

NAN PAO RESINS CO., Ltd.

2017 Coporate Social Responsibility Report

Corporate
Responsibility
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CSR



ABOUT THIS REPORT

This is the Corporate Social Responsibility (CSR) Report of Nan Pao Resins Chemical Group (hereinafter called “Nan Pao” or “the Group.”) This Report discloses Nan Pao’s CSR results and performances in 2017 (from January 1, 2017, to December 31, 2017). In the future, Nan Pao will publish the CSR Report on an annual basis. Relevant environmental data and personnel statistical content cover Nan Pao’s headquarters (the Head Plant, Bao Yi Plant, and Bao Li Plant) and operational sites in China and Southeast Asia.

Publication Summary:

Date of Publication of the First Issue: September 2014

Date of Publication of the Previous Issue: July 2017

Date of Publication of the Current Issue: August 2018

References for Compilation:

This Report primarily takes Nan Pao’s relevant corporate sustainability topics into consideration, and the Report’s structure and content are based on material topics of stakeholders’ concerns based on their feedback. Concurrently, the Report is also compiled in accordance with the Global Reporting Initiative (GRI) Standards, the global standards for sustainability reporting.

Reporting Themes:

Nan Pao sees “Leadership, Integrity, Teamwork, and Efficiency” as the highest guiding principles to business development. All of our actions, whether for business management, production processes, or the fulfillment of environmental protection and social participation, are founded on these principles. We seek for the truth, full disclosure, immediate improvement, and continuous growth. Moreover, we focus on “innovation” and “continuous improvement” as the cornerstones to our sustainable development. We always hold true to the principles of being honest, humble, transparent, and open, and report our sustainable concepts and actions to the public.

Reporting Boundaries:

Information disclosed in this Report encompasses Nan Pao's actions and various performance data in terms of environmental protection, corporate governance, and social participation from January 1, 2017, to December 31, 2017. The boundaries of the reporting contents in this Report include the Head Plant of Nan Pao's Taiwan headquarters, Bao Li Plant, Plant No. 5, and Bao Yi Plant, and do not include other overseas facilities, reinvestment production, and sales businesses. All financial figures are denominated in New Taiwan Dollars (NT\$). Environmental statistical data and personnel statistical content encompass the Company's operational sites in China, Indonesia, and Vietnam.

Addresses of Nan Pao's headquarters are as follows:

Company Location	Address
Head Office	No. 12, Nanhaipu, Nanhai Vil., Xigang Dist., Tainan City 723
Bao Li Plant	No. 508-510, Zhongshan Rd., Xigang Dist., Tainan City 723
Plant No. 5	No. 506, Zhongshan Rd., Xigang Dist., Tainan City 723
Bao Yi Plant	No. 521, Zhongshan Rd., Xigang Dist., Tainan City 723

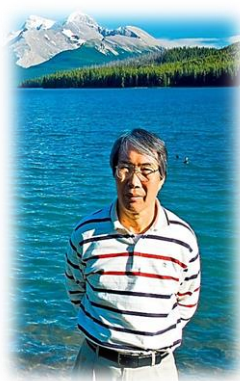
CHAIRMAN'S MESSAGE

Having been established for more than half a century, Nan Pao Resins Chemical Co., Ltd. has continued to move forward with the faith in our brand technology and service. Facing an increasingly severe impact made by global warming and environmental pollution, Nan Pao has already invested significant resources to develop water-based, low-pollutant products for many years, working toward a green chemical industry. We continuously improve our green product R&D and production technologies and reduce the quantities of organic solvents and the consumption of hazardous chemical substances. Nan Pao also shoulders the mission and faith of environmental protection. We continue to monitor and reduce carbon emissions and wastewater solid waste volume, strive to protect the environment, and implement standard environmental management systems.

To care for Nan Pao's most valuable assets -- our employees, we place their safety and health as our first and foremost priority. Besides introducing and complying with the OHSAS 18001 international environmental safety standards, we also make it our goal to reduce occupational injuries to a minimal level. We believe that prevention is more important than improvement. Therefore, we perform risk assessments to comprehensively manage potential risks in our working environments. To build a safe, hazard-free workplace environment, we continue to educate and train our employees and enhance their safety awareness.

Nan Pao strives to realize sustainable corporate responsibility and to make positive contributions to the industry, the market, our stakeholders, and the overall society. Providing stable and safe products for customers is the foundation of Nan Pao's growth. We care for the community and do what we can for senior citizens, children, and disadvantaged groups. Moreover, we focus on shortening the industrial production processes through innovation, research, and development. In addition to making more profits by going green, we can also assist our customers in creating greater benefits by becoming a green enterprise committed to energy-saving and carbon and waste reduction.

