchanges and cooperation	Boost stakeholder dialogue (E, S, G)
Operational strategies and future development Operational performance	Refine operational performance and strategies (G)
Risk management Regulatory compliance	Perfect risk management (G)
Corporate governance	Govern with steady pace (G)
Manufacturing process and product innovation International standards certification	Instigate production and product innovation (E, G)
Environmental pollution management	Prevent and control environmental pollution (E)
Response to climate change	Respond to climate change (E)
Energy and resource management	Elevate energy and resource efficiency (E)
Land use management	Optimize land resources (E)
Customer safety Ecological conservation Sustainable architecture	Build sustainable community (E, S)
Work environment and safety Chemicals and toxic substances management Crisis management and disaster prevention Contractor health and management	Reinforce environmental safety and health management (S)
Care, benefits and compensation for employees Child labor and freedom of associations	Construct happy workplace (S)
Career training and development	Foster employee career planning (S)
Supply chain sustainable development	Coordinate sustainable supply chain development (S)
Advancing public interest Pursuing prosperity together with the communities	Create social prosperity (S)



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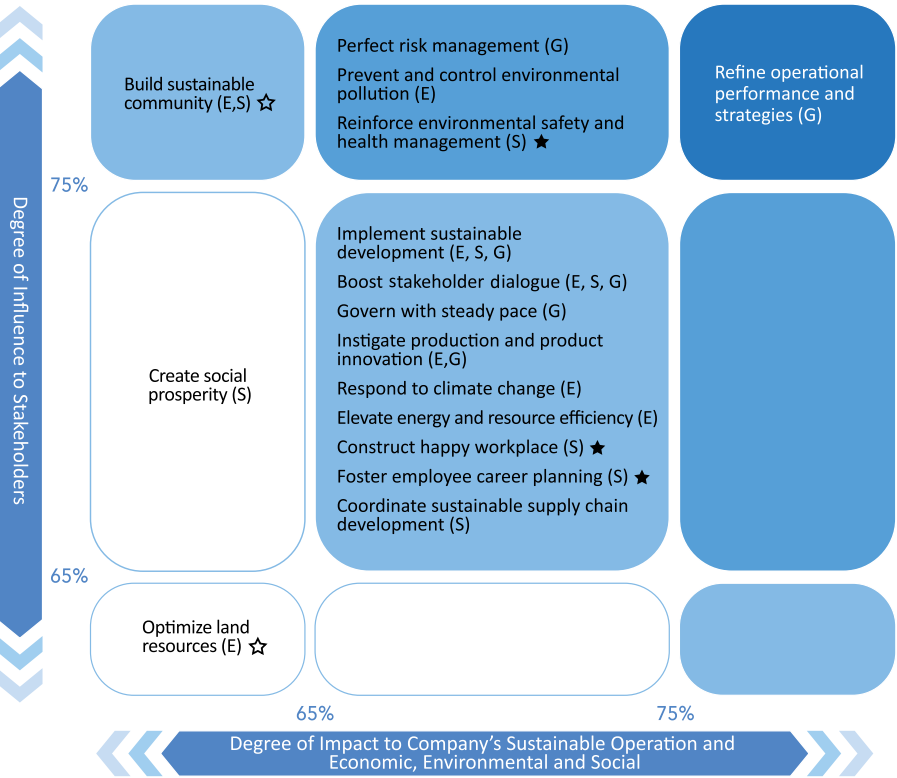
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Material Topics Matrix



E: Environment, S: Social, G: Governance  
☆ Applicable to Far Eastern Resources Development Co., Ltd. only ★ Applicable to Production Business only  
Note: Blue blocks are the material topics of this CSR report; white blocks are topics with comparatively lesser impact or influence.



