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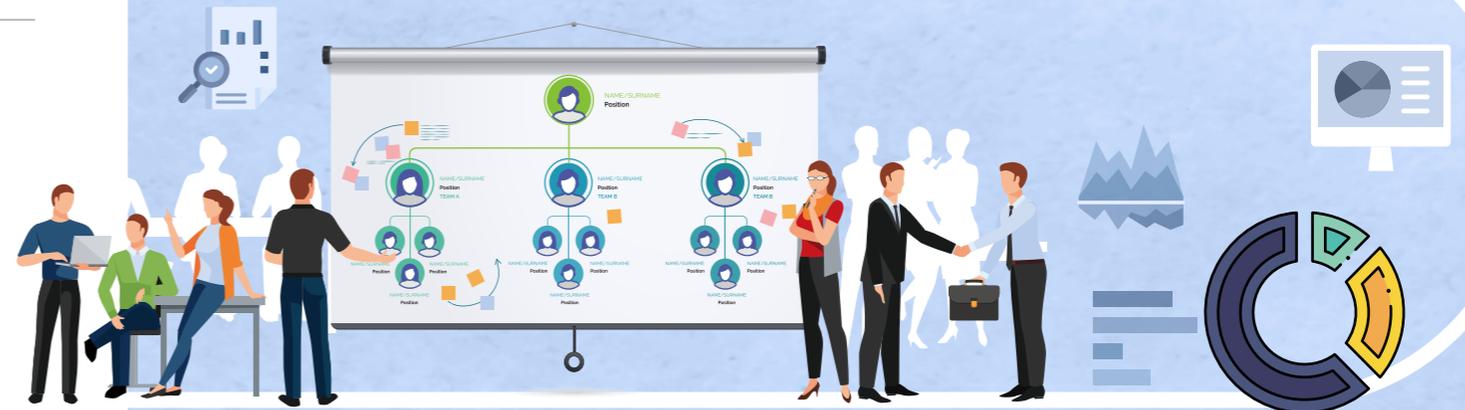
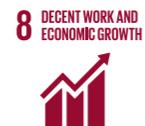
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### Target Readers:

- |  |   |
|--|---|
| ■ Employee/ Labor Union                  | ■ External Audit Agency/ Media                |
| ■ Direct Customer                        | ■ Shareholder/Investor/ Financial Institution |
| ■ Government                             | ■ Industry Association                        |
| ■ Business Partner (Supplier/Contractor) | □ Local Resident and Organization             |



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## ★ 2020 Highlights

Risk Ranking Project Improvements Completion **100%**

TWSE and TPEx Listed Companies Corporate Governance Evaluation **Top 5%**

Establish **FENC Risk Management Policies** and **Tax Governance Policy**

Establish **Sustainability Committee** Under Board of Directors

Commission External Agency Conduct **Board Performance Evaluation**, Receive **Benchmark** Designation

First in Taiwan **First Polyester Manufacturer to Sign TCFD**, First Traditional Manufacturing Enterprise to Publish Declaration of Signing and Supporting

12 Consecutive Years of **Zero Bad Debt**

## ★ 2020 Sustainability Recognition

**CDP** Climate Change - **Management**, Water Security - **Leadership**, Supplier Engagement Rating - **Leadership**

**TCSA**

- Top 10 Domestic Companies Sustainability Model Award
- Best Sustainability Report Award
- English Report Award
- Circular Economy Leadership Awards
- People Development Awards

Global Views Monthly **CSR Award** **Outstanding Project - Winner in Environmental Sustainability Excellence of Manufacturing Industry Category**

**GCSA** Best Practice Award - **Great Practice - World Class**

**CSR Excellence in Corporate Social Responsibility** CommonWealth Magazine

**SGS 2020 CSR Award - CSR Talent Development Excellence Award**

**MSCI ESG Leaders Index FTSE4Good Emerging Indexes**

**Taiwan Corporate Governance 100 Index FTSE4Good TIP Taiwan ESG Index Taiwan Sustainability Index**



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## Targets and Progress

### Risk Management System

2030 Target

Conducting **3** annual risk management projects

2025 Target

Conducting **3** annual risk management projects

2021 Target

Conducting **3** annual risk management projects

2020 Target

Conducting **3** annual risk management projects



Completed

2020 Progress

- Established FENC Risk Management Policies.
- Commissioned external agency to conduct performance evaluation for the Board of Directors (the Board).
- Created company-wide pandemic control system.
- Completed 100% of improvements identified in risk ranking project.

Action Plan

- Continue to expand the scope of risk control.
- Optimize risk control system with dynamic adjustment.
- Establish risk control system platform.
- Regularly take stock of major risks with tracking and improvement.



### Corporate Governance Evaluation

Reaching top **5%**

Reaching top **5%**

Reaching top **5%**

Reaching top **5%**



Completed

Reducing top **5%**

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



### Industry Leading Status

Maintaining industry leading status with key products



Completed

- Medical grade composite fiber: No. 1 production capacity in the world.
- Recycled PET: Top 2 production capacity in the world.
- PET resin: Top 3 production capacity in the world.
- Non-woven polyester staple fiber: Top 3 production capacity in the world.

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



### 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 2020 Sustainability Report

- Continue stakeholder dialogue, engagement and feedback.
- Actively participate in CSR programs to stay current on CSR trends and issues.
- Aim for winning international and domestic CSR awards.



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# Material Topics



## Refine 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 expand production capacity and establish 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

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

## Govern with Steady Pace

### 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 protecting 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 businee integrity, regulatory compliance, rules of procedures and public information.
- Establish rules and regulations governing Board Meetings and conduct annual self-evaluation.
- Incorporate external Corporate Governance Evaluation and internal control system to evaluate the effectiveness of operational procedures.

### Authority

- Corporate Governance Officer
- Corporate Governance Task Force

## Perfect 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 avoid financial loss or damage to reputation.

### Management Approaches and Effectiveness Evaluation Mechanisms

- Establish Risk Management Policies and risk control system to make dynamic adjustments and optimization and ensure system effectiveness.
- Implement staff training to increase risk awareness.
- Conduct monthly Risk Management Meeting to monitor risk indicators and regulatory compliance.
- Regularly conduct plant risk ranking project 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

## Implement Sustainable Development

### 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 sustainable corporation through non-stop refinement in the perpetual pursuit to perfect humanities.