We will keep challenging ourselves in the future to become a leading, world-class enterprise and to continue the R&D of green products and innovative technologies, leading to synergistic growth with this beautiful society and the world.



WU, CHENG-HSIEN

ABOUT NAN PAO

Company Introduction

As a leading adhesive and special chemical substance manufacturer, Nan Pao provides pioneering processes and high-quality products and services. Our greatest advantages are our abilities to meet customers' needs and provide comprehensive solutions so that customers' products can achieve competitive advantages.

Company Name	Nan Pao Resins Chemical Group
Number of Employees	Approximately 2,956 employees worldwide
Year of Establishment	1963
Main Products	Adhesives, footwear materials, coatings, special chemical materials, and hot melt adhesives
Industries of Affiliated Companies	Electric components and biotechnology research
Address of the Headquarters:	No. 12, Nanhaipu, Nanhai Vil., Xigang Dist., Tainan City 723
Operational Sites of the Group	Taiwan, China, Vietnam, Thailand, Indonesia, India, the Philippines, Malaysia, Singapore, and Australia
Company Type	The Company is listed on the Taipei Exchange in July 2017, Stock Code: 4766 The Company is projected to be officially listed on the TWSE in June 2018.

Main Products (Services)

Main Products	Products	Purpose	Industry of Application
Adhesives	Polyurethane adhesive	Various footwear adhesives, shoe lining, sewing machine fitting, shoe lining adhesive, folding, board lasting, textile adhesive, printing resin, flocking, fabric stabilization, starching, flannel primer, foam coating, fabric EVA foam adhesive, fabric adhesive, plush adhesive, and various textile processing	Footwear, textile, carpentry, construction, graphic arts, and combination products
	Chloroprene rubber (CR) adhesive		
	Acrylic		
	Hot melt adhesive		
	Ethylene-vinyl acetate copolymer		
Coating	Liquid coating	Decorative and functional coating for metal/wooden products, interior/outer wall decorative and waterproof coating, construction panel coating, metal component protection, and energy-saving heat insulation	Construction, waterproof, anti-erosion, equipment, and woodwork
	Powder coating	Decorative and functional coating for metal products	Furniture, hardware, car accessories, home appliances, baby carriages, aluminum rims, sports equipment, aluminum building materials, pipes, and lighting

Nan Pao plays an important role in the Taiwanese adhesive industry. Founded in 1963, Nan Pao produces a variety of adhesives and has gradually invested in productions of liquid and powder coating, footwear adhesive, and hot melt adhesive businesses. As the Company's scale of operation expanded, we also began to expand to overseas markets. In 1987, Thai Nan Pao Resins Chemical, Ltd. was established, and subsequently, production facilities were set up in China, Indonesia, and Vietnam, which completes our strategic adhesive business blueprints across the Taiwan Strait and throughout Southeast Asia. To increase profitability, Nan Pao continues to optimize product structures, as well as diversify product mixes to electric components, health food and pharmaceutical, medical adhesives, sanitary adhesive, pressure sensitive adhesive (PSA), carbon fiber materials, and e-commerce. Nan Pao is the No. 1 adhesive brand in Taiwan, as well as one of the top three footwear adhesive brands worldwide. In the future, we will continue to work toward our goal of achieving a leadership position in the industry as well as in innovation.

Operational Sites

Taiwan: Tainan Head Office

Chinese Subsidiaries: Dongguan and Foshan in Guangzhou Province, Fuqing in Fujian Province, and Kunshan in Jiangsu Province

Southeast Asian Subsidiaries: Vietnam, Indonesia, Thailand, the Philippines, Singapore and Malaysia;
Representative Offices: Myanmar and Cambodia

South Asian Subsidiaries: Mumbai, India; Representative Offices: New Delhi and Chennai, India and Chittagong, Bangladesh

Oceania Subsidiaries: Melbourne and Sidney, Australia

Corporate Governance

- 1.1 Governance Structure and Responsibilities
- 1.2 Financial Performance and Shareholders' Rights
- 1.3 Management Vision
- 1.4 Risk Management
- 1.5 Sustainable Development
- 1.6 Stakeholders and Identification of Stakeholders
- 1.7 Changes in Operations and Capital