Questionnaire on Issues  
Related to Corporate  
Sustainability for FENC

Significance of Material Topics for FENC

Material Topics	Significance for FENC
Implement sustainable development	In the spirit of sustainable development, FENC creates diverse values for stakeholders. By continuing to refine the implementation of corporate social responsibilities, FENC aspires to set the paradigm of sustainable corporation.
Boost stakeholder dialogue	FENC encourages stakeholder dialogue through an array of communication channels and providing immediate response.
Refine operational performance and strategies	FENC sees “integrity” as the highest guiding principle in corporate governance, management and development. The Company continues to stride forward as the industry leader by refining performance through risk management and strategic planning.
Perfect risk management	
Govern with steady pace	FENC maintains rapport with clients by providing high quality products, comprehensive services and added values. The international certifications we have obtained exemplify the Company’s standards on product quality and internal process. We approach sustainable development through innovations and develop green products and manufacturing process through circular way of thinking. We also strengthen the supply chain management to encourage our partners to fulfill their corporate social responsibilities.
Instigate production and product innovation	
Coordinate sustainable supply chain development	
Prevent and control environmental pollution	FENC has the utmost appreciation for the natural environment and surrounding communities. We wish to alleviate environmental impact, reduce production costs and increase operational efficiency through energy and resource management.
Respond to climate change	
Elevate energy and resource efficiency	While improving the efficiency of utilizing land resources, FERD must device a comprehensive blueprint with “sustainable ecosystem” and “smart living” as the foundation, and enhance all emergency response measures against accidents and disasters to protect the lives and safety of tenants.
Build sustainable community	
Reinforce environmental safety and health management	It is our responsibility to ensure workplace safety. FENC also provides comprehensive health and safety management and training for our employees and contractors. Contractors are required to comply with the health and safety standards set forth at FENC to reach the goal of zero workplace accident. It is our responsibility to minimize negative impacts on neighboring communities and prevent disasters caused by inappropriate management and operational practices.
Construct happy workplace	Employees are the most valuable asset for FENC. We commit to protecting their human rights, health and safety, and helping them flourish in their career.
Foster employee career planning	



◆ Material Topics Corresponding Table









● Boundaries ◎ High degree of Impact ○ Low degree of Impact

Material Topics	Internal Boundaries			Stakeholders								Relevant GRI Standard	Management Approaches and Relevant Information	
	FENC Production Business	Far Eastern Resources Development Co., Ltd.	Foundations	Employees / Labor Unions	Government	Partners	Customers	Local Residents	Shareholders / Investors / Financial Institutions	NGOs	Industry Associations		Chapter	Pages
Implement sustainable development	●	●	●				○		○	○		General Disclosures: Governance	Chairman's Message, 1.2.4	4, 19
Boost stakeholder dialogue	●	●	●	◎	○	○	○	○	○	○	○	General Disclosures: Stakeholder Engagement, Management Approach	1.4	30
Refine operational performance	●	●	●	◎	○	○			○		○	General Disclosures: Strategy Economic: Economic Performance	Chairman's Message, 1.1, 1.2	4, 13, 17
Perfect risk management	●	●	●	◎	○	○	○		○	○		General Disclosures: Strategy Economic: Economic Performance Environmental: Environmental Compliance Socioeconomic Compliance	1.3	24
Govern with steady pace	●	●	●		○				○			General Disclosures: Organizational Profile, Strategy, Ethics and Integrity, Governance Economic: Anti-corruption, Anti-competitive Behavior	1.2	17
Instigate production and product innovation	●	●					◎				○	Environmental: Materials, Energy, Water, Emissions, Effluents and Waste	2.1, 2.2, 3.2, 3.3, 3.5, 6.2	39, 40, 49, 58, 65, 105
Prevent and control environmental pollution	●	●			○			◎		○		Environmental: Emissions, Effluents and Waste, Supplier Environmental Assessment Social: Local Communities	2.2, 3.4, 3.6, 4.6, 6.2.3	40, 60, 66, 88, 107
Respond to climate change	●	●								○		Environmental: Materials, Energy, Water, Emissions	1.3, 2.2, 3.2, 3.3, 3.5, 6.2.2, 6.2.4	24, 40, 49, 58, 65, 106, 108
Elevate energy and resource efficiency	●	●								○		Environmental: Materials, Energy, Water	3.2, 6.2.2	49, 106
Build sustainable community		●					◎	○		○		Environmental: Energy, Water, Biodiversity Social: Customer Health and Safety	6.1.1, 6.2, 6.3	102, 105, 109
Reinforce environmental safety and health management	●	●		◎	○	◎	○	◎			○	Social: Occupational Health and Safety, Local Communities	3.6, 4.5, 6.1.2, 6.2.4	66, 81, 103, 108
Elevate energy and resource efficiency	●			◎								Social: Employment, Labor / Management Relations	4.1, 4.2, 4.3	70, 74, 77
Foster employee career planning	●			◎								Social: Training and Education	4.4	78
Coordinate sustainable supply chain development	●	●				◎						Economic: Procurement Practices Environmental: Supplier Environmental Assessment Social: Supplier Social Assessment	4.6, 6.1.2	88, 103



