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Target Readers:

Employee / Labor Union

Business Partner (Supplier / Contractor)

Direct Customer

Shareholder / Investor / Financial Institution



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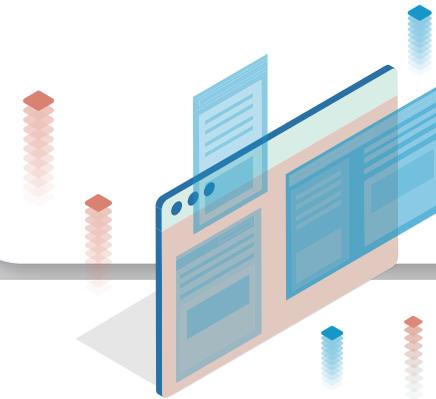
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**56** years on TWSE  
**Uninterrupted Profiting and Dividend Sharing Streak**



**Top 5% Corporate Governance Evaluation**

Among TWSE/TPEX Listed Companies



Supporting eNotice Service From TDCC

With **E-Voting & E-Meeting Option for Shareholders**

Conducting

**Board Performance Evaluation**

Through External Agencies

Incorporating  
**Taiwan Intellectual Property Management System**  
With  
**Level A Certification**



Integrated Application of  
**Customer Profit Contribution System**

**Zero Default in 2023**

With AI Risk Control



Stabilizing Long-term Funding

Through

**Flexible Financial Operation**

**Strengthening Domain Security and Resilience**

Through Information Security Training

Accumulating

**↑20 Sustainable Financial Products**

Raising **↑NT\$600 billion**

# Target and Progress

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#### Industry Leading Status

2030 Target

Maintaining industry leading status with key products



2025 Target

Maintaining industry leading status with key products



2024 Target

Maintaining industry leading status with key products



2023 Target

Maintaining industry leading status with key products

2023 Progress

Maintaining industry leading status with key products.

Action Plan

- Expand production capacity and diverse production base.
- Research and develop innovative products.
- Elevate employee competency.



#### Corporate Governance Evaluation

Top 5%



Top 5%



Top 5%



Top 5%

Completed

Top 5%

- Learn from the results of Corporate Governance Evaluation and best practices around the world.
- Make continuous improvements based on corporate conditions.



#### Risk Management System

Conducting at least **3** risk control projects yearly to ensure sound growth and enhance corporate value



Conducting at least **3** risk control projects yearly to ensure sound growth and enhance corporate value



Conducting at least **3** risk control projects yearly to ensure sound growth and enhance corporate value



Conducting at least **3** risk control projects yearly to ensure sound growth and enhance corporate value

Completed

- External agencies were commissioned to conduct board performance evaluation.
- The risk ranking project was completed.
- The digital risk management platform was established.

- Expand the scope of risk control systems.
- Optimize risk control systems with dynamic adjustments.
- Establish risk control platforms.
- Take stock of major risks regularly with tracking and improvement.
- Report risk control progress to the Board.



#### Management of Information Security

Zero occurrences of major information security incidents that impact operations



Zero occurrences of major information security incidents that impact operations



A minimum of **3** social engineering drills and **3** training sessions annually to enhance overall security awareness



A minimum of **3** social engineering drills and **3** training sessions annually to enhance overall security awareness

Completed

In 2023, **3** social engineering drills and **17** training courses were conducted with **480** participants in attendance, enhancing overall security awareness.

- Update the email templates for phishing drills annually and develop the platform for AI social engineering drills in house.
- Conduct regular information security training using the most up-to-date training materials.



#### Exemplary Sustainable Corporation

Implementing **3** annual sustainable projects, Taking part in **3** annual sustainable conferences or awards



Implementing **3** annual sustainable projects, Taking part in **3** annual sustainable conferences or awards



Implementing **3** annual sustainable projects, Taking part in **3** annual sustainable conferences or awards



Implementing **3** annual sustainable projects, Taking part in **3** annual sustainable conferences or awards

Completed

For details on implementation, please refer to the 2023 Sustainability Report.

- Continue stakeholder dialogue, engagement and feedback.
- Engage heavily in sustainability campaigns and stay on top of current trends.
- Strive for domestic and international sustainability awards.
- Improve international ESG ratings.



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## Operational Performance and Strategies



### Significance and Purpose of Management for FENC

Aiming for sustainability, FENC takes steady strides toward refining industry strategies. We maintain our industry leading status, spearhead industry growth and promote economic development.

### Management Approaches and Effectiveness Evaluation Mechanisms

- Continue to expand production capacity and establish a diverse production base and products.
- Regularly conduct management review meetings, track business performance, and require improvements from applicable units.
- Conduct quarterly Board Meetings to ensure continuation and adequacy of strategic directions.

### Authority

- Presidents of Corporate Management
- Presidents of Petrochemical Business
- Presidents of Polyester Business
- Presidents of Textile Business

## Corporate Governance



### Significance and Purpose of Management for FENC

With integrity as the highest guiding principle, FENC constructs a sound framework to balance corporate governance and stakeholders' interests and protect stakeholders' rights by strengthening corporate performance and management.

### Management Approaches and Effectiveness Evaluation Mechanisms

- Designate corporate governance staff and Corporate Governance Task Force to implement tasks targeting business integrity, regulatory compliance, rules of procedures, and public information.
- Establish rules and regulations governing Board Meetings and conduct annual self-evaluations.
- Incorporate external Corporate Governance Evaluation and internal control system to evaluate the effectiveness of operational procedures.

### Authority

- Corporate Governance Officer
- Corporate Governance Task Force

## Risk Management



### Significance and Purpose of Management for FENC

Identify risks factors posing major impact to corporate activities, establish assessment approach or improvement measures to reduce operational risks and to avoid financial loss or damage to reputation.

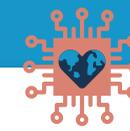
### Management Approaches and Effectiveness Evaluation Mechanisms

- Establish Risk Management Policies.
- Establish a risk control system to make dynamic adjustments and optimization and ensure system effectiveness.
- Implement staff training to increase risk awareness.
- Conduct monthly Risk Management Meetings to monitor risk indicators and regulatory compliance.
- Regularly conduct plant risk ranking projects to reduce operational risks.
- Conduct multiple monthly meetings to ensure management of and focus on risk issues from the highest governing entity.

### Authority

- Corporate Management
- FENC sites

## Digital Resilience



### Significance and Purpose of Management for FENC

In response to the growing cyber security threats around the globe, FENC established the Information Security Management System (ISMS) to achieve the information security objectives and minimize impacts brought by information security incidents.

### Management Approaches and Effectiveness Evaluation Mechanisms

- Establish information security policies.
- Provide comprehensive management and guidelines regarding the organization, staff, physical security, technology and compliance.
- Conduct training to heighten information security awareness among staff.
- Track information security indicators and supplier compliance with information security clauses.
- Report to the Board on a regular basis to ensure supervision and management of all risk issues by the highest governing entity.

### Authority

- Information Security Department
- FENC sites

## Corporate Sustainability



### Significance and Purpose of Management for FENC

In the spirit of sustainable development, FENC creates diverse values for stakeholders and aspires to set the paradigm of the sustainable corporation through non-stop refinement in the perpetual pursuit of perfection.

### Management Approaches and Effectiveness Evaluation Mechanisms

- Establish the Sustainability Committee at the Board level and hold a minimum of one annual committee meeting. Meeting resolutions are presented to the Board by the convenor of the Sustainability Committee.
- Establish the Sustainability Policy and FENC Sustainability Strategic Blueprint to implement various sustainable projects and report to the Board.
- Take part in domestic and international sustainability evaluation, forums and conferences, interact with stakeholders, and review and modify directions for corporate sustainability.

### Authority

- Sustainability Implementation Committee

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## 1.1 Refining Operational Performance and Strategies

Sincerity, diligence, thrift, prudence and innovation are the founding principles of FENC. Initially established as a textile company, FENC has integrated vertically to encompass the entire spectrum of the textile industry, which streamlines the process from manufacturing to sales. FENC also spans horizontally into land development and reinvestment through diversified management strategies and highly efficient asset mobilization. FENC has been listed on the Taiwan Stock Exchange since 1967 and maintaining a 55-year streak of delivering profits and stock dividends. With sound governance, the Company continues to pursue sustainability and long-term performance, creating diverse values for stakeholders and building a best practice for environmental, social and corporate governance. FENC will keep delivering exceptional results in environmental protection, social inclusion and corporate governance.

Plant 1 of OPTC was reclassified as an investment property in 2023, and production at FEIS-Petrochemical Business was halted temporarily. The purpose is to avoid business risks caused by destructive competition while optimizing performance and management.

[FENC's Organization Chart](#)

### 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.

### Core Value

誠

#### Sincerity

Customers, the general public, and colleagues must all be treated with sincerity; cooperation and teamwork must be based on mutual trust.

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#### Thrift

The Far Eastern Group's firmly held goal is to constantly create new value for customers and shareholders. The Group's highest ideal is to make every enterprise under its flag a leading company in its industry.

勤

#### Diligence

Everyone must always work diligently to renew themselves and the company. With diligence we may make up for our inadequacies and overcome hardships.

慎

#### Prudence

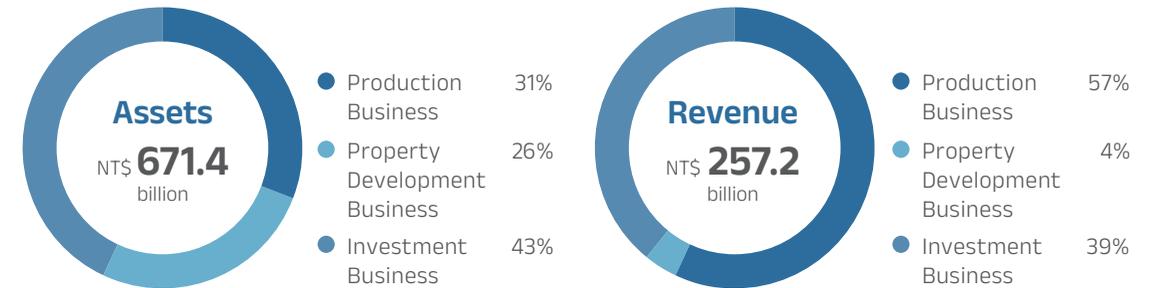
Always make a careful assessment before undertaking any task; those who plan ahead are those who will succeed.

創新

#### Innovation

The Far Eastern Group's firmly held goal is to constantly create new value for customers and shareholders. The Group's highest ideal is to make every enterprise under its flag a leading company in its industry.