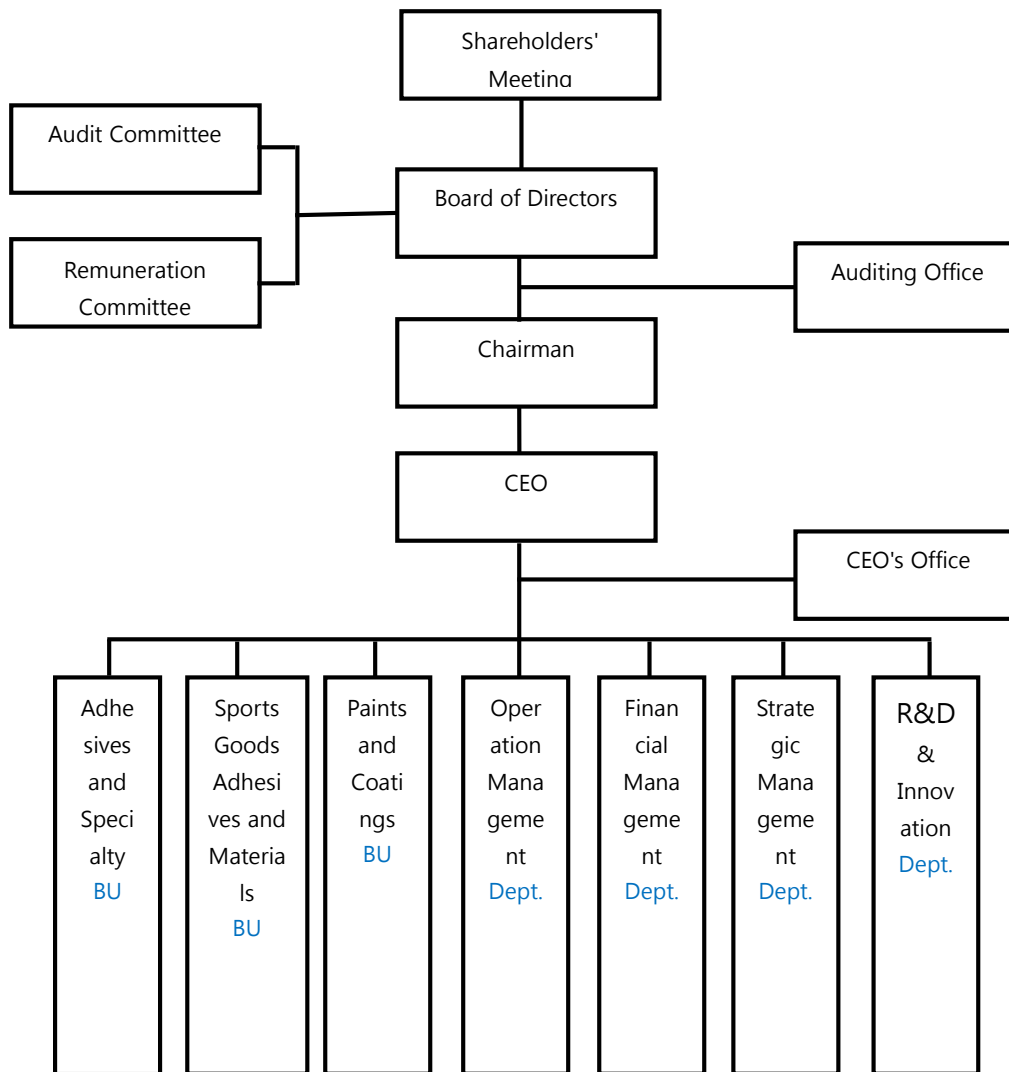
GRI Standards Management Policy: Social and Economic Legal Compliance/Anti-Corruption

Item Number	Reporting Requirements	Explanation and Examples of Reporting Requirements
103-1	** Material Causes Behind this Theme	Nan Pao's management philosophies are "Leadership, Integrity, Teamwork, and Efficiency." Integral management is the foundation of Nan Pao's operations, and corruption or any matter that breaches social and economic laws will damage the Company's disciplinary system and severely impact the Company's operations and reputation.
	** Boundaries of this Theme	Within the Organization (Including operational sites in Taiwan, China, Vietnam, Indonesia, and Thailand)
	** Limitations to the Disclosure of the Set Boundaries for this Theme	The theme for social and economic legal compliance and anti-corruption in this Report will disclose relevant information about the Company's Taiwan headquarters and subsidiaries in China, Indonesia, and Vietnam.
103-2	** Management Objective for this Theme	Nan Pao strictly adheres to domestic and overseas anti-corruption laws and has zero tolerance for any action that breaches the business code of conduct. If policies and legal regulations that will strongly influence financing and sales exist, the Legal Department and