### Management Approaches and Effectiveness Evaluation Mechanisms

- Establish Sustainability Committee with the Board as the highest governing entity.
- Establish Sustainability Policy and FENC Sustainability Strategic Blueprint to implement various CSR 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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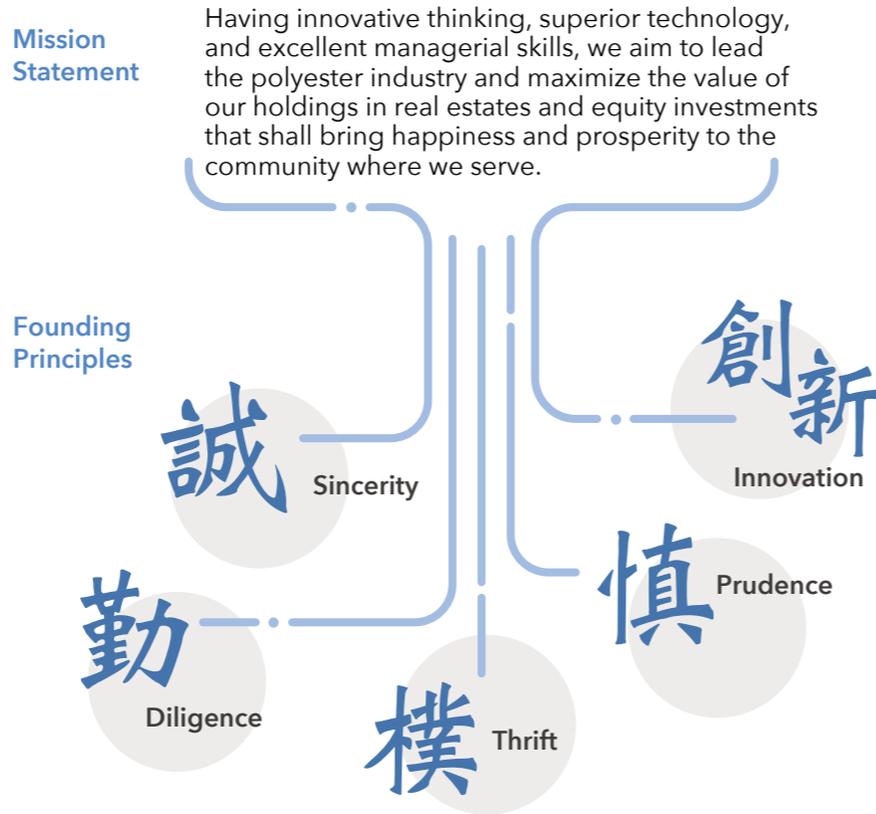
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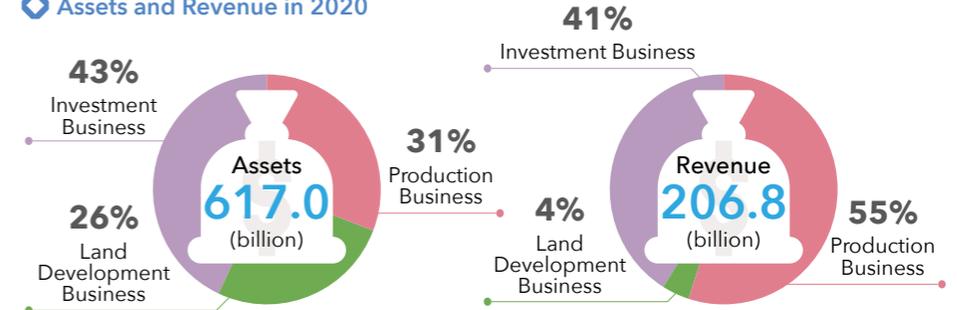
**1.1 Refining Operational Performance and Strategies**

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. The Company is listed on the Taiwan Stock Exchange, and continues to pursue sustainable development and long-term profits. While doing so, FENC will keep delivering exceptional results in environmental protection, social inclusion and corporate governance, creating diverse values for stakeholders.

Organization Chart of FENC



**Assets and Revenue in 2020**



Note: The status of FENC production sites remain the same in 2020.

**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 FENC's finance and internal control. The accountants' independence and qualification are evaluated on a regular basis. In the event that the accountants have not been replaced for 7 years, the accountants are demerited or the independence of the accountants have been compromised, evaluations shall be conducted to determine the necessity of replacing said accountants, and the result shall be presented to the Board.



**Financial Performance**

Unit: NT\$1,000

	2018	2019	2020
Total Assets	565,589,420	576,079,699	<b>616,955,270</b>
Total Liabilities	297,859,983	304,758,516	<b>347,530,630</b>
Shareholders' Equity	267,729,437	271,321,183	<b>269,424,640</b>
Operating Revenues	228,661,933	250,146,590	<b>206,769,281</b>
Net Income (Attributable to Parent Company)	12,028,294	10,732,669	<b>8,062,699</b>

Note: FENC consolidated financial statement.

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**Economic Values Distributed to Stakeholders**

Unit: NT\$1,000

	2018	2019	2020
Operating Cost	184,261,821	205,396,660	<b>166,373,605</b>
Employee Wages and Benefits	22,486,717	22,865,446	<b>19,790,390</b>
Payments to Investors (Interest Expense and Dividends)	16,872,295	20,612,117	<b>17,700,487</b>
Payments to Government (Income Tax)	2,663,528	2,695,092	<b>3,142,945</b>
Investments in Community	73,878	139,578	<b>238,392</b>

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

**Tax Contribution to Local Governments**

Unit: NT\$1,000

	2018	2019	2020
Taiwan	2,754,610	2,354,409	<b>2,241,434</b>
China	(59,382)	292,177	<b>859,003</b>
Others	(31,700)	48,506	<b>42,508</b>
<b>Income Tax</b>	<b>2,663,528</b>	<b>2,695,092</b>	<b>3,142,945</b>
<b>Ratio of Income Tax to Revenue</b>	<b>1.16%</b>	<b>1.08%</b>	<b>1.52%</b>

Note:  
 1. The table indicates income tax expense (benefit).  
 2. Other Region include Vietnam, Japan, U.S, Malaysia.  
 3. The income tax listed under 2018 China and Other are benefits due to reversing allowance for deferred income tax and increasing deferred income tax assets.

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.