## Assets and Revenue in 2023



## 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 presidents of each business reports on the state of operation at the Board meetings and the monthly operation review meetings, which enables the highest governing entity to monitor budget status. FENC chooses professional, accountable and independent certified accountants to audit the Company's finance and internal control. The accountants' independence and qualification are evaluated and reported to the Board annually based on The Norm of Professional Ethics for Certified Public Accountant of the Republic of China issued by CPA Association R.O.C. (Taiwan) and FENC's Corporate Governance Principle. The certified public accountants selected for 2023 were evaluated and approved by the Board on March 5, 2024.



## Financial Performance

Unit: NT\$ Million

	2020	2021	2022	2023
Total Assets	616,955	635,324	657,957	671,417
Total Liabilities	347,531	365,913	386,265	361,775
Shareholders' Equity	269,425	269,415	271,692	309,642
Operating Revenues	206,769	238,806	263,945	257,204
Net Income (Attributable to Parent Company)	8,063	9,685	8,166	8,229

Note: FENC consolidated financial statement

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## Economic Values Distributed to Stakeholders

Unit: NT\$ Million

	2020	2021	2022	2023
Operating Cost	166,374	192,321	213,924	210,143
Employee Wages and Benefits	19,790	23,318	24,745	24,566
Payments to Investors (Interest Expense and Dividends)	17,700	16,665	18,124	18,705
Payments to Government (Income Tax)	3,143	2,983	3,803	3,439
Investments in Community	238	108	106	76

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

## Accrued Income Tax Expense

Unit: NT\$ Million

	2020	2021	2022	2023
Taiwan	2,241	2,338	2,932	2,765
Mainland China	859	389	405	342
Malaysia	15	4	10	7
Hong Kong	11	50	18	53
U.S.	6	6	201	115
Bermuda	6	7	(5)	(1)
Vietnam	5	(7)	53	96
Singapore	5	4	6	9
Netherlands	-	-	-	-
Japan	(6)	193	184	46
Tailand	-	-	-	8
<b>Income Tax</b>	<b>3,143</b>	<b>2,983</b>	<b>3,803</b>	<b>3,439</b>
<b>Ratio of Income Tax to Revenue</b>	<b>1.5%</b>	<b>1.3%</b>	<b>1.4%</b>	<b>1.3%</b>

## Tax Governance

To align with international trends on tax governance, comply with tax laws and fulfill corporate sustainability, FENC established Tax Governance Policy in 2020 to govern tax affairs at FENC as well as all subsidiaries. The policy encompasses regulatory compliance, transparency, risk control, integrity-based communication and professional training.

Policies on tax governance are fully implemented at FENC. All FENC sites must comply with local tax laws and transactions among the affiliates must be conducted under the arm's length principle. The Company does not engage in colorable transactions or transactions without economic substance, nor does it evade taxes by reporting profits at a low-tax-rate country or tax haven. All tax matters are disclosed to stakeholders as open information through means such as financial reports and information regarding corporate sustainability to increase transparency.

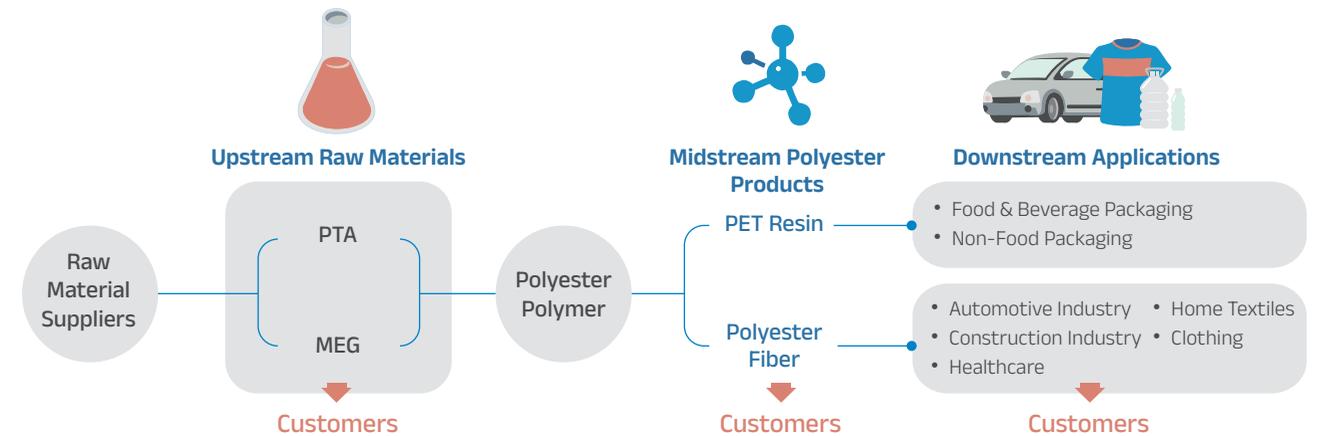
To avoid risks associated with regulatory changes, the Company established tax risk identification mechanism. When tax laws are amended, the mechanism facilitates assessment, prepares necessary response and considers gaps in tax obligations in a timely fashion. FENC also designated a tax affairs team to help all subsidiaries to communicate tax related matters with local tax authority in each country.

The Board of Directors serves as the highest decision-making and supervisory entity for tax governance at FENC. All major transactions and policy decisions are preceded by tax risk assessments. Compliance is ensured through internal audits in accordance with the tax law. Prior to the end of a calendar year, the Company files country-by-country reports and transfer pricing reports for the previous year per regulatory requirements.

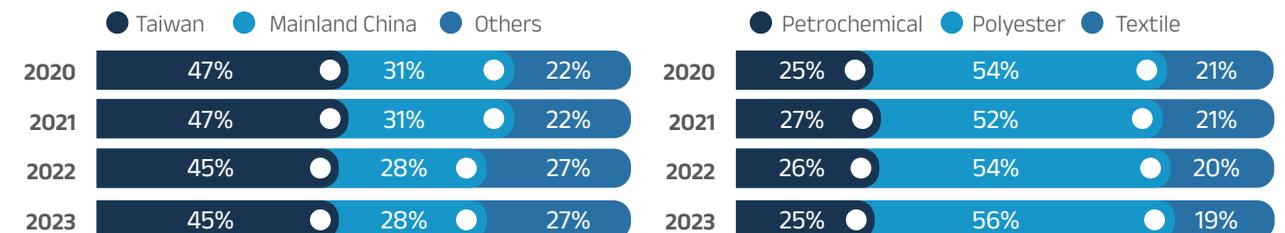
## 1.1.2 Production Business

[FENC Annual Report](#) [Financial Report](#) [Tax Governance Policy](#)

### Main Products and Value Chain



### Sales Ratio



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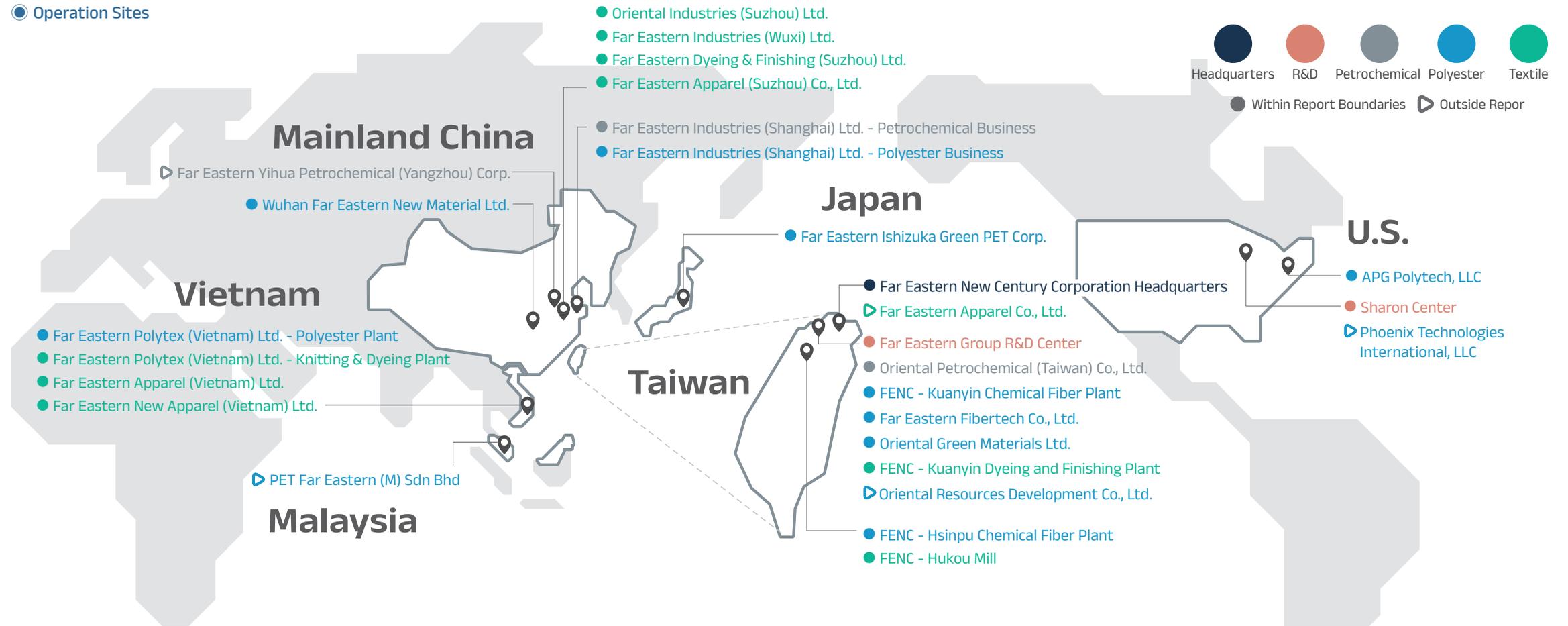
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### Operation Sites



### Overview of Market Environment and Industry Summary in Production Business

Marked by unpredictability and instability, the geopolitical and economic climate in 2023 had turned out to be precarious. With no end in sight for the war between Russia and Ukraine, the Israel-Hamas war erupted, triggering the Red Sea crisis. Meanwhile, international trade continued to shrink in a world pounded by rising inflation and interest rate hikes, slowing the global GDP growth to 3.1%. (Source: International Monetary Fund) The 2024 outlook remains uncertain amid a sluggish global recovery. In the U.S., the federal deficit continues to climb, high interest rates are weighing borrowers down, and the risk of non-performing loans is looming over the financial industry. In mainland China, a real estate crisis is brewing as the momentum that fuels economic growth wanes. Politically, the election year could lead to shifting power structures in many regimes and a reshuffling of the world order, pivoting economic policies and global cooperation. The path to economic recovery remains challenging.

FENC is ready to embrace these challenges with unmatched competitive advantages. The Company has established a vertically integrated production and sales network that spans worldwide as well as partnership diversity and reliability with a host of international brands. While reducing operational risks, these strengths are marks of FENC's organizational resilience, which is unrivaled by its industry peers. Having spent decades developing the circular economy, FENC has risen as the leader in the global green supply chain. While marching with the global community towards net zero by 2050, FENC is expanding the breadth and depth of green manufacturing by leveraging these key advantages, aiming to become the benchmark of sustainability at a global scale.