	Management Strategies and Methods	relevant responsible units will notify the relevant departments of the most recent legal trends and assist the Company to implement legal requirements to lower direct financial risks.
	* i. Policy	Nan Pao has established a set of Code of Ethical Conduct for all managerial officers and employees to follow. We aim to enhance the behavioral conduct and business integrity throughout the Company. “Employee Opinion Mailbox” and “Employee Grievance Handling System” have been established at Nan Pao. When questions regarding ethics and legal conduct emerge or when encountered with unfair treatment at work, employees can receive appropriate suggestions through consulting with the HR Department or through seeking assistance via the mailbox. Subsequently, whistle-blowing can be filed to find or prevent significant illegal conduct and breach of governmental regulations.
103-3	** Management Evaluation Mechanism	The “Regulations Governing Whistle-blowing from Internal and External Parties” and an independent Audit Office have also been established within the Company. The Audit Office is responsible for investigating and monitoring whistleblowing cases reported by the reporting mailbox. In addition, risks of fraud are also controlled within auditing work. In case an abnormality is found in the Company’s operating processes during auditing procedures and there may be a likelihood for fraud, the Audit Office will list the case to be tracked and investigated.
	** Performance and Adjustment	No corruption incident or breach of social or economic legal compliance has occurred at any of the operational sites of the Group in 2017.

1.1 Governance Structure and Responsibilities

Nan Pao Operating and Management Structure:



Nan Pao Operating and Management Responsibilities:

Department	Primary Functions
CEO's Office	Establishing the Company's vision and action plans and leading teams to realize short and long-term goals; complying with corporate governance, Code of Ethical Conduct, legal regulations, and environmental policies to ensure the Company's sustainable development; implementing talent development and fostering future management teams in order to realize sustainable development; carrying out resolutions from the Board of Directors.
R&D & Innovation Division	Developing relevant new products, improving quality of existing products, and lowering costs in accordance with needs of the Company and various business units; exploring technologies, products, and businesses suitable for long-term development to undertake technical collaboration and evaluate the feasibility of new ideas.
Strategic Management Division	Establishing the Company's development strategies; coordinating the Company's HR, IT, business investments, and CSR tasks to achieve the Company's revenue and profitability goals and ensure effective organizational operation and continued future growth.

Financial Management Division	Establishing the Company's financial and accounting strategies, financial and accounting management; proposing financial and accounting plans; collecting the Company's financing, tax, and capital management.
Operation Management Division	Coordinating the Company's production, procurement, factory affairs, sales, and administrative tasks; assisting the operation of each business unit to achieve relevant revenue and profitability goals and ensure effective organizational operation and future continued growth.
Paints and Coatings Business Division	Establishing development strategies regarding the Paints and Coatings Business Division; coordinating all operation and management tasks for the paints and coatings business to achieve relevant revenue and profitability goals and ensure effective organizational operation and future continued growth.
Sports Goods Adhesives and Materials Business Division	Establishing development strategies regarding the Sports Goods Adhesives and Materials Business Division; coordinating all operation and management tasks for the sports goods adhesives and materials business to achieve relevant revenue and profitability goals and ensure effective organizational operation and future continued growth.
Adhesives and Specialty Business Division	Establishing development strategies regarding the Adhesives and Specialty Business Division; coordinating all operation and management tasks for the adhesives and specialty business to achieve relevant revenue and profitability goals and ensure effective organizational operation and future continued growth.
Auditing Office	Establishing and improving the Company's internal control system; planning and performing audits on the Company's system operations; regularly submitting reports and tracking subsequent improvements.

Board of Directors

Nan Pao is in compliance with legal regulations and has established a corporate governance structure in accordance with the principles of "1) protecting shareholders' rights, 2) strengthening the Board's functionalities, 3) exerting the functions of the Audit Committee, 4) respecting stakeholders' rights, and 5) enhancing information transparency."

Nan Pao believes that a sound and effective Board of Directors is the foundation for positive corporate governance. The Board has resolved to establish the Audit Committee and the Remuneration Committee to separately assist the Board to fulfill its supervisory duties. In addition, the Company has also established an internal audit department that regularly audits the operating procedures and performance of the headquarters, subsidiaries, and affiliates every year. The internal audit department also reports the audit results to the Board of Directors.

The nomination and appointment of Nan Pao's Directors are in compliance with the Company Act and relevant legal regulations, in which a set of fair, just, and open "Procedures of Election of Directors" has been established. The formation of the Board takes organizational culture, operating models, and long-term growth into consideration, and works on the principle that the members of the Board shall be diversified. All members of the Board shall have the knowledge, skills, and experience necessary to perform their duties. The Board of Directors shall possess the ability to make operational judgments, the ability to perform accounting and financial analysis, the ability to conduct management

administration, the ability to conduct crisis management, knowledge of the industry, an international market perspective, the ability to lead, and the ability to make policy decisions.

The Board of Directors of Nan Pao is led by Chairman Wu, Cheng-Hsien. For every quarter, the Board of Directors listens to reports from the management team, including operating performance, environmental safety, and investment results. The Board also makes appropriate suggestions based on the management strategies proposed by the management team. A smooth, bi-lateral communication channel is maintained between the management team and the Board, and both parties are committed to achieving company goals and create the greatest profits for shareholders.