Tax Governance Policy is fully implemented at FENC, and all FENC sites must comply with local tax laws to ensure transactions among them are conducted under 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 as open information such as the financial report and reports regarding corporate sustainability to stakeholders to increase transparency.

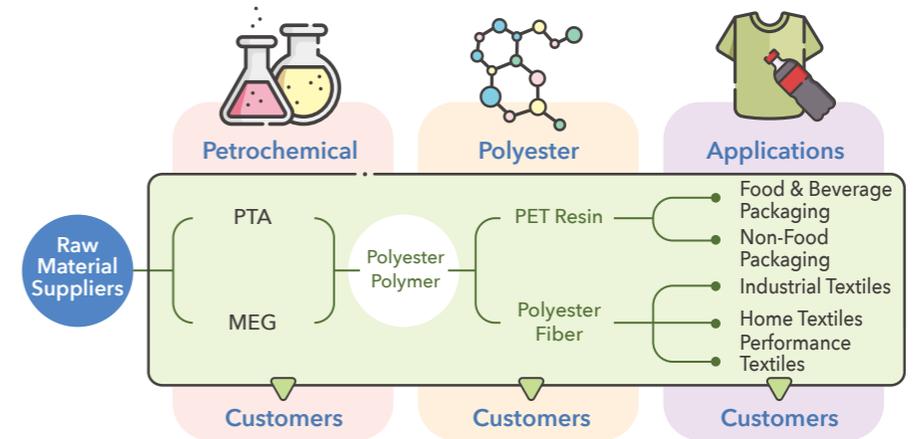
To avoid risks associated with regulatory changes, the Company established tax risk identification mechanism. When tax laws are amended, the mechanism facilitates assessment, prepares necessary response and considers gaps in tax obligations in a timely fashion. FENC also designated a tax affairs team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

Tax management at FENC falls under the responsibility of Accounting Department. All major transactions and policy decisions are preceded by tax risk assessment. Compliance is ensured through planning in accordance with tax law, incentives and agreements as well as internal audit. Per regulatory requirement, the Company files country-by-country report for the previous year prior to yearend.



**1.1.2 Production Business**

**Main Products and Value Chain**



**Sales Ratio**



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

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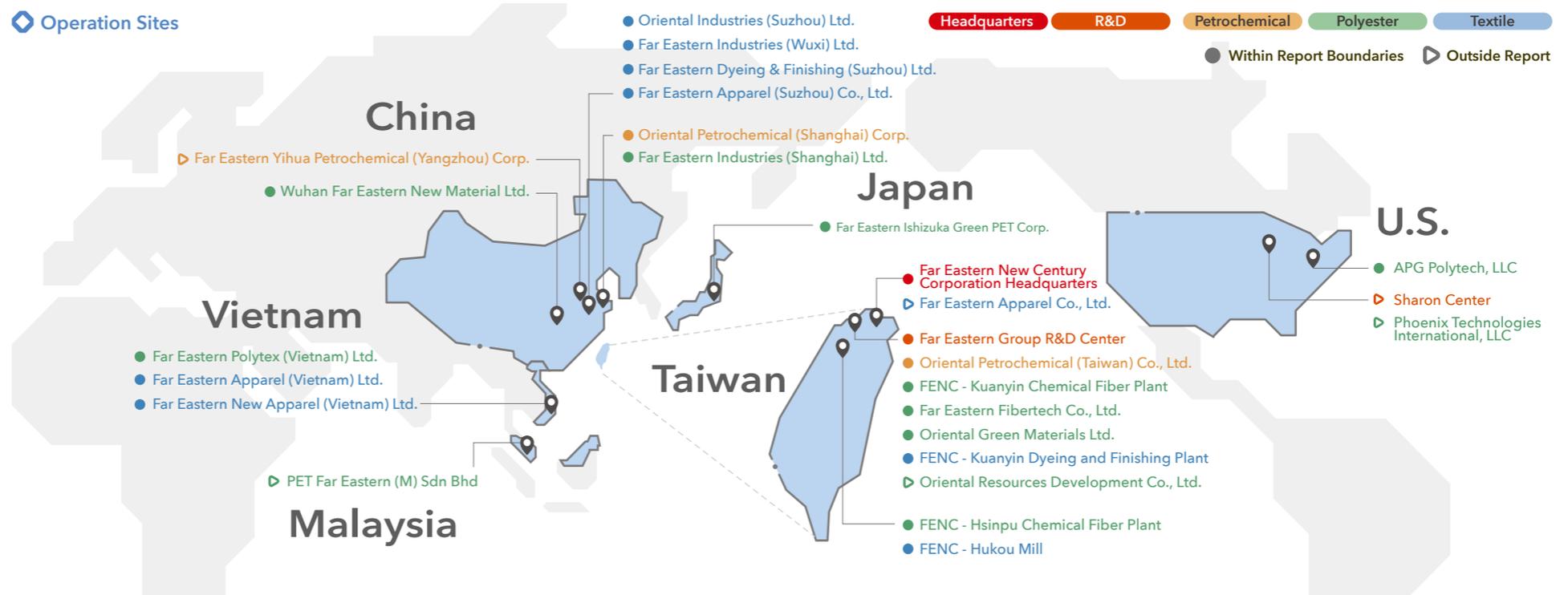
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### Overview of Market Environment and Industry Summary in Production Business

The COVID-19 pandemic result in shrinking demand in downstream sectors in 2020, leading to decline in global polyester production, and subsequently the downturn in demand for PTA. The disrupted global supply chain is now undergoing restructuring. On the product side, FENC continues to bring innovation to healthcare products, including medical masks, medical gowns, face shields and blood collection tubes. On the operational front, FENC accelerates digital transformation, strengthens remote work model and builds smart plants that deliver high efficiency.

As vaccination campaigns kick off around the world in 2021, global economy is showing signs of recovery. While oil producing nations continue to cut production; extreme weather paralyzed the petrochemical sectors, the price of oil

and raw materials for the petrochemical industry continue to surge. Also on the rise are the price of PTA and polyester as demand for textile products sees an upward trend.

FENC's vertically integrated production-marketing system spans from the upstream petrochemical, midstream polyester to downstream textile industries, which enables FENC to offer one-stop service to customers. The Company also continues to expand its production capacity for PTA, polyester, textile and products under the scope of circular economy, striving toward digital transformation, innovation and breakthrough. The goal is to become a global leader in the polyester and textile sectors, expand our influence for the society and generate new momentum for the industries.