The business environment is greeted by uncertainties in 2024, and only the fittest will survive the coming wave of mergers and acquisitions. With its roots firmly anchored and nourished for over seven decades, its vision and foresights bolstered by the core strengths and strategic deployment, FENC is generating the next surge of growth momentum, paving the way for sustainable development.

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## 1.2 Governing With Steady Pace

To ensure accountability, balance the legal rights of shareholders and protect the interests of stakeholders, FENC regards "integrity" as the highest guiding principle for sound corporate governance, and to support corporate management and operation to maximize shareholder benefits.



FENC referenced Corporate Governance Evaluation to finetune the management system for the year 2023. Key projects are as follows:

1. FENC issued the electronic notification of dividend distribution through the Taiwan Depository and Clearing Corporation (TDCC) eNotice Platform.
2. Intellectual property management was reinforced by introducing the Taiwan Intellectual Property Management System (TIPS). FENC's TIPS, which optimized the attainment, protection, maintenance and utilization of intellectual property, received the level A certification.
3. External agencies were commissioned to conduct the Board performance evaluation.
4. Operational standards related to the financial operation with related parties were established.
5. Key questions and replies between shareholders and FENC were added to the minutes of shareholder meetings.
6. FENC filed the changes in insider shareholding on the Market Observation Post System before the 10th of each month.
7. The Board evaluated the independence and competency of certified public accountants with the Audit Quality Indicators as references.
8. FENC provided resources for the cultural development in Taiwan with active engagement in arts and cultural programs.

### Supporting TDCC eNotice of Dividend Distribution and Adopting E-Voting and E-Meeting Options for Shareholders

FENC adopted the eNotice Platform developed by TDCC in 2023 for sending electronic notifications of dividend distribution to shareholders. The electronic operation significantly reduced carbon emissions and shipping costs derived from the paper options. During the reporting year, the dividend distribution notifications from the eNotice Platform were accessed 2,324 times.

FENC will continue to expand digital shareholder services, including e-voting, e-meeting options and e-notices for dividend distribution, building a comprehensive range of digital services for its shareholders.

強化企業智慧財產經營管理計畫

## 113年度 TIPS 頒證暨智財管理 結合永續經營專題講座

主辦 經濟部產業發展署 執行 財團法人資訊工業策進會  
協辦 財團法人資訊工業策進會 stli 財團法人資訊工業策進會



### Incorporating TIPS with Level A Certification

To reinforce intellectual property management and improve the performance in corporate governance evaluation, FENC introduced the Taiwan Intellectual Property Management System (TIPS) in 2023 and obtained the level A certification.

FENC has a reserve of abundant R&D resources. Far Eastern Group R&D Center, a designated research and development institute, forms internal and external partnerships that generate innovative momentum. Internally, Far Eastern Group R&D Center provides business units with assistance that aligns with corporate plans for market expansion. Externally, the center establishes strategic alliances with major international brands to develop products and technologies and facilitate technological transfer. Additionally, FENC has devoted long-standing efforts to developing the circular economy and the Company excels in pioneering recycling and remanufacturing technologies. Among them is the famed TOPGREEN® product series. To meet the goals of developing, deploying and protecting its intellectual property, including patents and trademarks, FENC implemented the Taiwan Intellectual Property Management System (TIPS) and established the management system based on the Plan-Do-Check-Act (PDCA) cycle. FENC reached level A on its first application for the TIPS certification and obtained the qualification for the next tier, level AA, boosting its competitiveness in the management of intellectual property.

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## 1.2.1 Integrity and Anti-corruption

Corruption and unethical conducts are detrimental to corporate reputation and stakeholder rights. To minimize the risk of corrupt conducts, FENC established an integrity and anti-corruption system with annual implementation of special projects.

### Integrity and Anti-corruption System

<b>Highest Guiding Principle</b>	Integrity
<b>Code of Conduct</b>	Best Practice Principles of Ethical Corporation Management and Code of Ethics approved by the Board
<b>System</b>	<ol style="list-style-type: none"> <li>Conflict of interest stipulated in the Rules of Procedure for Board of Directors – Donations from stakeholders or major donations to non-stakeholders: Rules of Procedure for Board of Directors stipulates that such conduct shall be reported to the Board;</li> <li>The whistle-blowing and disciplinary method of violating ethical conduct and ethical management;</li> <li>Provisions of anti-money laundering measures under Control System on Preventing Economic Sanction from Financing of Terrorism;</li> <li>Remuneration system;</li> <li>Internal control system and provisions governing its implementation, including management policy, authorization system and segregation of duties;</li> <li>Anti-bribery clauses included in procurement contracts to strictly forbid the acceptance of kickbacks, handling charges or financial gains in any form.</li> </ol>
<b>Scope</b>	Corrupt conducts subject to FENC anti-corruption policy include unlawful conducts that cause embezzlement of corporate assets or infringement of shareholder rights, such as corruption, money laundering, bribery, kickback, commission, facilitating payment, illegal political donation, inappropriate charitable donation, unreasonable presents, improper conduct and unfair trade.
<b>Audit System</b>	<ol style="list-style-type: none"> <li>Integrity and anti-corruption practice are listed under mandatory audit in the internal audit system.</li> <li>Self Evaluation on Corporate Corruption is conducted quarterly based on the scope of anti-corruption policy. The result is presented to the Board for review to ensure the implementation of the anti-corruption policy.</li> <li>FENC shall conduct investigation in the presence of the likelihood that suppliers and subcontractors, including agents and trade companies, violate integrity practice. Once verified, said company will be removed from FENC's list of eligible suppliers.</li> </ol>
<b>Training and Promotion</b>	<ol style="list-style-type: none"> <li>A minimum of one anti-corruption training for Board members and all employees to promote the scope of FENC anti-corruption policy and possible effects at the individual and corporate levels.</li> <li>Prior to being included in FENC's list of eligible suppliers or engaging in business transaction with FENC, suppliers and subcontractors, including agents and trade companies, must undergo anti-corruption training or education.</li> <li>Internal publication, meetings, signage at the plants.</li> </ol>

### 2023 Implementation

- FENC revised the Whistle-blowing and Disciplinary Method of Violating Ethical Conduct and Ethical Management, adding provisions on submitting investigation reports based on the position of the reported individual and protection measures for whistleblowers to strengthen ethical management and protection.
- Quarterly compliance audits were conducted at all FENC sites, including the completion of self-assessment forms and on-site audits, to ensure a full understanding of FENC's ethical corporate management and anti-corruption policies across all production and operation sites.

## 2023 Results

- The implementation of ethical management was presented to the Board, including online self-evaluation on regulatory compliance and training outcomes to fulfill the Company's belief in corporate integrity.
- The anti-corruption training was conducted for FENC employees with 100% coverage.
- Among the new employee hires, 100% have signed the declaration pledging to abide by the FENC Best Practice Principles of Ethical Corporate Management and Code of Ethics.
- FENC promotes anti-corruption among suppliers and contractors through the Supplier Code of Conduct and Corporate Social Responsibility Commitment Statement. A total of 6,569 suppliers, which account for 94%, have signed the statement.

Articles of Incorporation Corporate Governance Principles

Best Practice Principles of Ethical Corporation Management Implementation of Ethical Management

Whistle-blowing and Disciplinary Method of Violating Ethical Conduct and Ethical Management Code of Ethics

## 1.2.2 Board Structure and Remuneration

The Board of Directors serves as the highest governing entity at FENC. As the 24th Board election concluded in 2021, FENC welcomed a new generation of Board members that would enrich corporate diversity. All Board members bring a wealth of knowledge and experience to FENC. Equipped with backgrounds in law, finance, economy and sales as well as management expertise, decision-making skills and industry insights, the Board is able to lead the Company to navigate through and respond to various impacts.

Four Board meetings were held during the reporting year with a total of 76 resolutions discussed regarding management strategies, risk control, product innovation, carbon reduction, talent incubation and sustainable development. The Board continues to thrive under a robust system.

Profile of Board Direct Board Regulations

The diversity policy and implementation of the Board of Directors' composition

### Functional Committees

<b>Remuneration Committee Established in 2011</b>	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 governing Board members and managers. The Committee is also responsible for establishing 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 forms of compensation. The Committee conducts industry payroll survey and provides recommendation to the Board for discussion. In 2022, the Remuneration Committee convened 2 times.  Remuneration Committee
<b>Audit Committee Established in 2015</b>	Audit Committee 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 2022.  Audit Committee
<b>Sustainability Committee Established in 2020</b>	Independent Board members serve as the convening body of the Sustainability Committee, which actively fulfill the following responsibilities granted by the board of directors, including "Promote and strengthen the corporate governance and integrity", "Implement and develop matters related to corporate sustainability" and "Supervise other matters related to corporate sustainability approved by the Board". In 2022, the Sustainability Committee convened 2 times.  Sustainability Committee



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## Board Management and Performance Review



### 1 Nomination

Board nominations are made in accordance with Election Procedures of Director and Corporate Governance Principles, while comments from the independent Board members as well as the candidates' experience and education are also taken into account. Other considerations include diversity, independence, ability to respond to corporate impacts and stakeholder feedbacks. Board member elections are held during the shareholder meetings after Board review. In accordance with Company Law, shareholders with over 1% of the issued shares of FENC may nominate candidates for the Board in writing.



### 2 Independent Supervision

The Board exercises its power and fulfills its duties in accordance with the Articles of Incorporations, Rules of Procedures for Board of Directors and all applicable regulations. Based on the provisions regarding conflicts of interest in Meeting Rules of Board of Directors, Board members or the juristic persons they represent with conflicts of interest regarding agenda items shall explain to the Board the essential contents of such interest. In the presence of potential damages to the Company's interest, said Board members shall recuse themselves from discussing or voting on the agenda item in question, and from voting on behalf of another Board member. There were no incidences of conflicts of interest among the Board members in 2023.



### 3 Training

Each year, FENC invites external experts to hold two training sessions for the Board members. The 2023 courses include "The Present and Future of Industry 'AI-Fication': Impacts From ChatGPT and Corporate Response" and "Challenges and Opportunities Amid the Global Net-Zero Transition." The attendance count among Board members reached 17, and all members completed a minimum of six training hours in the reporting year.