Starting in 2012, Nan Pao has named corporate social responsibility (CSR) tasks as an independent task force, and when the head of the CSR Team reports the Company's sustainable development results and plans to the Board of Directors, he/she shall focus on explaining economic, environmental, and social developmental topics and international trends to the Board. This will help to enhance Nan Pao's highest governance body's awareness of sustainability.

Through vertical management from the Board of Directors and management level to the governance structure and operating system in each operating department and horizontal communications, the Company has already fully covered and responded to stakeholders' various economic, environmental, and social concerns for CSR issues.

Formation of the Board of Directors

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Members of the Board of Directors

Independent Directors were elected on June 12, 2017, and follow the same term as the current Board.

Audit and Remuneration Committee

Nan Pao has established the Audit Committee on December 12, 2017. The purpose of which is to assist the Board of Directors in fulfilling their supervisory responsibilities over the Company's accounting, auditing, and financial reporting processes, as well as the quality and credibility of financial control.

Nan Pao has established the Remuneration Committee on June 19, 2017. The purpose of which is to assist the Board of Directors in carrying out and evaluating the Company's overall compensation and benefits policies, as well as the compensations of the Directors and the managerial officers. Independent Directors serve as the members of the Audit and Remuneration Committees.

The first term of the Remuneration Committee was from June 19, 2017. Nevertheless, the first term of the Remuneration Committee had resigned upon the additional nomination of independent directors on December 12, 2017. After resolution adopted by the Board of Directors, three independent directors are appointed to serve as members of the second Remuneration Committee on December 21, 2017, and the term is from December 21, 2017, to May 15, 2020. The Remuneration Committee convenes at least two meetings annually. Two meetings have been convened in 2017 with 100% attendance rate from all members. Members will review the policies, systems, and standards of the compensations of the Company's directors and managerial officers and make suggestions to the Board of Directors from a professional and objective standpoint. They will also compile minutes of meetings and publicly announce the information pursuant to legal regulations. Please see Nan Pao's website for the Remuneration Committee Charter, and please see the Company's 2017 Annual Report for the operation of the Remuneration Committee.

Title	Name	Gender	Education and Work Experience	Diversification		
				Industrial Knowledge	Financial and Accounting	Legal Affairs
Chairman	Wu, Cheng-Hsien	Male	M.S. in Applied Chemistry, National Tsing Hua University Nan Pao Resins Chemical Co., Ltd Adhesive Business Executive General Manager and General Manager of Nan Pao Resins Chemical Co., Ltd.	√		
Director	Guang Rong Investment Ltd. Representative: Hsu, Ming-Hsien	Male	M.S. in Industrial Engineering, National Cheng Kung University Deputy General Manager of Nan Pao Resins Chemical Co., Ltd.	√		
Director	Guang Rong Investment Ltd. Representative: Liu, Chi-Lin	Male	Bachelor of Accounting, Soochow University General Manager of Nan Pao Resins Chemical Co., Ltd. Deputy General Manager of DingShin S.K.P. International Management Consulting Co., Ltd.		√	
Director	Guang Rong Investment Ltd. Representative: Lee, Juh-Shyong	Male	Ph.D. in Applied Chemistry, National Chiao Tung University M.S. in Chemistry, National Taiwan University R&D Assistant Manager, Wan Chia Paint Co., Ltd. Formal Researcher and Supervisor at Industrial Technology Research Institute (ITRI)	√		
Director	Paochien Company Limited Representative: Chang, Chia-Li	Male	Deputy General Manager of Global Supply Management Head Office, Pou Chen Group	√		
Independent Director	Chen, Yun	Male	Ph.D. in Applied Chemistry, School of Engineering, the University of Tokyo Professor and Dean of Department of Chemical Engineering, National Cheng Kung University	√		

Independent Director	Chiang, Yung-Cheng	Male	Department of Law, Soochow University Judge, Taiwan Kaohsiung District Court Judge, Taiwan High Court Kaohsiung Branch Court Attorney, Cheng Bang & Cheng Yang Joint Law Firm			√
Independent Director	Lee, Yi-Hsi	Male	Ph.D. in Department of Finance, National Sun Yat-sen University Adjunct Assistant Professor, Department of Money and Banking, National Kaohsiung First University of Science and Technology Full-time Assistant Professor General Manager, Management Department, Zhifang Financial Consulting Co., Ltd. Deputy CEO, Regional Chain Lab, FinTech Center, College of Commerce, National Chengchi University			√