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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.

**Integrity and Anti-Corruption**

Corruption and unethical conducts are detrimental to corporate reputation and stakeholder rights. To reduce the risk of corruption, FENC has established integrity and anti-corruption policies, implementation results in 2020 stated as follows:

- Best Practice Principles of Ethical Corporate Management
- Code of Ethics
- The Whistle-Blowing and Disciplinary Method of Violating Ethical Conduct and Ethical Management
- Legal Compliance Execution Report (Chinese)

**◆ Integrity and Anti-Corruption Policies, Implementation Results in 2020**

Highest Guiding Principle	Integrity
Code of Conduct	Best Practice Principles of Ethical Corporation Management and Code of Ethics approved by the Board.
System	<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>Risk assessment mechanism, which applies to dealings with governmental entities.</li> <li>Anti-corruption clause, which shall be included in procurement contracts.</li> </ol>
Scope	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.
Audit System	<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>
Training and Promotion	<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. In 2021, the training will be expanded to cover non-permanent employees.</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>
2020 Implementation	<ol style="list-style-type: none"> <li>Amended Best Practice Principles of Ethical Corporation Management, key points are as follows:                             <ul style="list-style-type: none"> <li>Board members and high level executives must issue statement of compliance with ethical practice policy, and include such compliance as terms of employment for new recruits.</li> <li>Documents concerning the policy and statement on, commitment to and implementation of integrity practice must be properly filed and stored.</li> <li>The Company shall establish integrity practice unit under the Board with resource and personnel allocation. The unit shall report regularly to the Board at least once annually.</li> <li>The Company shall establish Operational Procedure and Guidelines of Conduct on Integrity Practice with specific rules governing employees' business conducts.</li> </ul> </li> <li>The Company shall publish provisions on The whistle-blowing and disciplinary method of violating ethical conduct and ethical management, and update Integrity Practice Implementation on FENC website.</li> </ol>
2020 Results	<ol style="list-style-type: none"> <li>Zero corruption.</li> <li>The Company provided anti-corruption training to 97% of employees and 100% of the Board members.</li> <li>The Company provided anti-corruption training or education to 100% of the 7,352 suppliers and subcontractors, including agents and trade companies.</li> <li>Articles concerning internal control for integrity practice have been included in the internal audit system.</li> </ol>

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1.2.1 Strengthening Corporate Governance

**FENC**

Corporate Governance Evaluation Performance

**Three Consecutive Top 5%**

(Year 2019, 2020, 2021)

**Sharing Corporate Governance Practice with Three Consecutive Top 5% Ranking in Corporate Governance Evaluation**

FENC received the rating of excellence from Corporate Governance Evaluation for 3 consecutive years since 2019. Finishing among the top 5%, the outcome is a vote of confidence for FENC's corporate governance. The Company established regulatory compliance system in 2013; risk management system in 2015 and conducts risk ranking project every 3 years. In addition, the Company abides by international standards when it comes to assessing climate-related risks. These measures ensure sound governance and minimize operational risks at FENC.

During an interview with CSR@CW, an online platform from Commonwealth Magazine in May 2020, Humphery Cheng, President of Administrative Headquarters, talked about the two core strengths for FENC's success in corporate governance – risk control and transparency; preemptive preparation. The two strengths enable FENC to respond with agility and exercise corporate influence to maintain sustainable growth and competitiveness.

On June 17th, 2020, a Japanese firm was invited to CSO Salon held by Center for Corporate Sustainability to share field experience in corporate governance. Due to the COVID-19 pandemic, this event was held in the virtual format, and nearly 50 management staff in charge of sustainable development joined the online conference.

Examining Corporate Must-Haves from the Top 5% Ranking in Corporate Governance Evaluation (Chinese)

FENC refines corporate management based on the outcome of Corporate Governance Evaluation in 2020. Corporate governance implementations in 2020 include:

1. Establishing Sustainability Committee at the Board level to implement and strengthen the implementation of corporate governance and integrity practice system; develop and promote matters related to corporate sustainability; oversee tasks related to sustainability as approved by the Board.
2. Enacting Risk Control Policy as approved by the Board to help FENC strengthen corporate governance and create sound risk control measures, ensuring the achievement of all corporate targets.
3. Enacting Intellectual Property Management Plan as approved by the Board to protect the fruit of innovative R&D on cutting-edge technology, enhance long-term competitiveness and effectively manage intellectual property.
4. Commissioning external agency to conduct Board performance evaluation.
5. Reporting the hiring, termination, review and remuneration of internal audit personnel to the Board for approval by the audit manager.

Corporate Governance Principles

1.2.2 Board Structure and Remuneration

The Board serves as the highest governing entity at FENC. Convening 4 times in 2020, a sound system is in place for its operation to ensure continuous refinement of its performance:

Board Directors Board Regulations

Board Management and Performance Review

Nomination

Nominations are made in accordance with Election Procedures of Director and Corporate Governance Principles, while comments from the independent Board members and the candidates' experience and education are also taken into account. In accordance with Company Law, shareholders with over 1% of the issued shares of FENC may nominate candidates for the Board in writing. The 24<sup>th</sup> Board election is tentatively scheduled to take place in 2021.

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 (including provisions on conflict of interests) and all applicable regulations.

Training

Each year, the Company invites external experts to conduct 2 training sessions for the Board. Training courses offered in 2020 include Post-pandemic Global Economic Trends and Corporate Competitive Strategies as well as World Economic Trends and Opportunities for Taiwan. Eighteen Board members attended the training and all members completed a minimum of 6 hours.

Remuneration and Evaluation

Performance evaluation for the Board, Board members and functional committees are conducted in accordance with FENC Board Performance Evaluation Rule. External independent agency or teams of experts and scholars conduct the evaluation once every 3 years. In 2020, the results of all self-evaluation are "exceptional," which is the highest level. For details on external performance evaluation, please refer to the descriptions below.

Performance Evaluation of Board Directors

Core Competency	Environment	Society	Governance
Properly exercises 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.	Establishes and provides supervision on environmental goals, including energy and resource management; report on GHG emissions; pollution prevention and control; creating sustainable production process.	Establishes and provides 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.	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.

