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2 Enabling Unlimited Innovation

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Target Readers:

- ☐ Employee/Labor Union
- ☒ Direct Customer
- ☐ Government
- ☒ Business Partner (supplier/contractor)
- ☐ External Audit Agency
- ☒ Shareholder/Investor/Financial Institution
- ☒ Industry Association
- ☐ Local Resident and Organization



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2019 Highlights



Number of
Approved Patents

794

Green Product Revenue

NT\$ 34.75
billion

Growth in New
Product Revenue

67%

Sole winner

of adidas global performance awards worldwide



Global
Sustainability
People



North Asia
Sustainability



Winner of Coca-Cola
Greater China Suppliers
Sustainability
Award



Winner of
Coca-Cola Japan
Domestic Gold Supplier Award
Overseas Gold Supplier Award



Host of
Observation and Exchange Meeting
on Smart Manufacturing Implementation.

Creating best practices with interorganizational exchange,
shortening the learning curve and sparking creativity and ingenuity.

Establish
Innovation
Direct to Market



Winner of
Highest Honor at ISPO TEXTRENDS
ISPO Brandnew Winner



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Targets and Progress



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Material Topics



Instigate Production and Product Innovation

Significance and Purpose of Management for FENC

Innovation is the entrepreneur spirit that has been guiding FENC. With tremendous R&D momentum, we develop forward-looking products and transition into smart production and product services, making sustainability a reality through innovation, and generating green opportunities with circular economy.

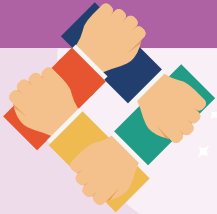
Management Approaches and Effectiveness Evaluation Mechanisms

- Establish R&D Center and continue to infuse resources into the research and development of innovative products and production.
- Generate business opportunities through differentiation, value-adding and advantage in green products.

Authority

- All Production Sites
- R&D Center

Build Customer Rapport



Significance and Purpose of Management for FENC

We establish committed dialogues with customers to help them achieve sustainability goals, and maintain rapport by providing diverse and innovative products with quality and the best after-sales service, building the reputation as a corporation that fosters both revenues sustainability.

Management Approaches and Effectiveness Evaluation Mechanisms

- Establish Regulations Governing Customer Relationship Management as the principle guiding customer relations.
- Conduct 2 company-wide Sales Meetings each month to stay current on market trends and review sales conditions.
- Managers of business units are to monitor interaction between sales and customers and conduct customer satisfaction surveys to maintain customer orders.

Authority

- Petrochemical Business
- Polyester Business
- Textile Business

Promote Product Marketing



Significance and Purpose of Management for FENC

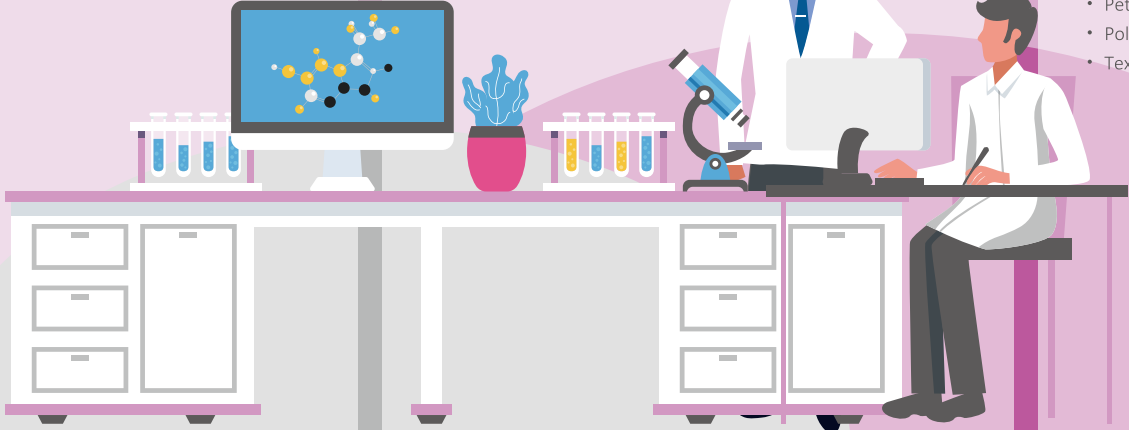
We appeal to customers with diverse marketing approaches by tracking customers' needs, meeting market demands for new products, strengthening sales abilities and polishing corporate and product image.