1.4.3 Stakeholder Dialogue and Engagement

FENC provides multiple channels for dialogue and engagement to strengthen the connection with stakeholders, and makes timely policy adjustments to meet stakeholders’ expectations. Stakeholder dialogue is also reported regularly during the Board meetings and regular meetings. In 2018, we have conducted over 9,300 stakeholder dialogue of various forms with over 216,000 participants in attendance records.

365 Yearly 90 Quarterly 31 Monthly 7 Weekly - Periodically 1 Other												
Stakeholders	Material Topics	Channel and Frequency									Number of Dialogue in 2018	Number of Participants in 2018
		External Meetings	Internal Meetings	Training/Drills/Practices	Educational Programs	Visits/Exchanges	Evaluation/Review/Audit	Questionnaire/Survey	Grievances/Comment Box	Company Website		
 Employees / Labor Unions	Boost stakeholder dialogue Refine operational performance and strategies Perfect risk management Reinforce environmental safety and health management Construct happy workplace Foster employee career planning		365 90 31 7 -	90 31 - 1	31	31	31 -	365 90 - 1	1	- 1	5,390 times	180,166 participants
 Government	Boost stakeholder dialogue Refine operational performance and strategies Perfect risk management Govern with steady pace Prevent and control environmental pollution Reinforce environmental safety and health management	31 - 1	31 -	- 1	365 31 -	365 90 31 -	365 31 - 1			- 1	215 times	1,510 participants
 Partners	Boost stakeholder dialogue Refine operational performance and strategies Perfect risk management Reinforce environmental safety and health management Coordinate sustainable supply chain development	90 7 -	90 1	-		90 -	-	365 90			2,372 times	3,756 participants
 Customers	Implement sustainable development Boost stakeholder dialogue Refine operational performance and strategies Perfect risk management Instigate production and product innovation Respond to climate change	90 7 -	-	- 1		90 31 7 - 1	365 7 -	7 - 1	7	- 1	562 times	6,552 participants
 Local Residents	Boost stakeholder dialogue Perfect risk management Prevent and control environmental pollution Build sustainable community Reinforce environmental safety and health management Create social prosperity	-		31	1	-			-		92 times	9,003 participants
 Shareholders / Investors / Financial Institutions	Refine operational performance and strategies	365 1	90			- 1		- 1	- 1	- 1	619 times	15,605 participants
 NGOs	Implement sustainable development Perfect risk management Prevent and control environmental pollution Elevate energy and resource efficiency Build sustainable community Reinforce environmental safety and health management			-		-	365				8 times	52 participants
 Industry Associations	Implement sustainable development Boost stakeholder dialogue Instigate production and product innovation Respond to climate change Elevate energy and resource efficiency Reinforce environmental safety and health management	365 90 -		365		90 1		-			41 times	111 participants

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## FAR EASTERN NEW CENTURY CORPORATION 2018 CSR Report

## Fostering Robust Governance



### Speaking at the Circular Economy Forum Hosted by Taiwan Cooperative Securities



Circular economy continues to be the focus for businesses around the world and shows no signs of subsiding on the global economic front. FENC attended the Circular Economy Forum held by Taiwan Cooperative Securities on January 9th, 2018. During which, investors engaged in discussions on FENC strategies, measures and performance on circular economy.

The management team shared with investors, who are also the main stakeholders during this forum, the Company's sustainability strategies and momentum in innovation and R&D. Projects shared include food-grade packaging and textile products made from recycled PET bottles, and the sneakers and jersey shirts made out of recycled plastic ocean waste. They are the fruits of exclusive collaborations with adidas and the environmental group, Parley of the Oceans. Such projects set the tone for FENC's future deployment in the recycling industry while addressing investors' concerns for the Company's future outlook. The heightened transparency gives investors insights into the Company's mission and progress on green sustainability.