### 4 Remuneration and Evaluation

Annual self-evaluations on the performance of the Board, Board members and functional committees are conducted in accordance with FENC Board Performance Evaluation Rule. In 2023, the results of all self-evaluations are "exceptional," which is the highest level. A Board performance evaluation is conducted at least once every three years by an independent external agency or a team of experts and scholars. In 2023, FENC commissioned EY Transaction Advisory Services Inc. to conduct the review, evaluating the Board performance in "structure," "people" and "process and information." The ratings the Board received are "advanced," "advanced" and "benchmark," respectively. According to the provisions of the Articles of Incorporation, the Remuneration Committee makes recommendations to the Board regarding the actual ratio and amount of profit distribution for Board members and a report of such distribution shall be presented at the shareholder meeting. The 2023 profit distribution for the Board remuneration accounts for 1.87% of the net profit after tax.

## Performance Evaluation of Board Directors

### Core Competency

Properly exercise its rights and full obligations, including comprehension of corporate objectives and missions; understanding of Board duties; degree of participation in corporate operation; communication and management of internal relations; professional capability and training for Board members.

### Environment

Establish and provide supervision on environmental goals, including energy and resource management; report on GHG emissions; pollution prevention and control; creating sustainable production process.

### Society

Establish and provide supervision on social goals, including disaster relief for communities; non-profit and charitable programs; management of supply chain; occupational safety and health; human resources; employee competitiveness and welfare.

### Governance

Establish and provides supervision on governance goals, including examination of operational budget and planning; review of systems and reports on accounting, finance, R&D, production and sales, integrity practice, risk control and internal audit.

## Board Performance Evaluation by External Agency



In 2018, FENC amended the FENC Board Performance Evaluation Rules, mandating the Board performance evaluation to be performed once every three years at a minimum by an independent external agency or a team of experts and scholars. In 2023, FENC chose EY Transaction Advisory Services Inc. for the task, relying on its independent, professional and seasoned qualities, which matched FENC's selection criteria for external agencies to carry out the performance evaluation.

The Board performance is divided into three levels: "benchmark," "advanced" and "basic." The Board received the rating of "advanced," "advanced" and "benchmark" for its performance in "structure," "people" and "process and information," respectively. The report, completed in January 2024, was presented to the Remuneration Committee on February 26 and the Board on March 5, 2024. The results also serve reference purposes in terms of the remuneration for as well as the nomination and renewal of the Board members. The recommendations from and responses to the evaluation are listed below:

	Recommendation	Response
Board members	At least one-third of the Board should be constituted by independent Board members, and the diversity of the Board and independent Board members should be considered.	After the 2024 Board election, one-third of the seats on the Board will be held by independent Board members, and the diversity of the Board will be enhanced.
Board motions	The material issues concerned by external stakeholders should be reported in higher frequency.	The Board will continue to focus on issues of concern for stakeholders and report such issues more frequently.

## 1.2.3 Shareholder Benefits

FENC values the rights of each 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. In addition, accumulative voting system, which is advantageous for minority shareholders, is adopted for Board election in accordance with Company Law.

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.

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## 1.3 Perfecting Risk Management

Risks and opportunities are two sides of the same coin. Where one goes, the other follows. As the war between Ukraine and Russia raged on throughout 2023, another geopolitical crisis broke out at the Red Sea while the global inflation persisted. At a time like this, the presence of a robust risk management mechanism is of vital importance, and only through which can operational risks be minimized and growth opportunities be fostered to fulfill corporate sustainability.

### 1.3.1 Risk Control Policy

To reinforce corporate governance and establish sound risk control to reach corporate targets, the Board approved Risk Control Policy on November 12, 2021. The objective is to ensure sustainable management, reduce damages and enhance corporate profit. Risks and opportunities should be evaluated accordingly for all business conducts to identify, evaluate, monitor and control risks, keeping risks within manageable range to rationalize risks and benefits.

[Risk Management Policies](#)

Risk control at FENC is governed by a 3-tiered framework that spans throughout the Board, the administrative department as well as the business departments and units. The obligations of each applicable entity are outlined within the Risk Control Policies. In the event of unanticipated major risks, an emergency response team shall be established to formulate immediate responses and handle the risk conditions to ensure regulatory compliance while minimizing potential damages and impacts. Monthly risk control briefings are presented to the Board members and senior management. Risk issues discussed include management, sales, industry operation as well as energy and carbon reduction to keep the Board members and senior management informed while making policy decisions.

### Structure of Risk Control Organization

<b>Board of Directors</b>	The Board of Director serves as the highest decision-making entity regarding risk control. The Audit Committee and Sustainability Committee oversee the control management of business risks as well as sustainability risks, respectively, to ensure the effectiveness of the risk control process and outcome.
<b>Administrative Department</b>	Administrative Department is responsible for the overall risk control and establishment of management standards. Monthly task: The units conduct regular meetings to review and examine the risk control status, monitor risk control implementation and coordination on the overall operation. Yearly task: The units shall present the risk control report to the Board at least once a year. The 2023 report was represented to the Audit Committee on November 7, 2023 and to the Board on November 10, 2023.
<b>All Businesses and Applicable Units</b>	All units shall identify major risks and conduct risk planning, implement essential risk assessment and control, and report the status of risk control to the Administrative Department on a regular basis.

## 1.3.2 Identification and Management of Major Risks

### Major Risks

FENC identifies potential risks and their sources for all departments. For more details on measures established, please refer to the corresponding chapters in FENC Sustainability Report or FENC Annual Report.

#### Major Risk and Response

Risk Type	Detail	Potential Impact If Unaddressed	Strategy
<b>Financial Risk</b>	Risks affecting financial targets caused by fluctuations in domestic and foreign interest rates, exchange rates and customer credit	<ul style="list-style-type: none"> <li>Liquidity issues caused by insufficient cash positions</li> <li>Profit decline caused by exchange losses</li> <li>Increase in capital costs due to high borrowing rates</li> </ul>	<ul style="list-style-type: none"> <li>Maintain a sound financial structure through flexible fund allocation.</li> <li>Track daily changes in exchange rates and adjust foreign exchange positions accordingly.</li> <li>Maintain a good credit rating and strive for preferential borrowing rates.</li> </ul>
<b>Strategic and Operational Risk</b>	Risks caused by business strategies, domestic and international market competition, industry cooperation and changes in policies and regulations	<ul style="list-style-type: none"> <li>Misplaced resources and decline in competitiveness caused by wrongful investment decisions</li> <li>Interrupted production and delivery as well as uncollectable accounts due to possible supply chain disruption caused by geopolitical conflicts</li> <li>Increase in operational costs resulting from regulatory changes, such as the Carbon Border Adjustment Mechanism (CBAM) in the EU and rising minimum wages</li> </ul>	<ul style="list-style-type: none"> <li>Conduct regular business review meetings and discussions on industry strategies to address changes in the external environment by adjusting operational strategies.</li> <li>Closely monitor international political and economic development and evaluate the need to suspend or discontinue direct credit transactions or trade in high-risk countries.</li> <li>Stay updated on and prepared for regulatory changes applicable to the markets and production sites.</li> </ul>
<b>Information Security Risk</b>	Risks that threaten the confidentiality, integrity or availability of FENC's information assets due to natural, man-made, or technological factors	Financial losses, confidential information leaks and impacts on the corporate image caused by data breaches and hacks	Strengthen the awareness of information security and precautions among employees and incorporate reward and penalty systems in the daily operation.
<b>Environmental, Carbon Reduction and Energy Risk</b>	Risks caused by climate change, geographical resources, global carbon-reduction progress, energy and applicable fiscal and tax policies	Fines, lawsuits, protests, boycotts, market pressure or competitive disadvantages due to inadequate management of GHG as well as energy and resource consumption, damage to ecosystems and violations of environmental regulations	<ul style="list-style-type: none"> <li>Promote carbon reduction and energy conservation programs.</li> <li>Develop green products and reduce carbon emissions during production.</li> <li>Strengthen pollution management and comply with regulatory requirements.</li> </ul>
<b>ESG Risks</b>	Risks caused by the inability to meet stakeholder expectations in ESG performance	<ul style="list-style-type: none"> <li>Rise in capital costs due to capital withdrawal, downgraded credit rating, price increase or refusal made by capital sources, such as investors and banking institutions</li> <li>Loss of employees, partners and customers due to impacts on profitability and competitiveness caused by damages to the corporate image and reputation</li> </ul>	<ul style="list-style-type: none"> <li>Value stakeholder communication, engagement and response.</li> <li>Participate in sustainability programs and keep abreast of issues and trends.</li> <li>Strive for domestic and international corporate sustainability awards and improve performance in international ESG evaluation.</li> </ul>



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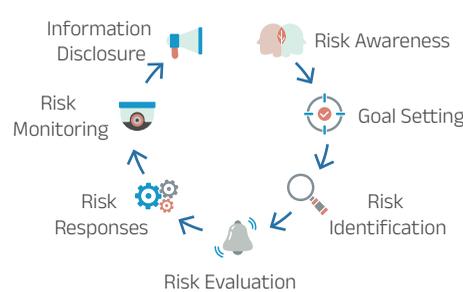
## Risk Management Principles, Mitigation and Control Measures, and Identification and Management Procedures

FENC establishes risk indicators and stays on top of environmental and regulatory changes through regular tracking. Once the risks are defined through internal meetings, evaluation is conducted by designated units on the potential threats and impacts on the Company to formulate action plans. Responses and control measures are carried out through special projects. The implementation and progress are reported to the highest governing entity on a regular basis.

### 6 Principles

1. Considering the uncertainty of risk factors and collecting the best information to develop prioritized action plans
2. Achieving optimal resource allocation and utilization
3. Establishing necessary preventive mechanisms and emergency action plans
4. Constantly identifying and responding to changes
5. Complying with laws and regulations
6. Strengthening trust and communication with stakeholders

### 7 Processes



## Performance Enhancement and Risk Reduction Through Integrated Application of Customer Profit Contribution System



Aiming for maintaining robust governance, FENC established the customer profit contribution system to improve operational performance and reduce risks:

1. Total integration between the parent company and subsidiaries: FENC has accomplished seamless integration with its worldwide subsidiaries by establishing consistency in the customer profit contribution management to boost corporate performance and efficiency.
2. Connection to customer credit ratings: The system is connected to information concerning customer credit ratings, which reduces the risk of account defaults and ensure capital liquidity.
3. Pricing and cost review: Comprehensive pricing and cost information is provided to help sales staff modify pricing strategies with agility to maximize profitability.
4. Real-time response and adjustment to market changes: The system provides insights into changes in product sales and costs as well as market evaluation to facilitate swift production calibration and responses.

Although the market outlook remains murky, FENC stays unfaltering, maintaining rapport with customers and suppliers, ensuring strong governance and generating breakthroughs amid an evolving world to create win-wins for all.

## Embracing a World of Changes With Agile Financial Operations and Stabilized Long-Term Funds



The year 2023 was marked by a beleaguered world economy dented by crises and challenges from a geopolitical balance tilted by the Red Sea crisis and conflicts between Israel and Hamas; an economic outlook dampened by the Chinese property sector crisis; the uncertain course of the U.S.-China relations. These crises are highlighting the significance of managing risks associated with the management of interest rates and liquidity.