Management Approaches and Effectiveness Evaluation Mechanisms

- Actively participate in exhibitions, presenting the latest products and documenting performance such as the number of visitors and orders as well as business development to align sales directions.
- Obtain product certifications and ensure compliance with international standards.

Authority

- Petrochemical Business
- Polyester Business
- Textile Business



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2.1 Instigating Production and Product Innovation

2.1.1 Smart Manufacturing

Countries around the world have been aggressive in the development of smart manufacturing. FENC welcomes the trend by hosting lectures and training courses to help staff update themselves with the latest knowledge. We also developed industry-academia collaboration programs to nurture this innovative momentum in order for it to flourish in the industry. Years of development gave way to multiple smart manufacturing projects that have been implemented and started delivering results. In 2019, Polyester Business held the first annual Observation and Exchange Meeting on Smart Manufacturing Implementation. By learning from each other in such occasions, the learning curve is not so steep anymore. The event stimulated creativity and ingenuity, hence generating more success.

Introducing Smart Manufacturing

step 1

Acquiring knowledge

Growing through mutual learning

step 2

Industry-academia collaboration

Accelerating industry innovation

step 3

Project driven

Creating success stories

step 4

Presentation

Inspiring innovative thinking

On September 10th, 2019, FENC held Observation and Exchange Meeting on Smart Manufacturing Implementation. The event demonstrates the outcome of smart manufacturing implementation while awarding best practices to inspire staff for future innovations.

Smart Manufacturing Success Stories

8 DECENT WORK AND ECONOMIC GROWTH

9 INDUSTRY INNOVATION AND INFRASTRUCTURE

- Real-time Online Quality Forecast

The Company has established AI models for production quality forecast in PTA, polymer and filament units. Instead of the time-consuming approach used with conventional models, which involves sampling and analysis after the fact and tends to increase downgrade products, this model enables real-time modifications during the production process, which improves quality and consistency. (Please refer to Section 3.1.2 Raw Material Management)

- Active Energy Management System

The Company constructs an energy consumption model with AI and manages real-time consumption data through monitoring to evaluate whether the energy use is justified. (Please refer to Section 3.1.1 Energy Management for more information on the use of AI.)

- Identification of Safety Behavior Through Deep Learning

With the introduction of AI image recognition system, risky conducts can be identified in a timely manner, and the system issues warning to stop such conduct immediately to ensure staff safety.

- Instant AI Translator of Far Eastern Magazine

Far Eastern Group introduced the first issue of Far Eastern Magazine in 1990, covering corporate activities and development strategies. Throughout the years, the magazine has become a means of communication for the Far Eastern family. In order for our international staff to access the diverse and insightful contents in the magazine without any delay, the IT Department decided to develop translation software by incorporating AI technology. The AI translator addresses inadequacies found in typical translation software found on the current market. After experiencing the AI translator, our international colleagues found it very helpful.

- Building Dyeing and Finishing Plant 4.0

With the database from in-house ERP program and MES central control system, we have connected the brain with the central nervous system of this automatic production system, which can issue commands to all machineries to automatically complete weaving, dyeing, heat setting, packaging and warehousing. Through MES, the sensors transmit data regarding production parameters and consumption of water, power and steam to ERP for big data analysis. Working in conjunction with the PDCA cycle to improve management and VSM analysis, the system undergoes continuous optimization to improve delivery rate and color matching, while conserving energy and protecting the environment, hence building a top-rated dyeing and finishing plant.