### Visit and Exchange Between FENC and National Chengchi University



On January 2nd, 2018, students enrolled in the course, Strategic Risk Management, from the Department of Accounting, National Chengchi University visited FENC. The course teaches corporate risk management approaches through corporate visits. President of Corporate Management Humphrey Cheng gave a lecture titled, Corporate Governance/Operating Risk from CSR Perspective. He talked about how FENC conducted regular review and tracking of risk indicators through the risk forecast system, and reduces operational risks by proposing corresponding measures in advance. He also explored the meaning of corporate social responsibility in terms of corporate governance and operating risk.



### Participating in European Innovation Week and Exhibit Green Products



Antti Peltomaki, Deputy Director General at DG Internal market, Industry, Entrepreneurship and SMEs (DG GROW) led the delegation of business representatives from the European Union and hosted European Innovation Week in June 2018. The event features circular economy, green energy and environmental industry.

FENC is the developer of cutting-edge recycled PET technology and was invited to this event by the EPA. During the course, FENC provided exhibits of the Company's green products. While promoting recycled PET, FENC also promoted industries in Taiwan as protectors of the environment, shedding light on the business model and environmental benefits of circular economy for the government and corporations.



### Assisting the 20th Anniversary Exhibition of the Recycling Fund



Recycling Fund Management Board of the Environmental Protection Administration was established in July 1998 to enhance recycling of resources and maintain an open channel. The board held the 20th Anniversary Special Exhibition between July 31st and August 25th, 2018. In attendance were scholars, industry experts, as well as government officials from Taiwan and around the world.

The special exhibition was held at FE EcoARK in the Pavilion of New Fashion, which FENC built for the 2010 Taipei International Flora Exposition using 1.52 million used PET bottles. FE EcoARK exemplifies the concept of "circular rebirth". As the venue for this special exhibition, it holds a special significance. FENC is the curator for the exhibition of recycled and regenerated products, including textile and daily goods. The event also offered a lecture on circular economy, sharing the idea and application of circular rebirth with the public. FENC was acknowledged by the Environmental Protection Administration for the contribution toward the recycling industry and accepted the certificate of appreciation from Minister Ying-Yuan Li.



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Participation in External Organization




FENC plays an active role in various external organizations to gain insights on the latest trends and knowledge, and to maintain the Company’s leading edge. In 2018, FENC participated in, provided major financial sponsorship to, or served on the governing body, task force or committee of 67 external organizations. All of which provided strategic advantage for the Company. In 2018, FENC became a member of sustainability advocates such as Center for Corporate Sustainability (CCS) and Alliance for Sustainable Development Goals (A•SDGs).

Categories	Number of External Organization Membership		Additional Information
	Taiwan	China, Vietnam and Other	
Industry Union and Association	19	11	<ul style="list-style-type: none"><li>FENC joined Better Cotton Initiative and purchased BCI cotton as a show for its commitment to sustainability.</li><li>FENC joined Control Union (CU) and International Oeko-TEX Association. CU conducts yearly on-site audits for procurement, production and sales procedures and issues the certificate of Global Recycled Standard (GRS). Oeko-TEX requires that samples be submitted to Switzerland yearly for inspection, and conducts on-site audits once every three years. Oeko-TEX certification is issued once the standards are met. (Please refer to section “2.2 Green Products” for details on certified products.)</li></ul>
R&D Association and Society	7	4	<ul style="list-style-type: none"><li>FENC participates in various organizational activities concerning R&amp;D to interact with industry peers and understand current trends. FENC also helps the government establish national and industry standards. Research and conference papers published by FENC have also gained member recognition. These associations and societies include China Chemical Fibers Association, China Nonwovens &amp; Industrial Textiles Association, National Technical Committee on Rubber &amp; Products of Standardization Administration of China, China Packaging Materials Industry Forum (The 6th International PET Industry Forum) and China PTA Association.</li></ul>
Other Associations	13	13	<ul style="list-style-type: none"><li>FENC held several lectures and drills with associations addressing environment, safety and health to improve the risk management of environment, safety and health, and prevent occupational hazards. These associations include Guangyin Industrial Park Labor Safety and Health Promotion Association, Fengxian Fire Protection Association, and Vietnam-Singapore Industrial Park (VSIP) Fire Prevention Cooperative Association.</li></ul>
Total	39	28	