The Articles of Incorporations stipulates that actual percentages and dollar figures of company revenue appropriated as remuneration for the Board members are determined by Remuneration Committee after evaluation, and resolution from the Board will be presented during the shareholder meeting. The 2020 remuneration for the Board members accounts for 1.83% of the after-tax revenue.

Articles of Incorporation

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## Board Performance Evaluation by External Agency



In 2018, FENC amended FENC Board Performance Evaluation Rule, adding provisions on the requirement that Board performance evaluation shall be conducted once every 3 years by external independent agency or a team of experts and scholars. In 2020, FENC commissioned EY Transaction Advisory Services Inc. to conduct the first external Board performance evaluation. Prior to this evaluation, FENC had no business dealings with EY Transaction Advisory Services Inc. EY Transaction Advisory Services Inc. is an independent agency with credentials and professional experience meeting the requirements for conducting this external evaluation.

The overall Board performance is classified into the levels of "benchmark," "advanced" and "fundamental." FENC Board was evaluated on the aspects of Structure, People as well as Process and Information. The Board received the rating of "benchmark," "advanced" and "benchmark" on the three aspects, respectively. The evaluation report was completed in January 2021, and was presented to the Remuneration Committee and to the Board during its March 24<sup>th</sup> meeting. The result will serve as a reference for the nomination and re-election of and remuneration for Board members. The followings are recommendations and responses indicated in the report:

Recommendation	Response
Establish Non-Statutory Functional Committees.	The Company has established Sustainability Committee in November 2020 to strengthen Board structure.
Enhance Board Diversity.	The Company will review Board nominees carefully to enhance Board diversity.
Increase Board Meeting Attendance Rate.	The Company has strongly encouraged Board members to attend the Board meetings.
Invite Non-Executive Board Members to Participate in Key Operational Meetings.	The Company has arranged for non-executive Board members to take part in major operational meetings.

## Board Functional Committees

### Remuneration Committee Established in 2011

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 2020, the Remuneration Committee convened 2 times.



### Audit Committee Established in 2015

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 2020.



### Sustainability Committee Established in 2020



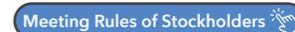
Sustainability Committee is composed of 2 independent directors and 1 non-executive director. One of the independent director serve as the convening body of the Sustainability Committee, which actively fulfill the following responsibilities granted by the board of directors, including "Promote and strengthen 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 2020, the Sustainability Committee convened 1 times.



### 1.2.3 Shareholder Rights

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**

Opportunity is a double-edged sword. With corporate development opportunity, comes risks. As COVID-19 rages through the world, the pandemic underscores the importance of sound risk control. Hence, FENC elevated its importance in the material topic matrix. Operational risks can only be offset through control mechanism, which optimizes opportunities as the means to fulfill sustainable management.

To reinforce corporate governance and establish sound risk control to reach corporate targets, the Board approved Risk Control Policy on November 12<sup>th</sup>, 2020. 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

**Structure of Risk Control Organization**



FENC's risk management organizational structure is divided into three levels. Board of directors, Administrative Department, all businesses and applicable units in order, the relevant rights and responsibilities are stipulated in Risk Management Policies. When urgent major risks emerge, emergency response teams shall be established for immediate response and to ensure regulatory compliance to minimize potential loss and impact. FENC conducts meetings with the highest governing entity concerning various matters, including risk involving management, sales, industry operation and energy conservation to keep the highest governing entity informed for all decision making.

**FENC Regular Meetings**

● Environment ● Social ● Governance

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

**FENC Risk Management Principle and Processes**

**Six 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 mechanism and emergency action plans
4. Constantly identifying and responding to changes
5. Complying with laws and regulations
6. Strengthening trust and communication with stakeholders

**Seven Processes**



**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.

- Financial Risk** Including the volatility of local and foreign interest rates, currency exchange rates and credit risks, etc.
- Strategic and Operational Risk** Including operations strategies, local and overseas market competitions, industry alliance, policy or regulation changes, etc.
- Information Security Risk** Including but not limited to potential threats to the confidentiality, integrity, availability of the Company's information asset due to any natural, man-made or technical factors.
- Environmental and Energy Risk** Including the change of climate, natural resources, government energy and related financial and taxes policies, etc.
- ESG Risks** ESG risks encompass risks induced by the environment, society and governance that are derived out of global corporate sustainability issues.

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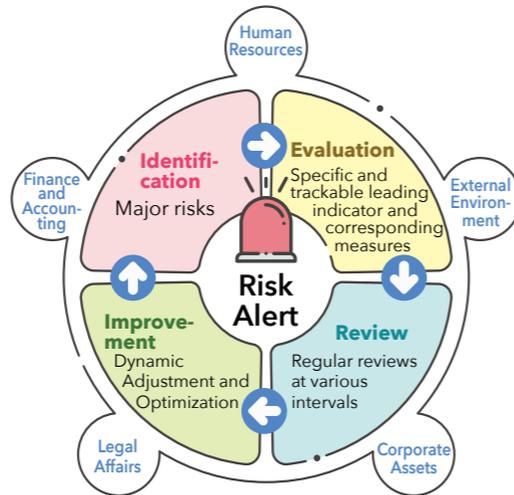


Principal Risk Control Mechanism and Details

1. 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 2020, 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. 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.

◆ Process of Risk Alert System



2. 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:

<b>Objective</b>	<ul style="list-style-type: none"> <li>• Enhance employees' legal awareness to avoid illegality.</li> <li>• Protect corporate interests and image.</li> <li>• Reduce operational risks for the Board and management team.</li> <li>• Improve corporate efficiency.</li> </ul>		
<b>Organization</b>			
	<b>Category</b>	<b>Focus</b>	<b>Task</b>
<b>Detail</b>	<b>Establish Communication</b>	<ul style="list-style-type: none"> <li>• Establish clear and adequate system for the conveyance, consultation, coordination and reporting of regulatory information.</li> </ul>	<ul style="list-style-type: none"> <li>• Designate regulatory compliance personnel.</li> <li>• Report violations and penalty immediately.</li> </ul>
	<b>Regulatory Update</b>	<ul style="list-style-type: none"> <li>• Establish internal regulatory compliance web page.</li> <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>
	<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>
	<b>Compliance Evaluation</b>	<ul style="list-style-type: none"> <li>• Determine self-evaluation checklists in accordance with regulatory control points.</li> <li>• Conduct on-site inspection for regulatory compliance.</li> <li>• Conduct regulatory compliance meetings on a regular basis.</li> <li>• Report implementation of regulatory compliance to the Board on a regular basis.</li> </ul>	<ul style="list-style-type: none"> <li>• Conduct regular self-evaluation on the implementation of regulatory compliance and report the outcome.</li> <li>• Conduct on-site inspection and submit evidence.</li> </ul>
<b>Target</b>	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, 80 regulations and 590 control points are identified.		
	<b>Target</b>	<b>Compliance Detail</b>	
	<b>Shareholder</b>	Financial report, internal control, issuance of credit and endorsement/guarantee, acquisition and disposal of assets, convening of meeting	
	<b>Customer and Competitor</b>	Fair trade, import/export	
	<b>Corporate Asset</b>	Business accounting, tax management, patent and trademark, Copyright Act, trade secret, personal data protection	
	<b>Employee</b>	Labor condition, welfare and insurance, labor relations, labor retirement, health and safety	
<b>Society</b>	Environmental protection, corporate corruption, political donation		
<b>Implementation</b>	1. Each department shall complete quarterly self-evaluation on regulatory compliance and report to Legal Department. 2. Legal Department shall collaborate with Human Resources Department, Labor Safety and Health Department and Audit Department to complete on-site inspection, report to the Board, provide guidance for all departments on improvements and follow up. 3. Establish the SOPs regarding violations and designate channels for reporting violations, such as emails for the regulatory compliance system, Audit Committee and Audit Department.		

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**Regulatory Compliance in 2020**

Global trade conflicts continued to escalate in 2020. To avert risks of trade conflicts on business sales, the following 2 tasks are listed as priorities:

1. Antitrust Compliance  
 FENC established Antitrust Policy Paper based on the level of risk of violations for each unit, providing training and launched internal control, audit and reporting mechanism.  
 In July 2020, FENC conducted 4 training sessions of training on Antitrust and Competition Law for sales supervisors and high-level executives in Taiwan and international locations who were identified as being high risk. The training was offered online with all participants attending at the same time. The sessions were recorded and uploaded to FENC's online learning platform, FENC Academy. In 2020, 322 participants completed the training and passed the exam. FENC was not involved in any antitrust cases in 2020.
2. Response to global trade barrier  
 The wave of protectionism has swept across the world in recent years, exacerbating trade barriers when nations continue to impose economic sanctions. FENC's trade partners are located across the globe. To avoid sanctions, all FENC sites collaborate with Legal Department on special investigations and ban all direct and indirect trades with sanctioned entities to avoid penalty.



**Twelve Years of Zero Bad Debt Amid Intensifying Credit Risks Under COVID-19**

The surge of COVID-19 in 2020 gravely impaired global economy and supply chain stability. As a result, factory shutdown and corporate bankruptcy increased at an alarming rate, driving up credit risks. FENC responded promptly in February 2020, therefore reducing the risk of bad debt, upholding the 12-year zero-bad-debt streak. Actions taken include:

1. Compile weekly report on the latest credit risk exposure and customer operational status.
2. Suspend the review of credit insurance, improving underwriting rate to 90% and expanding other channels for insurance.
3. Shorten the grace period for accounts receivable, enhance overdue follow-ups and increase reporting frequency.
4. Implement credit crunch in countries in countries with high COVID-19 infection rate and elevate the threshold for unsecured credit.
5. Lower the credit limit for customers with low demand for unsecured credit to reduce risk exposure.
6. Compile list of customers with long past dues to be monitored, and tighten or postpone credit transaction.



**3. Risk Ranking Project**

FENC's worldwide production sites are located in Taiwan, China, Vietnam, Japan, Malaysia and the U.S. Plant safety is one of the essential factors for corporate growth. To strengthen work safety at these production sites, the Company regularly commissions external experts to visit domestic and overseas locations to conduct risk assessments. Improvements are made based on the results to bolster operational strength against risks.

In 2019, the Company commissioned external agency to conduct Risk Ranking Project for 21 plants at its global locations for the third time, assessing 44 international risk indicators in 3 major areas – software, hardware and emergency response. To implement sound risk alert system and track risk control performance, the Company makes improvements based on the results and addressed deficiencies based on expert advice. Each month, the Company conducts follow-ups and reports improvement progress. As of the end of 2020, improvements have been completed to resolve the 129 risk factors identified during the third risk ranking along with 183 from the first and second risk ranking. In the future, FENC will continue to review maintenance and repair to ensure the safety of corporate assets and staff.

**4. Strengthen Risk Control Training**

To ensure sustainability, reduce damages and increase profits, all units must provide training for employee regarding potential risks. The objective is to reduce potential risks, such as financial risks; strategic and operational risks; information security risks; environmental and energy risks. In 2020, 3,594 participants completed the 44 training programs offered by the Company. In addition, the Company provided training on occupational safety and health risks. For details, please refer to [4.3 Reinforcing Environmental Safety and Health Management](#).

In addition to risk-specific training, FENC provides regulatory compliance training at all production sites on an ad hoc basis to enhance staff's legal knowledge and reduce the risk of violations during business conducts. In 2017, FENC launched online training on FENC Academy, providing training and exams for employees at production sites in Taiwan and China. Among the training offered, Criminal Code and Corporate Corruption; Copyright Law; Trade Secrets Act are mandatory for all new employees as well as employees at Administrative Headquarters, Audit Department, Purchasing Department and R&D Center. Antitrust Law as well as Criminal Code and Corporate Corruption are mandatory for sales staff at Polyester and Textile Businesses. Credit Risk Management and Awareness is optional for all employees. As of the end of 2020, 2,114 employees completed regulatory compliance training and exams. FENC will continue to expand the training offered to enhance staff's regulatory understanding and reduce corporate risks.