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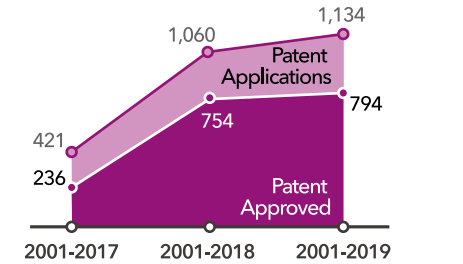
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2.1.2 Product Innovation

Performance in R&D and Innovation

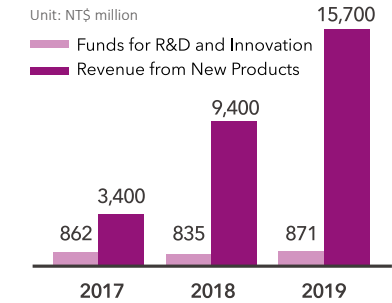


Note:

1. R&D Center was founded in 2001.

2. FENC acquired Sharon Center in the U.S. in 2018, and the transfer of patent ownership has been ongoing. Sharon Center received approval on 524 patents. As of the end of February 2020, ownership for 323 of them has been transferred.

Funds for R&D and Innovation and Revenue from New Products



Note: Revenue from new products are generated through the use of technology from the R&D Center or from technology transfer.

Revenue from Green Products



Major World Celliant Manufacturer

FENC is one of the only two Celliant manufacturers in the world. Celliant is a performance textile approved by the U.S. FDA for its ability to enhance strength, endurance, and stamina. It improves workout performance and helps users recover faster and sleep better. Sports brand Under Armour developed its UA RUSH series with Celliant.

First in the World to Introduce 3rd Generation Biomass High Tenacity Yarn

FENC stays ahead of its industry peers, becoming the first in the world to introduce 3rd generation Biomass High Tenacity Yarn (bHTY). The 2nd generation bHTY is the polymer of PTA and Bio MEG, which is distilled from fermented sugar cane instead of petroleum. The 3rd generation bHTY utilizes carbon capture technology, capturing exhaust from the steel refinery, which is then fermented into alcohol and chemically transformed into ethylene glycol. Such technology minimizes the consumption of edible plants while reducing carbon emissions, which is a significant contribution to circular economy and pollution reduction.



Video: 3rd Generation Biomass High Tenacity Yarn

Maker of the First Bio-PEF Soda and Beer Bottle in Asia

PEF (polyethylene furanoate) is a polymer of plant-derived 2,5-Furandicarboxylic Acid and MEG. PEF possesses traits that are similar to those of PET, and PEF has even higher gas barrier properties. It is regarded as a suitable material for soda and beer bottles, and one of the key biomass packaging materials internationally.

The European Union has approved the recycling of Bio-PEF with PET bottles when it's under 2%. Comparing to PET, the Bio-PEF production process consumes 65% less energy and emits 70% less CO₂, giving this emerging biomass material carbon reducing quality.

The R&D Center joined forces with R&D departments and production sites. In 2019, they successfully developed the first Bio-PEF soda and beer bottles in Asia with gas-barrier property. One of the major breakthroughs during the process is the effective use of FENC's existing PET production facility.

2.2 Building Customer Rapport

FENC supplies customers with the quality products it produces, and building strong customer relations is critical. FENC's conglomerate encompasses petrochemical, polyester and textile businesses, giving the Company competitive edge by providing one-stop shopping experience. We pinpoint market trends with precision and speed to determine product development strategies and share the information with global customers to create higher values.

In order to help sales departments better understand customers' perceptions regarding the products, and provide comprehensive analysis as references for future sales projects, FENC integrated all existing customer satisfaction surveys in 2020. The unified FENC Customer Satisfaction Survey for Production Businesses will be administered annually to strengthen customer relations.