1.4.4 Grievance Procedure

Stakeholders may take advantage of multiple channels provided by FENC to file for grievances related to any impact or shortcomings in the Company. FENC also has in place an independent mechanism to conduct and report on the investigation over grievance matters:

 <p>Environment</p>	<p><b>Corresponding Material Topics:</b> Boost stakeholder dialogue, Perfect risk management, Instigate production and product innovation, Prevent and control environmental pollution, Respond to climate change, Elevate energy and resource efficiency, Build sustainable community, Reinforce environmental safety and health management</p>	<p><b>Channel:</b>  Appointed unit responsible for security service, SHE, and handling grievance claims at each production site.</p>	<p><b>Procedure:</b> • Once a grievance claim is filed, applicable units at the plant are notified. The claim is also reported to the management level, and the person filing the claim is notified of the status and outcome of the grievance claim.</p> <p><b>2018 Outcome:</b> • A total of 12 grievance claims concerning environmental impact were filed in 2018. • Hsinpu Chemical Fiber Plant received 2 grievance claims against noises from the blower at the wastewater treatment plant. Once a newer model and pipelines were installed, the noise was significantly reduced. • FEIS received 1 grievance claim concerning noise and 1 claim concerning odor. The noise was caused by the cooling tower itself and the water running through it, which exceeded the night time maximum. FEIS was fined for NT\$400,000. The condition has improved significantly once the noise buffer was installed. The claim against odor exceeded the maximum permitted and the FEIS was fined for NT\$900,000. The condition was alleviated once the scrubber was installed to dilute the solvent. • OPTC Plant 2 received 8 grievance claims from neighboring residents, OPTC is cleared of 5 of the claims. The wrong doings were not committed by OPTC and the claims were revoked. One of the claims against noise was caused by powder from the exhaust gas next to the storage tank ladder. The Bureau of Environmental Protection determined that the noise level exceeded the night time maximum. Improvements have been made and the matter has been resolved. Another claim involves loud noises from the plant. The noise level is deemed to be within the regulatory maximum and a response had been provided to the person filing the claim. The remaining claim involves the road paving project. The claim was filed by a neighboring plant about carrying mud from the construction site into the plant. However, OPTC already applied for the construction permit Guanyin Industrial Park Service Center and installed guardrail. Upon receiving the grievance claim, OPTC sent representatives to communicate with the neighboring plant and help clean up the mud.</p>
 <p>Regulatory Compliance and Anti-Corruption</p>	<p><b>Corresponding Material Topics:</b> Implement sustainable development, Boost stakeholder dialogue, Refine operational performance and strategies, Perfect risk management, Govern with steady pace</p>	<p><b>Channel:</b>  E-mail for the Audit Committee: auditcommittee@fenc.com E-mail for the Audit Department: feaudit@fenc.com E-mail for Regulatory Compliance: legalcompliance@fenc.com</p>	<p><b>Procedure:</b> • Once the grievance claim is filed and determined to be factual, the individual against whom the grievance is filed shall immediately cease performing the questionable act and be held accountable based on regulatory provisions and company policies. • The acceptance, investigation and outcome of the grievance claim shall be filed and kept in written or electronic forms for 5 years. • Applicable units shall review the internal control mechanism and operational procedure concerning the incidents reported. Improvements shall be proposed and implemented to prevent future occurrence.</p> <p><b>2018 Outcome:</b> • No grievance claims concerning regulatory compliance and anti-corruption were filed in 2018.</p>
 <p>Labor and Human Rights</p>	<p><b>Corresponding Material Topics:</b> Boost stakeholder dialogue, Perfect risk management, Coordinate sustainable supply chain development, Reinforce environmental safety and health management, Construct happy workplace, Foster employee career planning</p>	<p><b>Channel:</b>  • Employee comment box • Designated e-mail (e.g. President's e-mail, departmental e-mail) • Confidential hotline • Employee representative meeting • Verbal complaint • Written complaint</p>	<p><b>Procedure:</b> • We conduct thorough investigation into every single grievance claim, which is also reported to the higher levels. The result of the investigation is provided to the individual filing the claim on a timely basis, and the entire record is properly filed and preserved.</p> <p><b>2018 Outcome:</b> • No grievance claims concerning labor or human rights were filed in 2018.</p>