Preventing Conflict of Interests

The Company's Procedures for Board of Directors' Meetings have clearly defined conflict of interest prevention clauses for the directors, "if a director, or the corporate entity that the director represents, is an interested party with respect to a given agenda item, the important aspects of the relationship between the director and the item shall be stated at the meeting. When the relationship is likely to prejudice the interests of the Company, the director may state opinions but may not participate in discussion of or voting on that agenda item, and shall recuse himself or herself during discussion and voting, and may not act as another director's proxy to exercise the voting right to that matter." The Company has set up three independent director seats, who will provide suggestions based on his/her professionalism and experiences from an objective and fair standpoint. When discussing any motion at the Board meeting, the Board of Directors shall fully consider the opinions from the independent directors, and to record their opinions for consent or for veto into the meeting minutes to also function toward prevention of conflicts of interests and effectively protect the Company's rights.

* Please see the Annual Report for other positions concurrently held by the Company Directors.

Financial Performance and Shareholders' Rights

Financial Performance and Financial Assistance from the Government:

Nan Pao's Consolidated Financial Statement from 2015 to 2017 is as follows:

The Consolidated Financial Statement include over 60 companies: Nan Pao Resins Chemical Co., Ltd., Nan Pao Electronic Material Company, ITLS International Development Co., Ltd., Prince Pharmaceutical Co. Ltd., Phytomed Bio-Tec, Biorich Bio Technology Co. Ltd., Nan Pao Advanced Materials, Nan Pao Resins (China) Co., Ltd., Nan Pao Resins (Dong-Guan) Co., Ltd., Nan Pao Resins (Fo Shan) Co., Ltd., Fuqing Nan Pao Resins Co., Ltd., Thai Nan Pao Resins Chemical., Ltd., Nan Pao Resins (Vietnam) Co., Ltd., P.T Indo Nan Pao Resins Chemical Co., Ltd., Nan Pao Resins India Pvt Ltd., Nan Pao Resins Chemical Philippines., Inc., Nan Pao Materials Vietnam, and NP Australia Pty Ltd.

* Please see the Consolidated Financial Statement information in the Annual Report for the list of companies included in the Consolidated Financial Statement.

Unit: NTD 1,000

Item/Year	2015	2016	2017
Operating Revenue	14,459,543	14,473,785	14,615,008
Operating Margin	4,280,863	4,608,708	3,922,991
Operating Gain	1,620,404	1,856,204	1,192,972
Non-operating Revenue and Expense	(73,417)	26,154	(32,219)
Pre-tax Net Profit	1,546,987	1,882,358	1,160,753
Net Income for Continuing Operations	1,089,949	1,391,063	917,003
Net Income (Loss)	1,089,949	1,391,063	917,003
Other Comprehensive Gain or Loss (After-tax net)	(6,394)	(136,448)	(260,582)
Total Comprehensive Income	1,083,555	1,254,615	656,421
Earnings Per Share (EPS)	10.59	13.32	8.22
Employee Benefits	1,833,143	1,965,347	1,949,350
Dividend Paid to Shareholders	221,068	371,394	532,455
Taxes Paid to the Government	274,029	436,436	280,496

The following is a list of financial aid that Nan Pao has received from the government in 2017:

Unit: NTD

Item	Department Providing the Aid	Amount of Aid (NT\$)
Reward for scrapped vehicles	Environmental Protection Administration (EPA), Executive Yuan	1,000
Financial assistance for the SBIR Coating Project	Ding-Shen Mechanical Co., Ltd.	116,000
Total		126,000

Shareholder's Rights:

Nan Pao is in compliance with legal regulations and has established a corporate governance structure in accordance with the principles of "1) protecting shareholders' rights, 2) strengthening the Board's functionalities, 3) exerting the functions of the Audit Committee, 4) respecting stakeholders' rights, and 5) enhancing information transparency."

The Board of Directors is the Company's highest governance body as well as the center of material management decision-making. Its responsibilities include the appointment and supervision of the Company's management level, management performance, the Company's legal compliance, the stipulation of the Company's Articles of Association, and resolutions from the Shareholders' Meeting. It also strives to maximize the shareholders' profits. The Board of Directors shall meet at least quarterly; in emergency circumstances, however, a meeting may be called at any time. All members of the Board shall fulfill their responsibilities in evaluating material matters, including the Company's management strategies, risk management, annual budget, and sales performance, and supervising material capital expenditure and investments.

Nan Pao values the rights of every shareholder and treats all shareholders equally. Shareholders can participate in the Company's decision-making by exercising voting rights during the Shareholders' Meeting. Every motion, discussion, and election proposal will be voted on one-by-one during the Shareholders' Meeting, and the results will be immediately disclosed to the public during the meeting.