FENC's Customer Relations



Green Initiatives


We are seeking a balanced approach in economic and environmental development with active participation in green initiatives. By engaging in conferences and forums, we communicate with our customers, building consensus in the development goals for the future. The following is a list of the green initiatives that the Company has taken part in:

- Taiwan Circular Economy 100, TCE100
- Packaging Recycling Organization Vietnam, PRO-Vietnam
- The National Association for PET Container Resources, NAPCOR
- The Association of Plastic Recyclers, APR
- Zero Discharge of Hazardous Chemicals, ZDHC
- Sustainable Apparel Coalition, SAC
- Textile Exchange, TE
- EU REACH

Compliance with Customer Requirements



We have signed agreements with brand customers, and abide by the ethical, safety and procurement rules set forth while aspiring for further self-improvement.

- We comply with ethics provisions from brand customers and pass SEDEX Members Ethical Trade Audits (SMETA).
- We follow brand customers' safety compliance standards.
- We obey non-conflict minerals policy.
- We manage green supply chain.



The Only Triple-crowned adidas Supplier in the World

adidas' suppliers are from all corners of the globe. During its annual global supplier meetings, the company recognizes suppliers with performance awards in 7 categories. In 2019, FENC received global performance awards in the Sustainability and People categories, as well as North Asia performance award in the People category, making FENC the only supplier in the world to be triple-crowned within a year.



People Award Sustainability Award

Martin Shankland, adidas board member, made a personal appearance to present the awards. Our partnership with adidas will continue to be deepened and optimized, which will foster mutual growth.



Sole Winner of Coca-Cola's Sustainability Award and Gold Supplier in 2019

FENC has a long-term partnership with Coca-Cola. As the environmental wave sweeps through the world, Coca-Cola vows to incorporate recyclable materials into beverage packaging, setting the goal of incorporating 50% reused materials in product packaging by 2030. Being the second largest rPET manufacturer in the world, we collaborate closely with Coca-Cola as its largest rPET supplier and trusted partner in quantity and quality. We have also been aggressive in expanding the production, hence winning Coca-Cola's praise and the Sustainability Award in the 2019 greater China supplier meeting. FENC is the only supplier to receive this recognition.



In addition, FENC and FIGP were presented overseas and domestic Gold Supplier Awards respectively for helping Coca-Cola Japan establish closed-loop circular business model. We will further expand our collaboration with Coca-Cola, and together, we will achieve environmental sustainability.

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The world is evolving at a record speed. In order to expand business territories, companies are in a race to innovate in order to appeal to the ultimate consumers. To identify the needs of our brand customers with precision, FENC established Innovation Direct to Market (IDM) in June, 2019.

The core values of IDM are Speed, Smart, Scale, Sustainability and Innovation. By integrating internal resources, IDM established 7 major technological platforms in mid- and downstream industries spanning from polyester to apparel, including polyester and PU polymerization; polyester and nylon polyblend; modification and synthesis for dyes; new processing technology for spun yarn; textile analysis and design; textile coating and laminating; design and synthesis of processing agent.

IDM provides services to 16 FENC plants in Taiwan, China, Vietnam and Japan. With 6 sets of testing facilities, IDM is ready for intensive meetings with any major brands at any time, providing advanced R&D on the latest products and accelerating commercialization. The goal is to be the customers' world-class partner ready with solutions.

Since its inception, IDM has been managing customer relations and satisfying customer needs with remarkable results. With over 30 collaborations with famous sports brands such as Nike and adidas, IDM has brought in over NT\$100 million in revenue. We will continue with the partnership, delivering products that conserve water; promote recycling and reuse; employ toxin-free solvents; lower post-production processing; incorporate environmental products such as biomass materials. We will be the pioneer in green textile technology.