FENC is embracing a world of changes with agile financing strategies. For the short term, the Company utilizes structured financing with varied maturities while monitoring trends in market interest rates. For the medium and long terms, the aim is to secure long-term capital by issuing eight corporate bonds totaling NT\$20.9 billion, which puts FENC ahead of the pack among companies with the same rating. Green bonds issued by FENC have amounted to NT\$5.85 billion, which helps the Company gain preferential rates and cut interest expenses. The approach also aligns FENC with its sustainable development strategies, values and image.

By leveraging the bill market, long-term credits and hedging while monitoring the interest rate, FENC is minimizing impacts on financing costs resulting from future fluctuations in interest rates. With the flexible use of financing tools, the Company has successfully reduced capital costs and operational risks.

### 1.3.3 Risk Control Mechanism

#### Regular Meetings

Environment Social Governance

Important Meeting	Interval	Corresponding Issue	Highest Ranking Attendee
Board Meeting	Board Meeting	Quaterly	Chairman
	Audit Committee	Quaterly	Independent Directors and Directors
	Remuneration Committee	Semi-Annual	
	Sustainability Committee	Semi-Annual	
Themed Meeting	Management Meeting	Annual	Chairman
	Human Resources Management and Development	Semi-Annual	
	Special Report on R&D	Semi-Annual	
	Seminar on Industry Strategies	Semi-Annual	
	Budget Review	Annual	
Regular Meeting	Environment Sustainability	Annual	President of Corporate Management
	Operation Review Meeting	Monthly	
	Sales Meeting	Semi-Monthly	
Risk Management Meeting	Monthly		

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## Risk Alert System: Advanced Response with Regular Tracking

FENC established Risk Alert System in 2015. The administrative units conduct monthly follow-ups and examine corporate risks. In 2023, the Company held 12 risk control meetings, establishing advanced indicators and responses to avert risks, and address irregularities in the indicators with corresponding measures, improvements and optimization for prevention.

Priority tasks for 2023

- (1) Reinforcing information security monitoring and control to prevent and address internet fraud.
- (2) Reducing capital costs and improving the financial structure.
- (3) Evaluating the impact of the Israel-Hamas war and adopting necessary measures to secure accounts receivable.
- (4) Planning for insurance renewal across the entire production business amid rising insurance premiums.
- (5) Implementing GHG inventory and reduction.
- (6) Assessing the impact of aligning with international sustainable disclosure standards.

Starting from 2019, risk indicators are implemented in a systematic approach with risk management platform. For instance, the Company introduced credit rating and instant credit calculator to address credit risks and crediting management. The system automatically conducts the calculation to determine reasonable credit limits, which enhances the quality of credit decisions.

In 2023, FENC completed three major digital projects, including the establishment of the Global Overdue Information Platform as well as the optimization of the Global Customer Credit Management Platform and Credit Customer Information Management Platform.

### Process of Risk Alert System



### Risk Alert Process

Risk Category	Detail
<b>Human Resources</b>	Continuing staff employability; employee benefits and wellbeing; employee turnover and hiring procedure; labor relations; performance review.
<b>External Environment</b>	Geopolitics; trade liberalization; corruption; non-tariff barriers.
<b>Corporate Assets</b>	Legal training, anti-fraud and anti-corruption; documentation and information management; regulatory monitoring and compliance; contractual agreement and subsequent management; litigation and dispute resolution.
<b>Legal Affairs</b>	Legal training, anti-fraud and anti-corruption; documentation and information management; regulatory monitoring and compliance; contractual agreement and subsequent management; litigation and dispute resolution.
<b>Finance and Accounting</b>	Fair presentation of financial reports; compliance and completeness of information disclosure; customer credit and account receivable management; tax audit; financing and capital management; capital expenditure procedure and control; investment management; insurance and hedging.

## Achieving Zero Defaults in 2023 by Integrating AI, Big Data and Risk Control



The year 2023 was challenging for the global market. Slowing demand from terminal brands, rising inflation and geopolitical instability compromised the equilibrium of the global economy and supply chains. FENC responded with continued efforts in securing accounts receivable, controlling credit risk exposure and monitoring national risks. The management guidelines are adjusted as appropriate to respond to changes in global risks.

FENC continues to implement the digitization of account management through the integration of big data and AI. In 2023, the Company established the Global Overdue Information Platform and optimized the Global Credit Management Platform and Credit Customer Information Management Platform. The three major digital projects expanded the Company's ability to determine risks, strengthen risk alert, predict and identify at-risk customer groups and carry out effective overdue collection. FENC's prudent efforts accomplished zero defaults during the reporting year. Specific measures are listed below:

1. The Global Overdue Information Platform was established to prepare daily compilations of worldwide overdue accounts. Individual alerts are sent with collection status monitored to enhance the efficiency of account collection and refine risk exposure management.
2. The Global Credit Management Platform was optimized to monitor global credit risk exposure and conduct in-depth analysis and data interpretation as a reference for management and decision-making.
3. The Credit Customer Information Management Platform is optimized to enhance comprehensive risk analysis regarding credit customers and integrate national risk dynamics, agency ratings and major news from 193 countries.
4. The List of Countries With Escalated Risks and List of Customers With Unusual Risk Patterns were compiled for control and regular review with limitations regarding credit and transaction terms to help FENC stay up-to-date on geopolitical and economic risks as well as changes in customer operations.
5. Non-performing loans were closely monitored with prompt responses and enhanced collection efforts. The measure helped FENC reduce overdue accounts in arrears for more than three months to 0%.

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## Regulatory Compliance System: Regular Self-Evaluation on Compliance to Reduce Risk of Violation

In 2014, the President of Administrative Headquarters served as the chief supervisor and established Company-wide Regulatory Compliance System.

### 1. Objective

- Enhance employees' legal awareness to avoid illegality.
- Reduce operational risks for the Board and management team.
- Protect corporate interests and image.
- Improve corporate efficiency.

### 2. Target

Confirm key regulations concerning corporate operation. Regulations governing penalty for Board members and managers; damages to corporate image; major civil offense; administrative liability are given priority status for implementation. Areas prone to deficiency are listed as the focus for annual audit. Given the above criteria, 85 regulations and 602 control points are identified.

### Detail

Category	Focus	Task	2023 Performance
<b>Establish Communication</b>	<ul style="list-style-type: none"> <li>• A clear and adequate system for the conveyance, consultation, coordination and reporting of regulatory information was established.</li> <li>• The SOP and grievance mechanisms for violations were established, including the email for reporting regulatory compliance issues and for the Audit Committee and Audit Department.</li> </ul>	<ul style="list-style-type: none"> <li>• Designate regulatory compliance personnel.</li> <li>• Report violations and penalty immediately.</li> </ul>	<ul style="list-style-type: none"> <li>• The compliance staff from all departments report monthly on violations and penalty.</li> <li>• No grievance claims were filed in 2022.</li> </ul>
<b>Regulatory Update</b>	<ul style="list-style-type: none"> <li>• Track the latest regulatory amendments and updates on a regular basis and convey the changes to all units immediately.</li> <li>• Provide advanced risk alert on violations for all units.</li> </ul>	<ul style="list-style-type: none"> <li>• Convey the latest regulatory changes to applicable units and personnel.</li> <li>• Update Company regulations in accordance with regulatory changes.</li> </ul>	<ul style="list-style-type: none"> <li>• Develop robotic process automation (RPA), which extracts regulatory updates daily from the Executive Yuan Gazette Online and the Financial Supervisory Commission, and weekly from sources related to the economy, health and safety, labor affairs and fire safety. The updates are sent to applicable personnel immediately.</li> <li>• Amended the FENC Audit Committee Charter, Meeting Rules of Board of Directors and Corporate Governance Principles to align with regulatory amendments.</li> <li>• Established the Rules Governing Financial and Business Matters Between FENC and Its Related Parties.</li> <li>• Established the contract clause that stipulates supplier information security to ensure robust information security management and reviewed information security regulations governing procurement operations to ensure compliance with the Cyber Security Management Act during supplier selection and monitoring.</li> <li>• Established the Record and Document Retention Policy for the U.S. subsidiaries to stipulate the retention period, custodian and record update in accordance with the law.</li> </ul>
<b>Regulatory Training</b>	<ul style="list-style-type: none"> <li>• Publish information on regulatory enactment, case studies and regulatory education.</li> <li>• Conduct training on key regulatory amendments.</li> <li>• Provide in-person and online training on regulatory compliance for new employees (intellectual property/copyright/Criminal Code and corporate corruption/labor conditions/trade secret).</li> </ul>	<ul style="list-style-type: none"> <li>• Designate appropriate staff to undergo training.</li> </ul>	<ul style="list-style-type: none"> <li>• Conducted Basic Intellectual Property Training for Responsible Personnel on July 3, 2023.</li> <li>• Conducted the training, Manager's Guide to Protecting Gender Equality, on August 29, August 31, and September 5, 2023 for managers at the levels of senior vice president, manager/deputy manager and section chief.</li> <li>• Shared the case study of a major fire incident in Taiwan as well as regulatory violations with FENC production sites in October 2023.</li> </ul>
<b>Compliance Evaluation</b>	<ul style="list-style-type: none"> <li>• Implementation of regulatory compliance was reported to the Board quarterly.</li> <li>• Self-evaluation checklists were established targeting the regulatory control points.</li> <li>• The Legal Department collaborated with the Human Resources Department, Labor Safety and Health Department and Audit Department to complete on-site inspections, provide guidance for all departments on improvements and follow up.</li> <li>• Ensure that suppliers and contractors of all FENC production sites comply with FENC's corporate social responsibility policies regarding labor and human rights, health and safety, environmental protection and business ethics.</li> </ul>	<ul style="list-style-type: none"> <li>• All departments formulate and implement improvement plans to address deficiencies identified in the self-evaluations.</li> <li>• On-site inspections were conducted with supplementary information provided.</li> <li>• Require suppliers and contractors to sign the FENC Supplier Code of Conduct and Corporate Social Responsibility Commitment Statement or add relevant clauses to transaction documents.</li> </ul>	<ul style="list-style-type: none"> <li>• Conducted monthly self-evaluations on regulatory compliance to monitor the compliance among all FENC departments and subsidiaries.</li> <li>• Conducted on-site compliance audits at the Corporate Management in January 2023 and at all production sites in April, July and October.</li> </ul>

## Coverage Areas of Regulatory Audit

Target	Compliance Detail (Number of Control Points)
<b>Shareholder</b>	Financial report (18), internal control (17), issuance of credit and endorsement/guarantee (17), acquisition and disposal of assets (42), convening of meeting (75)
<b>Customer and Competitor</b>	Fair trade (5), import/export (8)
<b>Corporate Asset</b>	Business accounting (9), tax management (58), patent and trademark (20), Copyright Act (13), trade secret (6), personal data protection (11)
<b>Employee</b>	Labor condition (59), welfare and insurance (28), labor relations (33), labor retirement (23), health and safety (69)
<b>Society</b>	Corporate corruption (18), political donation (8)
<b>Environment</b>	Environmental protection (65)

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## Major Violations in the Past Two Years

	Company	Violation	Fine (NTD)	Improvement Plan
2023 (Two Case)	APG Polytech	The wastewater discharge exceeded the regulatory limit.	NT\$93.2 thousand	The improvement is scheduled to be carried out in two phases with the first being completed in July 2024 and the second, which involves optimization, in July 2025.
	FERD	The actual area of the landscape buffer was inconsistent with the area specified in the environmental impact statement.	NT\$30 thousand	Immediate action was taken to increase the landscape buffer.
2022 (Two Cases)	FEDZ	The chemical oxygen demand (COD) and biochemical oxygen demand (BOD) in the water samples exceeded the permitted level.	NT\$999 thousand	1. A buffer tank is added to allow time for the particle matters to settle. The improvement has brought the water samples up to standard. 2. The BOD level is tested more frequently.
	FEIS	The phosphorous concentration in the wastewater exceeded the permitted level.	NT\$442 thousand	1. The oil agent was improved to reduce the phosphorous concentration. 2. Daily management is enhanced. The phosphorous concentration is tested daily to keep the wastewater quality above the governmental standards for discharge.