1.3 Management Vision

Leadership: Nan Pao employees should have pioneering, forward-thinking mindsets and should not be constrained or satisfied with the status quo or the authority. We should be willing to learn, continuously improve working methods, and strive to innovate and excel. The Company provides a relaxed atmosphere conducive for employees to proposing new ideas and new working methods.

Integrity: Everyone at Nan Pao should tell the truth, actively communicate, and fulfill their promises. We should all actively solve problems and be held accountable, as well as build trustworthy individual and organizational reputation. Legal compliance is the most basic requirement at work

Teamwork: Everyone at Nan Pao should see organizational benefits or mutual benefits as the most important factor of consideration. We should share our experiences, resources, and results within the organization, and to think from the others' standpoint in solving problems

Efficiency: Nan Pao employees should best utilize time, resources, and manpower. Everyone should actively make recommendations for problems including waste, bottlenecks, stagnation, and inefficiency

Vision:

Strive to become an enterprise focusing on special chemical substances and materials

Develop products with high added-value and provide services and solutions geared to enhance human health

Become a world-class sustainable enterprise that gives back to the society

Achieve continuous revenue growth over the years

Mission:

Become an indispensable strategic partner to every industry through innovation and environmentally-friendly products.

Ethical Management:

The Board has adopted the “Procedures for Ethical Management and Guidelines for Conduct” in 2017. The Procedures clearly state the regulations for the prevention of conflicts of interests for directors, managerial officers, employees, contractors, and any person with substantial control, and serve as a behavioral code of practice to prohibit illegal political donations, giving or receiving inappropriate profits, charity donations, or sponsorship. Besides requiring the senior management to carry out ethical management in practice, we also implement this philosophy on employees through internal promotions, the communication platform, and regular educational training.

Employees’ Code of Ethical Conduct:

Nan Pao has established a set of Code of Ethical Conduct for all managerial officers and employees to follow. We aim to enhance the behavioral conduct and business integrity throughout the Company. We hope all employees can comply with the Code of Ethical Conduct during day-to-day operation and carrying out Company tasks so that we could be trusted by the public, as well as ensure the Company’s sustainable growth and development. We also aspire to mutually fulfill corporate social responsibility and promote balanced and sustainable economic, social, and environmental development through promoting the Code of Ethical Conduct. “Employee Opinion Mailbox” and “Employee Grievance Handling System” have been established at Nan Pao. When questions regarding ethics and legal conduct emerge or when encountered with unfair treatment at work, employees can receive appropriate suggestions through consulting with the HR Department or through seeking assistance via the mailbox. Subsequently, whistle-blowing can be filed to find or prevent significant illegal conduct and breach of governmental regulations. No breach of the Code of Ethical Conduct had occurred in 2017. In the future, we will continue to strengthen educational training for employees to facilitate for more understanding of ethical conduct, preventing conflicts of interests and seeking self-interests, the responsibility to confidentiality, fair trade, protection and the appropriate use of Company property, and compliance with legal regulations.

To prevent frauds, Nan Pao has established “Regulations Governing Whistle-blowing from Internal and External Parties” in terms of corporate governance. The Audit Office is responsible for investigating and monitoring whistle-blowing cases reported through the whistle-blowing mailbox. In addition, risks of fraud are also controlled within auditing work. In case an abnormality is found in the Company’s operating processes during auditing procedures and there may be a likelihood for fraud, the Audit Office will list the case to be tracked and investigated. No corruption incident has occurred at any of the operational sites of the Group in 2017.

Legal Compliance:

Nan Pao commits to placing legal compliance as the highest reference and standard in all operations and practices. Besides strengthening the awareness for legal compliance in managerial officers of each rank and operating personnel through educational training and meetings, we also ensure legal compliance and anti-fraud measures such as asset safety protection through comprehensively installing and implementing the internal control and audit mechanism. The Legal Department is responsible for promoting ethical management and legal compliance, striving to prevent illegal conducts that breach the principle of ethical management from Nan Pao employees. All new Nan Pao employees must participate in the new employee orientation, in which legal compliance is a key training subject. Additionally, legal educational training is held every now and then to reinforce employees' awareness for and knowledge of legal compliance.

Alternatively, the Audit Office, which is under the supervision of the Board of Directors, will periodically inspect the audit system, nine major financial cycles, and compliance of the internal control system, as well as whether there have been illegal conducts that breach ethical management from Company employees, and prepare audit reports for the Board of Directors.