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**Major Violations in 2020**

	Violation	Fine (NTD)	Improvement Plan
FEIS	Chemical residues leaked during maintenance and caused fire. (No injuries or fatality.)	Approximately NT\$940,000	1. Improve the SOP to eliminate chemical residues. 2. Clean the conduits regularly to identify abnormalities in advance. 3. Increase firefighting apparatus to allow prompt response to fire caused by chemicals.
Hsinpu Chemical Fiber Plant	The plant did not report occupational safety incident within the legally required period.	NT\$ 300,000	Review reporting procedure and enhance education.
Hsinpu Chemical Fiber Plant	The plant did not conduct regular inspection on the equipment, labor and workplace condition as legally required and the safety precautions taken did not comply with regulatory requirements.	NT\$ 300,000	Designate units to follow up on violations regularly, report violations in accordance with regulatory requirements and increase awareness among all units through designated personnel and websites.
Hsinpu Chemical Fiber Plant	The pump that supports coal-water slurry boiler malfunctioned, leaking heat transfer fluid that caused fire and spread of odorous pollutants. (No injuries or fatality.)	(Note 2)	1. Improve boiler equipment and add emergency valves. 2. Place backup supplies by the boiler. When unable to repair malfunctioned equipment in time, backup suppliers should be used immediately as mitigation. 3. Add hand-held fire extinguishers to extinguish fires quickly, and use water mist fire extinguishers to limit the spread of odorous pollutants. 4. Establish management rules, purchase hand-held leak detectors, and increase inspection frequency to spot abnormalities in advance.
OPTC	Odor from emission source exceeds legal maximum.	(Note 3)	Basis for filing administrative litigation: 1. The SOP for sampling and testing does not comply with regulatory requirements. 2. High water content in the sampling bag compromised the integrity of test result. 3. FENC commissioned alternative testing agency licensed by Environmental Protection Administration to repeat identical testing, and the odor level is in compliance.

Note:  
 1. The threshold for disclosure is set at NT\$100,000. A total of 11 cases were disclosed in 2020, and some are consolidated in this report.  
 2. Hsinchu County Government revoked the original sanction on May 18<sup>th</sup>, 2021, and notified the Company to submit a written statement.  
 3. Fined NT\$500,000. Administrative litigation has been filed with Taipei High Administrative Court.

**5. Oversight and Management of Internal Control System**

Aside from conducting audits in accordance with regulatory requirements, the audit units formulate the audit plan for the coming year based on the results of all operational risks assessment. Implementation of the plan begins upon approval of the Audit Committee and the Board. When deficiencies or abnormalities are identified, the audit unit communicates with the audited unit, requests improvement proposals, and conducts follow-ups until improvements are made.

Audit Structure and Approaches to Self-Evaluation on Internal Controls

After completion, the audit report is submitted to the Audit Committee for review prior to the end of the following month. Quarterly progress report on improvements made shall be presented to the Audit Committee and the Board. Any major violations or major damages to the Company shall be presented to the Audit Committee, the Board and President of each Business immediately in the form of a written report as a reference for Statement of Internal Control. The report shall be published in the annual report or a Market Observation Post System to demonstrate the Company's commitment to implementing effective internal control.

In 2020, FENC conducted 60 audits. Among them, 31 are projects required by the authority and 29 are critical Company audits. A total of 131 internal control deficiencies are identified. Most are minor and have been improved. As of the end of 2020, improvements on 14 deficiencies remain to be completed.

Each year, 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 hone professional skills and knowledge of risk control. The Company files the names of internal auditors and the training they received on Market Observation Post System.

**Management of Information Security**

1. Establish and Comply with Information Safety Management System (ISMS)  
 FENC introduced ISO 27001 Information Security Management System in 2014. Beginning in 2016, the Company has been obtaining certification from external audit agencies, implementing the Plan-Do-Check-Act (PDCA) system to ensure information security.
2. Ensure Effectiveness of Information Security Protection  
 To prevent threats to information security, the Company adopts the multi-layered network to reinforce defense. In addition, the Company has put security defense systems as well as threat detection and emergency response mechanisms in place. These measures systematically step up intelligence sharing as well as vertical communication, reporting and monitoring to improve the overall maturity of data security governance and reduce information security risks. Teams have been established in Taiwan and China to integrate policies on information security management across all locations.
3. Implement Staff Safety Management and Training  
 FENC enhances promotion of information security to strengthen staff's awareness, the goal is to internalize such awareness into their daily routine. The Company also encourages staff to take part in information security training and obtain certifications. Adequate knowledge and skills are required for system developers and managers to reduce the risks of human errors and abuse of assets.

**Climate Risk Management**

FENC is committed to responding to climate-related risks and turning them into business opportunities. In 2019, FENC adopted Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) to evaluate and identify critical climate-related risks and opportunities. In 2020, FENC made adjustments based on the results at all FENC sites. The followings are the projects the Company implement in 2020.

TCFD Climate-Related Financial Risk Assessment

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## Critical Climate-Related Risk and Opportunities Response Projects

Risk	Opportunities
 <p><b>Typhoon (hurricane)</b></p> <ul style="list-style-type: none"> <li>• Focus on flood prevention and reinforce measures against typhoon damages at production sites.</li> <li>• Install emergency power generation system to maintain steady power supply for critical facilities.</li> <li>• Purchase diesel generator in preparation for power outage.</li> <li>• Adjust deployment to ensure sufficient manpower during disasters.</li> </ul>	 <p><b>Efficiency of Energy and Resource Use</b></p> <ul style="list-style-type: none"> <li>• Implement energy saving and carbon reduction projects.</li> <li>• Introduce water conservation production and projects.</li> <li>• Replace equipment with low resource efficiency.</li> <li>• Promote waste recycling and reuse.</li> <li>• Choose low carbon transport for product delivery.</li> </ul>
 <p><b>Costs to Transition to Lower Emissions Technology</b></p> <ul style="list-style-type: none"> <li>• Invest in equipment that improves energy efficiency.</li> <li>• Invest in solar energy.</li> <li>• Purchase green power.</li> </ul>	 <p><b>Energy Source</b></p> <ul style="list-style-type: none"> <li>• Invest in low carbon energy.</li> <li>• Purchase Taiwan Renewable Energy Certificate.</li> <li>• Establish carbon trading management team.</li> </ul>
 <p><b>Increased Cost of GHG Emission Due to GHG Emission</b></p> <ul style="list-style-type: none"> <li>• Conduct GHG inventory verification.</li> <li>• Reduce carbon emission by stepping up efforts in improving low NOx burning technology and stripping technology to remove VOC</li> <li>• Implement energy saving and carbon reduction projects.</li> <li>• Refine GHG emissions management.</li> </ul>	 <p><b>Products and Services</b></p> <ul style="list-style-type: none"> <li>• Research and develop green/functional products.</li> <li>• Obtain green production certifications.</li> <li>• Obtain green building/smart building certifications.</li> </ul>
	 <p><b>Markets</b></p> <ul style="list-style-type: none"> <li>• Expand applications of rPET.</li> </ul>
	 <p><b>Resilience</b></p> <ul style="list-style-type: none"> <li>• Invest in solar energy.</li> <li>• Develop green production.</li> </ul>

## Tackle Climate Challenges by Signing and Supporting TCFD



FENC's commitment to corporate sustainability is consistent. With top global enterprises as the role model, FENC encourages company-wide search for solutions to mitigate effects of climate change. On August 21<sup>st</sup>, 2020, FENC signed TCFD. FENC is the 26<sup>th</sup> Taiwanese corporation among the nearly 1,700 global enterprises that signed TCFD by December 2020, and the first among Taiwanese polyester industry. In addition, FENC is the first traditional manufacturing enterprise in Taiwan to issue the declaration of signing and support.