2.3 Promoting Product Marketing

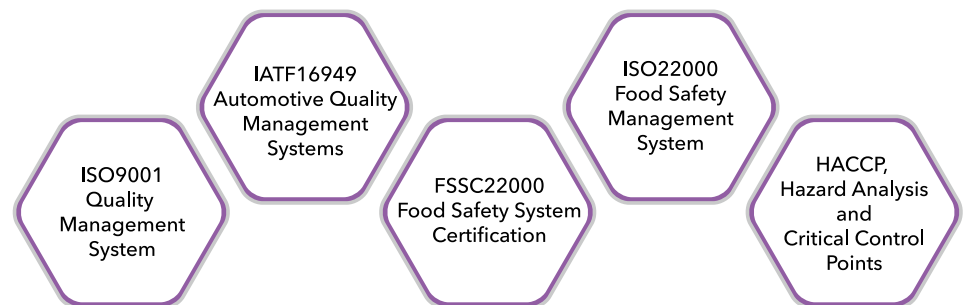
We sell products to direct customers. To boost sales, the Company takes advantage of conference and exhibition opportunities to promote our quality products, brand culture and corporate value. We also closely monitor the needs of existing and potential customers.

Green Product Certification

Multiple products from FENC have received high-standard green certification, giving customers confidence and making them more willingly purchase our products. Listed below are the green product certifications that the Company has received, and the certifications are renewed and updated regularly to ensure compliance.



Product Quality and Safety Certification



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One-stop Green Shopping with FENC at 2019 TITAS

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9 INDUSTRY INNOVATION
AND INFRASTRUCTURE

12 RESPONSIBLE
CONSUMPTION
AND PRODUCTION

17 PARTNERSHIPS
FOR THE GOALS

The 2019 Taipei Innovative Textile Application Show (TITAS) was held from October 7th to 9th in Nangang Exhibition Center. A total of 350 international textile businesses gathered here to showcase their innovation. As the leader in the textile industry, FENC has presented its production mapping at the entry of the exhibition booth to illustrate the Company's vertical integration and global deployment, highlighting the unrivaled one-stop shopping model that integrates up-, mid- and downstream production. The booth also features products from various business units. FENC attracted 344 participants to its booth during the show.



To give visitors' a comprehensive view of FENC's industry deployment, the exhibition booth features 5 zones – For People; For Home; For Packaging; For Industries; For Automobile. These applications are presented to highlight the significance of textile technology in our daily lives. It is also a display of the hard work from all business units.

FENC has been developing green solutions for years. Be it recycling technology or development of biomass materials, the Company has delivered impressive results. "Environmental protection" has been internalized as the corporate DNA. As customers grow more environmentally conscious, the concept is now the bestselling point for FENC. Aside from impressive product quality, FENC also leads the world in product solutions. The Company has the second largest rPET production capacity with production sites and business partners across the world. In the future, FENC will continue to increase its brand value, protecting the earth and environment by creating win-win for customers and consumers in the new century!



FENC at TITAS



Award Winning at ISPO Munich

FENC has a long established presence in international sporting goods market, including annual participation in ISPO Munich, the largest trade fair for sports business in the world. ISPO Munich was founded in 1970 with top companies in the industry attending the event. ISPO Munich 2019 was held from February 3rd to 6th with over 2,900 vendors and over 80,000 participants in attendance, with 343 of them visited FENC's booth this year.



Each year at ISPO TEXTRENDS, innovative products from around the world are rated by a professional jury. ISPO TEXTRENDS is a highly influential indicator of developing trends in the sporting goods industry. In 2019, FENC won the highest honor, ISPO Brandnew Winner, for one of its products. Two of FENC's products were placed among TOP 10, and 4 among Selection.

The title of 2019 ISPO Brandnew Winner went to the innovative proposal, diPulse®. This proposal helps athletes increase training intensity while monitoring biometric signs to provide coaching tips on poses and body movements, which prevent fatigue and sports injuries. The information is synchronized to the cloud platform through an app to help trainees effectively achieve training goals.

By promoting company products at international trade shows, FENC can reach out to customers directly and establish its brand image internationally.