Note: The threshold of disclosure for monetary penalties is set at NT\$300,000. The threshold of disclosure for non-monetary penalties is business suspension. There were no incidences of such suspension during the reporting period.

## Risk Ranking Project

FENC has a worldwide presence with production sites spanning across Taiwan, mainland China, Japan, Vietnam, Malaysia, the Philippines and the U.S. To ensure workplace safety and support corporate growth, the Company commissions consultants to conduct regular risk ranking projects at its global locations, evaluating 44 international risk indicators covering software, hardware and emergency response.

In March 2022, FENC launched the fourth risk ranking project covering 21 plants from the above-mentioned countries. The risk ranking, which was completed in the first half of the year, identified 158 deficiencies. In order to implement risk warning and reduce potential threats, FENC took immediate action and addressed the weaknesses with measures that reinforce the integrity of pipeline inspection, operational proficiency among staff, chain business management and backup for firefighting systems with monthly tracking and reporting. It is anticipated that all improvements will be completed by the end of 2024.

## Strengthen Risk Control Training

To ensure sustainable development, minimize damages and advance business interests, all units at FENC offer training programs targeting potential risks. A total of 50 courses were provided in 2023 with 4,336 participants completing the training. Additionally, 4,106 employees underwent the training and exam regarding regulatory compliance as well as the training on occupational safety and health. Details are provided in [4.3 Reinforcing Occupational Safety and Health Management](#).

## Oversight and Management of Internal Control System

### 1. Operation of Internal Audit

Aside from conducting annual audits mandated by governmental regulations, the audit staff evaluates operational risks and develops the annual audit plan for the coming year with details listed. The plan is implemented upon the approval of the Audit Committee and the Board.

Once completed, the audit report is forwarded to the Audit Committee for review prior to the end of the subsequent month. Quarterly progress reports on improvements made are presented to the Audit Committee and the Board for review. Major violations or potential damages to the Company are immediately reported to the President of each Business, the Audit Committee and the Board.

### 2. 2023 Implementation

FENC conducted 56 audit projects in 2023 and identified minor internal control risks. The majority of the improvement projects have been completed. As of the end of December 2023, deficiencies identified in 19 audit projects remained outstanding with improvement measures in progress.

### 3. 2023 Priority Tasks

#### • Internal Control Self-Evaluation

FENC self-evaluates its internal control practice through an electronic platform to optimize the flow, efficiency and performance of all units and subsidiaries. The results, once reviewed by the audit units, are presented to the Board and Presidents along with the deficiencies identified and improvement progress, serving as the basis for evaluating the effectiveness of the internal control system and issuing the Internal Control System Statement. The outcome is also disclosed in the annual report and on the Market Observation Post System to show FENC's commitment to ensuring effective internal control.

#### • Auditing With Digital Tools

The effectiveness and efficiency of audit operations are enhanced through continuous optimization of the audit data platform, mapping of risky hotspots and identification of operational risks with recommendations provided by monitoring unusual activities through the risk indicator dashboard.

Digital technologies are applied throughout the business operation to elevate management efficiency. Specific approaches are listed below:

- Create the profit and loss analysis dashboard for the production business, monitor operational conditions in real time and establish a risk warning mechanism.
- Apply robotic process automation and programming languages to audit projects and routine work to improve operational efficiency.
- Leverage machine learning to generate the supplier relationship diagram to determine whether suppliers are connected and issue warnings when necessary.
- Incorporate public information from external sources, optimize the supplier selection process and improve the quality of supplier selection.

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### 4. Subsidiary Supervision

FENC conducts regular reviews over subsidiary operations and management, examining documents such as the financial report, inventory status and credit recovery. When anomalies are detected, the subsidiary is notified in the form of a work report to facilitate immediate adjustments and improvements.

### 5. Training for Audit Personnel

Each year, the audit staff undergo internal audit training held by organizations certified by the Financial Supervisory Commission and complete the hours in accordance with regulatory requirements. They are also required to attend training and seminars from internal and external sources such as consulting firms or academic institutions. In addition, staff take part in the annual meeting of the Institute of Internal Auditors-Chinese Taiwan to polish their professional skills and knowledge of risk control. Before the end of each January, the Company files the names of internal auditors and the training they have received on the Market Observation Post System.

[Internal Audit Organization and Internal Control Approaches](#)

## 1.4 Fortifying Digital Resilience

While the arrival of the digital age ushered in growing complexity and sophistication in business activities, it also ushered in threats to information security. Upholding sustainable competitiveness amid capricious times is now a critical issue upon which corporations ponder. Driven by the urgency of information security management, FENC established the Information Security Department in 2022 based on the Regulations Governing Establishment of Internal Control Systems by Public Companies and Information Security Control Guidelines for TWSE/TPEX Listed Companies. Headed by the Chief Information Security Officer, the department oversees the implementation of information security tasks to demonstrate FENC's determination to defend corporate information security.

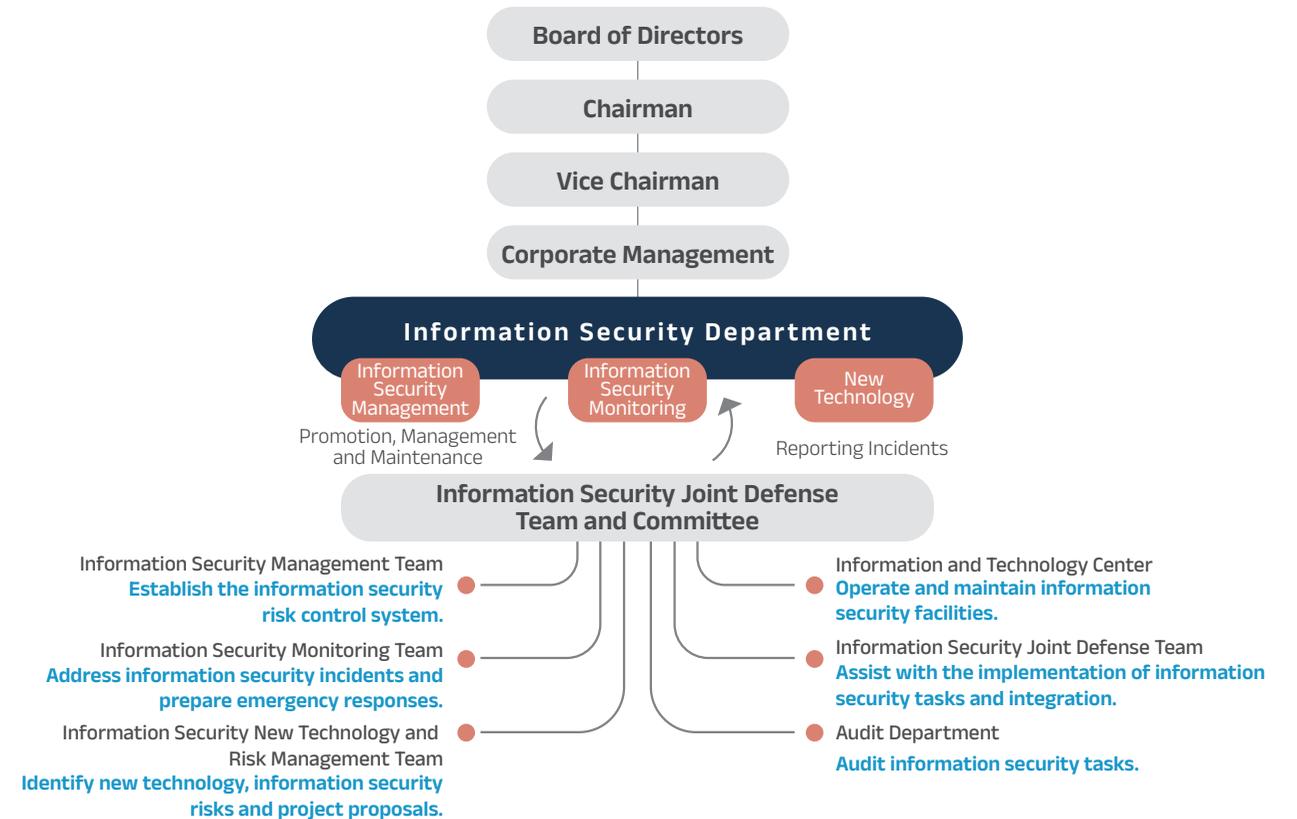
### Information Security Department

On November 9, 2022, the Board approved the establishment of the Information Security Department to spearhead the implementation of information security tasks, such as indicator setting, performance tracking and information security protection and training, working in tandem with the Information and Technology Center on information security management.

### Information Security Joint Defense Team and Committee

To implement and bolster information security, FENC established the Information Security Joint Defense Team and Committee. While the Information Security Department is in charge of the implementation and monitoring of information security as well as applications of new technology, an information security defense team is established under each unit to reinforce the defense shield. Units with such a team in place include the Corporate Staff Office as well as the Human Resources, Accounting, Finance, Legal, Secretarial, Shipping, Labor Safety and Health Departments under Corporate Management. Information security staff from each unit provide assistance in implementing information security tasks, creating an integrated inter-departmental shield against cyber threats. The Audit Department conducts internal audits over information security undertakings to ensure compliance with the internal control system as well as governmental regulations. The Information and Technology Center is in charge of the maintenance and repair of the information security facilities

## Information Security Management Framework



### Information Security Management System and Business Continuity Management

FENC started incorporating the ISO 27001 information security management system (ISMS) in 2014, establishing protocols regarding the management of information authorization, data backup, system development, supplier management and intellectual property. Since 2016, FENC has been third-party verified every three years. The latest verification for ISO 27001:2013 was obtained in September 2022. The verification will remain effective until September 2025, while FENC continues to implement the PDCA management for its information security systems.