FENC looks forward to be joined by more industry peers to capitalize on the TCFD framework, identifying climate-related financial impacts and refining corporate strategies. Meanwhile, by developing an array of projects that help mitigate effects of climate change, we are creating a more sustainable future on earth.

Declaration:

*Far Eastern New Century Corporation*

*Climate change is the defining issue of our time with enormous impacts on the global environment, society and economy. FENC has long been committed to pursuing the vision of a circular economy, hoping that it can make some contribution to mitigate the impacts of climate change through bringing a diverse range of eco-friendly and low-carbon green products to the world.*

*The TCFD frameworks provided by FSB have been conducive to our clearer elaboration on how FENC has addressed and responded to the risks and opportunities posed by climate change, and thereby more transparent communication with all stakeholders. Based on such frameworks, FENC assessed the impacts of climate change on the company and crafted our climate change management strategy. It is our sincere hope that more like-minded companies will join us in our effort to create a more circular, sustainable and promising future.*

*- Far Eastern New Century Corporation*

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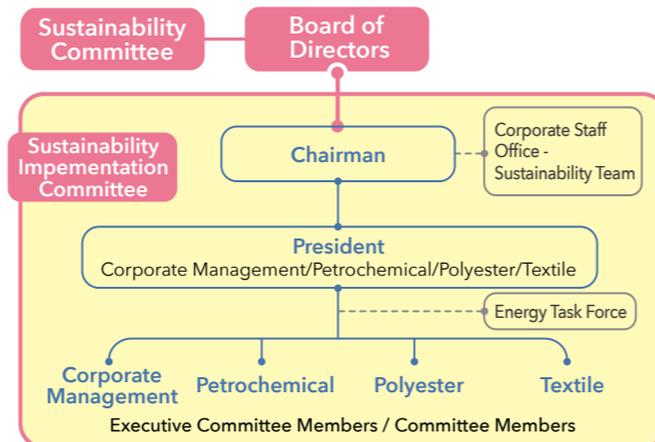


**1.4 Implementing Sustainable Development**

FENC balances the pursuit of corporate revenues and meeting expectations from the general public, paying close attention and adjusting corporate policies accordingly as issues emerge. In 2017, FENC established Sustainability Strategy Blueprint to build cohesion within the Company as it strives towards sustainability. In 2020, the Financial Supervisory Commission issued Corporate Governance 3.0 – Sustainable Development Roadmap, which FENC used as a reference to integrate corporate sustainability and corporate strategies, reforming FENC's sustainability framework and management guidelines.

**Organizational Structure**

	Duties		
<b>Board of Directors</b> (3 independent board members and 10 board members)	Supervise all units; formulate responses based on the review of impacts from the following issues:		
	1. Operational performance and market conditions	5. Human resources management and development	9. Environmental safety and health
	2. Industry strategies	6. Risk control	10. Energy management
	3. Financial conditions	7. Implementation of regulatory compliance	11. R&D
	4. Sales conditions	8. Internal audit	12. Non-profit campaigns
<b>Sustainability Committee</b> (2 independent directors and 1 non-executive director)	1. Promote and strengthen the corporate governance and integrity. 2. Implement and develop matters related to corporate sustainability. 3. Supervise other matters related to corporate sustainability approved by the Board.		
<b>Sustainability Implementation Committee</b>	<b>Designated Staff: 3 Members in Sustainability Team</b>		
	1. Compilation and disclosure of corporate sustainability information.		
	2. Planning and implementation of corporate sustainability projects.		
<b>Part-Time Staff: 212 Supervisors from Company Units</b>			
3. Co-ordination and submission of information on external evaluation matters for corporate sustainability.			



**Sustainability Committee, a Quantum Leap for FENC Corporate Sustainability**



In 2020, FENC demonstrated its unwavering determination to implement sustainable management by establishing Sustainability Committee and Sustainability Committee Charter. The Company also revamped the framework of sustainability organization and management policy.

Sustainability Committee Charter

Sustainability Organization Members and Duties

Sustainability Principles

**Sustainability Management Policy**

Keeping in line with international trends, governmental requirements and corporate sustainability guidelines, FENC established Sustainability Principles, which was amended in 2020. Key points are as follows:

1. FENC shall establish Sustainability Committee and Sustainability Implementation Committee to implement internal sustainability practice.
2. Determine the scope of disclosure on corporate sustainability.
3. Conduct risk assessments on stakeholder and sustainability issues based on materiality principle to manage risks and impacts on economy, environment and society.
4. The principles are effective immediately upon Board approval, and will be presented during the shareholder meeting. Amendment of the principles shall follow the same procedure.

**Communication on Sustainability Performance**

1. Sustainability Committee Meeting  
The President of Administrative Headquarters as the convener of Sustainability Implementation Committee, members of Sustainability Team and other appointees by members of Sustainability Committee shall present sustainability performance from the previous year as well as the goal for the coming year during the meeting.
2. Annual External Communication  
FENC publishes FENC Sustainability Report annually. Members of Sustainability Implementation Committee are responsible for presenting the annual performance. Sustainability Team from Corporate Staff Office are responsible for data analysis, tabulation and internal audit. Once completed, the report goes through third party verification for credibility check and requires approval from the Board and high-level executives.
3. Regular External Communication  
All units are responsible for communicating with stakeholders regarding sustainability guidelines and performance.

Boosting Stakeholder Dialogue

Procedure of FENC Sustainability Report