Additionally, FENC has been implementing the ISO 22301 business continuity management system to fortify its crisis response and ensure business continuity, advancing digital resilience through risk assessment, crisis management and resource allocation. In December 2023, FENC's subsidiary, Shanghai Far Eastern IT Corp., obtained the ISO 22301:2019 certification, which is valid until December 2026. Obtaining the certification requires the integration of the ISMS and business continuity management to create a comprehensive security and operational shield, which is a testament to FENC's commitment to business continuity and information security.

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## Strengthen Information Security Management

### 1. Establish Information Security SOP

FENC joined Taiwan CERT/CSIRT Alliance (see note1) and established the SOP for dealing with information security incidents. The SOP delineates applicable procedures and measures, including reporting proceedings and staff accountability. The goal is to eliminate information security incidents within the least amount of time and establish correction and prevention plans accordingly. In 2023, there were no major information security incidents (see note2) at FENC and no financial losses caused by information security incidents.

Note:

1. CERT/CSIRT refers to Computer Emergency Response Team (CERT) and Computer Security Incident Response Team (CSIRT).
2. A major information security incident refers to an incident that results in damages exceeding NT\$100 million for FENC.

### 2. Implement Information Security Incident Reporting and Handling

Services for the monitoring and surveillance of information security incidents have been incorporated to consolidate security logs from multiple sources, including the firewall, intrusion-detection system, anti-virus software system and end-point detection and response. The incidents are detected, collected, analyzed and managed to effectively avert potential cybersecurity threats. Information concerning data security is consolidated and managed to effectively provide alerts before, real-time warnings during and analysis after the incident. The services ensure a proper protocol to be followed in the case of such incidents and minimize the harm and damages to the key information systems, assets and operations.

### 3. Strengthen Information Security Management and Training

In addition to promoting information security and providing training among staff, system developers and managers are required to comply with rules and regulations governing system establishment and safety management. FENC aims to heighten information security awareness to minimize risks.

### 4. Ensure the Effectiveness of Information Security Protection

To prevent cyber threats, the network infrastructure adopts a multi-layered design armed with a multitude of information security protection systems as well as threat detection and response mechanisms. The design facilitates intelligence sharing, vertical communication as well as report and monitoring to build robust information security governance and reduce risks.

## Constructing Robust Domain Security and Resilience at FENC



In recent years, international brand customers have been reinforcing supply chain security, assessing supplier information security and vulnerability through information security companies. To align with the trend, FENC is strengthening domain security management by compiling a list of exposed public network services to prevent inconsistency in the defense networks. In addition to bolstering firewalls and implementing a real-name internet system, FENC developed the FE Attack Surface Management Platform, which automatically integrates threat intelligence, detects cyberattacks and forms rapid responses. FENC's joint defense framework also covers its subsidiaries to heighten digital resilience. These measures have brought FENC and over 20 of its worldwide subsidiaries up to customers' standards on domain security ratings. They also scored the highest letter grade, "A," from Security Scorecard, the security rating adopted by customers. The scorecard is a demonstration of FENC's ability in cyber security defense as a top supplier.



## Fortifying Defense Network With Information Security Training



The Information Security Department has been stepping up efforts to provide information security training. In 2023, the department conducted over 17 in-person training sessions with more than 480 participants from the administrative, sales and production units. The training covered potential information security risks during accounts receivable and payable processes, prevention of business email compromise, social engineering drills, digital transformation with AI and an overview of ChatGPT. The training was also customized to suit different job requirements, helping employees respond to information security threats and raise security awareness. To amplify the effects, the training has been converted to the online format and offered to all employees through the Far Eastern Academy, the training platform developed by FENC.

Aside from the above approaches, FENC also keeps employees up-to-date on the latest information security issues through a special column in Far Eastern Monthly, an internal publication within Far Eastern Group. A total of 11 columns were published in 2023, featuring a wide spectrum of issues such as an overview of the global information security trends, supply chain information security management and the security and compliance regarding generative AI. The columns have enhanced information security awareness among employees while synchronizing such efforts across all affiliates under Far Eastern Group, bolstering its defense and resilience in information security.

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## Supply Chain Information Security Management

To strengthen resilience in supply chain information security and construct a safe and reliable defense network, FENC created the FENC Supplier Information Security Agreement based on the Information Security Control Guidelines for TWSE/TPEX Listed Companies. The Company also performed a stock-take for its core systems and designed a rating matrix, classifying suppliers' information security maturity base on the management, defense, detection and response capabilities as a reference for supplier management. Information security incidents occurring at the supplier's end would immediately activate FENC's information security defense mechanism, which would then monitor the entire incident.

## 1.5 Implementing Sustainable Development

FENC is in pursuit of sustainable development through its corporate influence. While balancing the quest for corporate profits and ESG performance, the Company strives to create higher values for all stakeholders.

### 1.5.1 Sustainability Governance

#### Guidance for Sustainability Governance

##### 1. Sustainable Development Principles

Sustainability is deeply ingrained in FENC's corporate DNA, and sustainable governance is an integral part of its core businesses. In 2014, the Company established the Sustainable Development Principles for FENC as well as its subsidiaries under the production business as the highest governing principles for corporate sustainable development. FENC amended the Sustainable Development Principles in 2022 based on the Sustainable Development Best Practice Principles for TWSE/TPEX Listed Companies issued by TWSE and TPEX. The amendment was approved unanimously by all Board members present during the Board meeting on March 8, 2022.

[Sustainable Development Principles](#)

##### 2 Sustainability Strategy Blueprint

The Sustainability Strategy Blueprint is derived from sustainability action plans proposed by the Sustainability Implementation Committee as FENC's response to UN SDGs. By completing a wide array of sustainability projects, FENC has formed an alliance with global partners to achieve the sustainable vision.

[Sustainability Strategy Blueprint](#)

#### Structure of Sustainability Governance

##### 1. Board of Directors

The Board of Directors serves as the highest governing entity regarding ESG governance at FENC. The Presidents of all Businesses and highest-ranking executives of all units present corporate issues concerning sustainability at the quarterly Board meetings and regular briefings. ESG issues discussed

during regular meetings of the Board, Audit Committee, and Remuneration Committee as well as additional regular meetings attended by the Board members in 2023 include:

- External Board evaluation
- Operational performance and market conditions
- Industry strategies
- Financial conditions
- Sales overview
- Human resources management and development
- Board and employee remuneration
- Risk control
- Integrity and anti-corruption
- Implementation of regulatory compliance
- Internal audit
- Environmental safety and health development
- GHG and energy management
- Innovative R&D
- Annual Sustainability Report
- Stakeholder dialogues
- Social engagement

## 2. Sustainability Committee

FENC established the Sustainability Committee under the Board on November 12, 2020 to oversee the implementation of sustainable development policies, systems and management approaches. The Committee reports to the Board on a regular basis.

[Sustainability Committee Charter](#)

##### • Operation of Sustainability Committee

FENC's Sustainability Committee headed into its second year in 2021 and members of the Board were appointed to serve on the committee on July 29, including two independent Board members, one of whom served as the convenor, and one external Board member.

The three committee members are well equipped with the knowledge and expertise in corporate sustainability, including the operation of corporate governance and non-profit organizations, protection of employee rights, corporate risk management and strategic planning.

To enhance sustainability governance at FENC, the Sustainability Committee meeting, which was an annual occurrence, became a semi-annual meeting in 2022. During the reporting year, the meetings were held on April 25 and October 24. Humphrey Cheng, President of Corporate Management, presented the implementation progress, report, project and performance to the three committee members. Specifically, the presentation covered the publishing of FENC's Sustainability Report and its first Task Force on Climate-related Financial Disclosures (TCFD) Report; identification of stakeholders and material topics; implementation of GHG inventory and verification; enactment of internal carbon pricing; deployment of multiple renewable energy sources; ongoing expansion of green products and applications; promotion of sustainable financing products; enhancement of human rights policy and human rights due diligence; strengthening of information security management; implementation of environmental education programs; promotion of sustainable supply chain; stakeholder engagement through diverse means. All resolutions were approved unanimously by the attending members. Johnsee Lee, FENC's independent Board member and convenor of the Sustainability Committee, presented the outcome to the Board on May 11 and November 10.

FENC's audit units conducted audits over the operation of the Sustainability Committee in 2023 based on the Sustainability Committee Charter. The audit confirmed that there were no wrongdoings of any kind concerning the committee members, duties, convening of meetings as well as rules of procedure.

## 3. Sustainability Implementation Committee

FENC established the Sustainability Implementation Committee in 2014 to facilitate corporate sustainable development. The President of Corporate Management serves as the convenor. Specific tasks for the Sustainability Implementation Committee are as follows:

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- Compilation and disclosure of sustainability data.
- Planning and implementation of sustainability projects.
- Compilation and submission of sustainability data for external verification.

The Sustainability Implementation Committee consists of 192 members in 2023. The committee structure parallels the corporate structure. Among the members are Presidents and Chief Operating Officers from all Businesses, departmental managers at FENC operation sites worldwide and the 3 designated members of the Sustainability Team under Corporate Staff Office.

[Profile and Duty of Sustainability Implementation Committee](#)

### Disclosure of Sustainability Data

The annual sustainability performance disclosed in this report is first presented by the Sustainability Implementation Committee, which is then verified, analyzed and consolidated by the Sustainability Team at the Corporate Staff Office. The report is finalized and published after receiving third-party verification and approval from the President of Corporate Management. For the 2023 Sustainability Report, submissions for approval were made by the Sustainability Committee and the Board of Directors on April 11 and May 9, 2024.

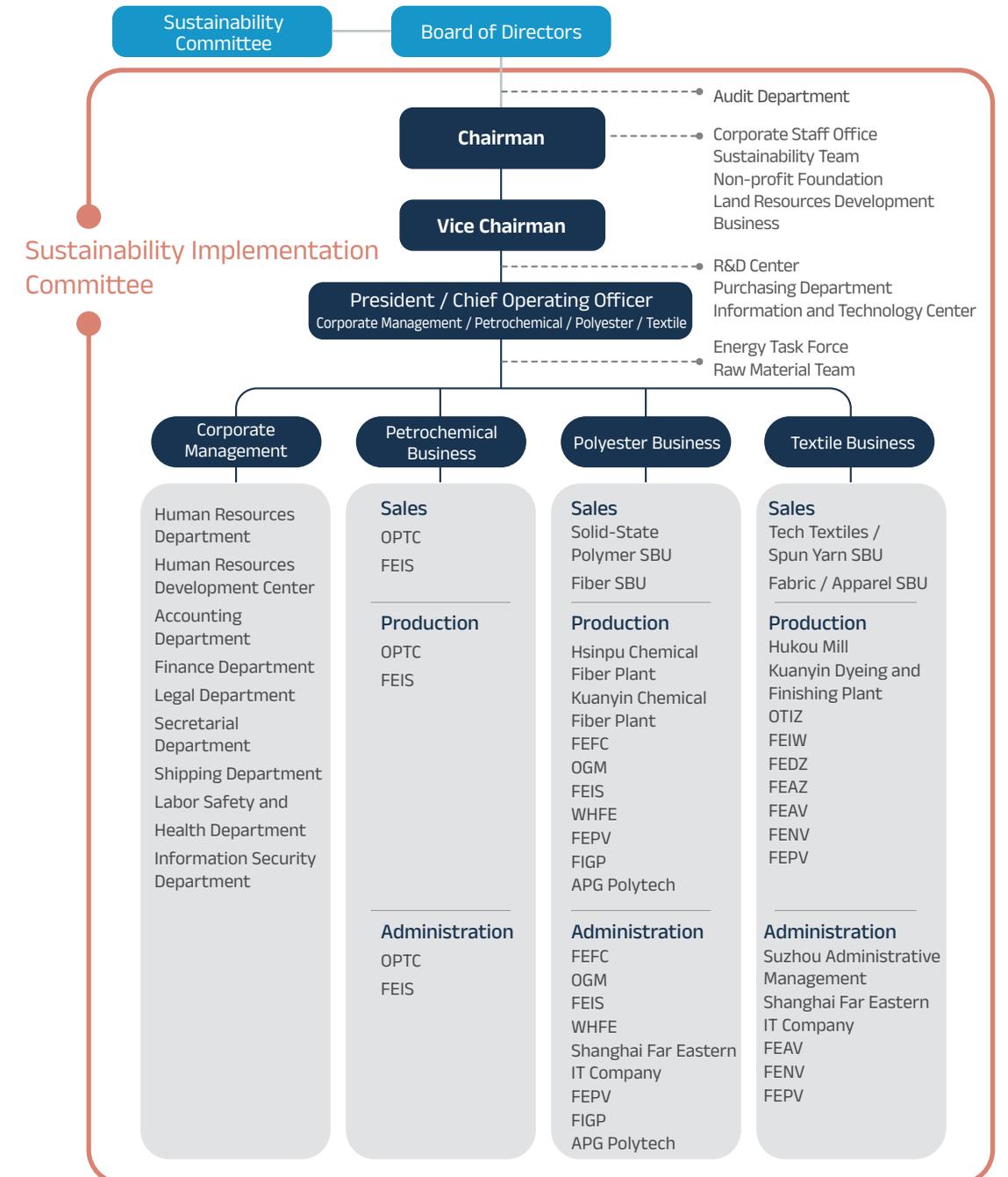
To bolster the Sustainability Report publication and verification mechanism, FENC established Operational Procedures for the Preparation and Verification of the Sustainability Report in 2022 based on Taiwan Stock Exchange Corporation Rules Governing the Preparation and Filing of Sustainability Reports by TWSE Listed Companies. The operational procedures were incorporated into the internal control system and implementation began after Board approval.

To facilitate data collection, digitization and preservation, FENC introduced the ESG Portal in 2022. The forms, which used to be delivered through emails, are now digitized, allowing employees to complete, submit and review the forms on the portal, which also sends out reminders for overdue documents to improve overall operational efficiency. Online access for all forms became available in 2023, and the scope was expanded to include data collection for GHG inventory and the TCFD Report. Currently, more than 5,000 forms can be completed on the ESG Portal, which enhances the preparation efficiency as well as data accuracy and integrity of the FENC Sustainability Report.

### Sustainability Report Preparation Process



### Structure of Sustainability Governance



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## Recognition from National Sustainable Development Award

FENC has been widely recognized for fostering sustainable development. In 2023, the Company received the National Sustainable Development Award from the National Council for Sustainable Development, Executive Yuan, winning the honor as a first-time contender. The award speaks to FENC's triumph in creating win-wins for the corporate community, civil society and natural environment through its core capabilities.

With a long track record in the development of the circular economy, FENC is the proprietor of a comprehensive range of recycling and remanufacturing technologies that tackle waste from the land, ocean and air. Its persistent dedication to product R&D and innovation has given the Company a globally leading presence in the production of food contact rPET and ocean recycled polyester filament, which are high-value products that require high technological thresholds.

To answer the call for carbon reduction from the international community, FENC has been taking aggressive strides towards decarbonization. With an internal carbon pricing system already in place for 2024 and applicable to its worldwide production sites, the Company is also in the process of establishing a renewable energy usage program with the same scope of application.

To expand its social influence, FENC launched a campus environmental education campaign, "The Transformative Magic of Circularity," in 2023. Focusing on the promotion of the circular economy, FENC offered the program on campus for free. The Company has planned to offer 107 sessions in 2024, which will reach over 6,000 students and teachers.

In addition to the National Sustainable Development Award, for the fourth consecutive year, FENC was acknowledged by the Taiwan Corporate Sustainability Award with its highest honor, Top Ten Taiwanese Companies Sustainability Model Award. The Company also reached 4.1 in FTSE Russell's ESG Scores, ranking fifth among companies listed on TWSE, and scored within the top 3% of the global chemical sector in Sustainability ESG Risk Ratings.

Looking forward, FENC will continue to uphold the sustainable paradigm, leading sustainable endeavors and inspiring more corporate participation on the path towards a low-carbon future.

## 1.5.2 Sustainable Finance

FENC is committed to building a sustainable business model that fosters harmonious coexistence with the environment. Its corporate development strategies are fully embodied through sustainable investments, and the fund raised is linked to its sustainable development goals. While striving to become the benchmark enterprise for innovation in sustainable finance, FENC will continue to create win-wins for the government, corporations and stakeholders in Taiwan.

### Integration of Sustainable Development and Diversified Financing Channels

Between 2018 and the end of 2023, FENC issued more than 20 sustainable financial products with many being either the first in Taiwan or Asia. The products incorporate diverse financing channels to attract the market capital. Raising over NT\$60 billion, the entirety is devoted to projects that advance sustainability.

#### 1. Capital Market Bonds



**World's First**

Corporation issuing four types of sustainable bonds listed on the Sustainable Bonds Database from the International Capital Market Association



**Taiwan's Only**

Corporation qualified for and being the first issuing four types of sustainable bonds

The types of sustainable bonds issued by FENC include green bonds, social bonds, sustainability bonds and sustainability-linked bonds (SLB). FENC has raised over NT\$17 billion from the capital market to date, and the funds will be applied towards ESG and sustainability projects. A total of NT\$5.85 billion in green bonds were issued in 2023 to support the investment in green projects.

[Far Eastern New Century Corporation \(FENC\) Framework for Sustainable Bonds following the SDGs](#)

#### 2. Green Financing

FENC has fully embraced the sustainable development goals through its business practice. Partnering with major banking institutions in Taiwan and the world, the Company established over NT\$43 billion in the line of credit for ESG financing between 2018 and the end of 2023.

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FENC signed the first ESG Portfolio Lending project in Greater China in 2023. Worth a total of NT\$2 billion, the project integrates the entirety of FENC's vertically integrated industry chain. Corporate borrowers may set sustainability performance targets (SPTs) and receive markdowns in borrowing rates when the SPTs are met. The fund could also be used as ESG deposits to improve capital efficiency, make sustainability-related investments and help core corporations obtain green loans. The flexibility in fund allocation helps the industry chain transition and engage in sustainable investment. In the future, the project will be scaled to include the non-affiliated supply chain ecosystem to spearhead sustainable development at a regional level and create sustainable lifestyles that will ultimately lead to net zero by 2050.



## Adam Smith Awards Asia — Best Sustainable Treasury Solution From Treasury Today



Treasury Today, a prominent UK magazine with an authoritative voice in financial and asset management, presented the 10th annual Adam Smith Awards Asia in 2023. Named after the Father of Economics, the award recognizes excellence in corporate finance and capital management. The jury selected 57 winners out of over 430 entries from 22 countries, and most are major international corporations, such as Lenovo, Sony, Hitachi, Nestle, GE and Merck.

FENC took home the Best Sustainable Treasury Solution award. Having been in a league of its own in the industry frontier, the Company's decades-long devotion to sustainable development was put under the international spotlight. With ongoing innovation in sustainable financial products, FENC constructed a framework in sustainable financing that ties financial planning to its sustainability strategies to fulfill corporate core values, environmental and social commitment and ultimately, the United Nations Sustainable Development Goals. While significantly increasing FENC's international visibility, the award also marks a new milestone in the development of sustainable finance.

## 2023 Sustainable Financing Products

Time of Issuance	Region	Product	Total	Highlight
2023.3	Taiwan	Green Bond	NT\$2.5 Billion	Support for green revenue growth
2023.3	Mainland China	Fixed Asset Loan FEIS	CNY\$50 Million (NT\$220 Million)	Markdowns in borrowing rates for reaching SPTs
2023.5	Mainland China	Green Loan OTIZ	US\$63 Million (NT\$1.93 Billion)	Funding for the procurement of recycled raw materials
2023.5	Mainland China	Green Loan FEDZ	US\$42 Million (NT\$1.29 Billion)	Funding for the procurement of recycled raw materials
2023.6	Taiwan	ESG-linked Syndicated Loan	NT\$1.36 Billion	Markdowns in borrowing rates for reaching SPTs
2023.7	Taiwan	Green Bond	NT\$2.1 Billion	Support for green revenue growth
2023.7	Taiwan	Saving Planet! Syndicated Loan FERD	NT\$6 Billion	First sustainable financing project in Taiwan to link KPIs in green building and energy conversation
2023.8	Taiwan	ESG Portfolio Lending FENC/ Yuan Ding Investment Corp.	NT\$2 Billion	First in Greater China
2023.8	Mainland China	Sustainability-linked Loan FEIS	US\$65 Million (NT\$2.04 Billion)	Markdowns in borrowing rates for reaching SPTs
2023.9	Taiwan	Sustainability-linked Loan OPTC	NT\$1.54 Billion	Markdowns in borrowing rates for reaching SPTs
2023.9	Taiwan	Sustainability-linked Loan FEFC	NT\$500 Million	Markdowns in borrowing rates for reaching SPTs
2023.12	Taiwan	Green Bond	NT\$1.25 Billion	Support for green revenue growth
2023.12	Taiwan	ESG Portfolio Lending OPTC	NT\$600 Million	Markdowns in borrowing rates and higher capital efficiency for OPTC and its parent company when reaching SPTs through partnerships with the supply chain