The following is a compilation of breaches of environmental regulations from Nan Pao's Taiwan operational sites in 2017:

Date of Audit	Explanation of Breach	Legal Reference for Penalty
106.07.20	The waste resin was piled up and some of the waste resin was placed among the waste liquid storage area rather than a specific classified storage. Furthermore, the storage location was not sanitary and there had been leakage and contamination on the ground. Some waste resin was stored on the open-air ground, and equipment or measures to prevent the inflow of rainwater was not established.	Article 36-1 of Waste Disposal Act and Article 6-1-1, Article 6-1-2, and Article 10-1-1 of Methods and Facilities Standards for the Storage, Clearance, and Disposal of Industrial Waste; a penalty was made pursuant to Article 52 of Waste Disposal Act.
106.11.30	On November 30, 2017, the audit results indicated polymerization catalyst was 36.344 tons/year (the permitted volume was 21 tons/year), which violated the Air Pollution Control Act.	Article 24-20 and Article 24-3 of Air Pollution Control Act and Article 24-20 of the Stationary Pollution Source Installation and Operating Permit Management Regulations

1.4 Risk Management

Nan Pao has always carefully complied with various legal regulations, and our comprehensive and appropriate risk management strategies and contingency measures have allowed us to sail through over 50 years of challenges in the market. We believe that rigorous risk management is not only an assurance for a long-term partnership with customers but also the cornerstone to sustainable management.

Nan Pao evaluates various operations, and has classified risks into four major aspects, including “strategic risk,” “operating risk,” “financial risk,” and “climate change risk.” Furthermore, to minimize uncertainties in business operations, we have also planned designated personnel to be responsible for managing each risk and for relevant contingency measures.



Operating and Strategic Risk Management and Evaluation

We regularly convene shareholders’ meetings for the Company’s operating status and provide public information to enhance financial transparency. In addition, we also actively participate in community and public social welfare activities to fulfill Nan Pao’s responsibilities as a part of the society.

The Company’s Legal Department is in charge of national policies and laws, and relevant departments also monitor important changes in policies and laws at all times and adjust the internal system and operating activities accordingly to ensure smooth operations. We review the investment structure, operating strategies, and transaction models, and reasonably allocate profits based on multinational economic activities and value creation. The environmental safety departments of each operational site also comply with relevant environmental and labor safety laws at all times and make changes and responses when necessary.

For the risk of input shortage in concentrated purchases, such as insufficient capacity from vendors, accidents in the factories, or natural disasters, which will all lead to input shortage, Nan Pao’s various operational site constantly maintain updated data on yield and supply to lower this risk. Concurrently, the joint procurement center continues to regulate raw material pricing trends and supply stability to ensure that the Company’s raw material supply is stable.

Financial Risk Management

Nan Pao has established relevant response measures for financial risks associated with interests, fluctuation in exchange rates, and inflation, which may influence the Company's profitability:

Changes in interest rates: Nan Pao's short-term loans are mostly debts with fixed interest rates. Though the market interest rate shows an upwardly trend, our evaluation indicates that the liquidity risk associated with interest rate change is insignificant. As for Nan Pao's long-term loans, a few banks have adopted variable interest rates while most are debts with fixed rates. Therefore, similar to short-term loans, our liquidity risk is insignificant.

Fluctuation in exchange: Most of Nan Pao's sales volume is based on US Dollars, and we hold more asset in foreign currency than debt. Moreover, the foreign currency collection period is slightly longer than the foreign currency receivable period; hence, we anticipate that there is greater market risk associated with forex fluctuations.

Inflation: In recent years, due to fluctuations in commodity prices for resources such as global crude oil, the overall economy has shown a slight trend toward inflation. Nevertheless, Nan Pao's transaction prices for customers and suppliers are mostly based on variable market prices, but some customers may delay payments. We are fairly influenced by inflation, and therefore, we pay close attention to economic development and adopt timely response measures by reflecting relevant costs on product prices. Therefore, as of this date, inflation has yet to have a significant impact on the Company.

The primary reason and future response measures for undertaking high-risk and high-leverage investment, loans for others, guarantee and/or endorsement, and policies and profit/loss for derivative transactions: Nan Pao did not undertake high-risk and high-leverage investment or derivative transactions in the most current fiscal year. As for loans for others and endorsement/guarantee, the counterparties for such transactions are all either subsidiaries or reinvestment businesses of the Company. No conditions of financial difficulties leading to infringement of the Company's claims had occurred, and none of their debts were repaid by the Company.

Climate Change Risk Management

To enhance our production sites' adaptability to climate change, thus enabling the Company to assume normal operation and sustainable management, Nan Pao has joined the "2017 Industrial Development Bureau Adaptability Trial Counseling Project," and the Bao Yi Plant was chosen to be one of the two factories to receive counseling for the year. Consultants were dispatched to the Bao Yi Plant, while all Nan Pao's factories in Taiwan also participated in this project, in which climate change management risks were analyzed and response measures were drawn up.

Impact Assessment

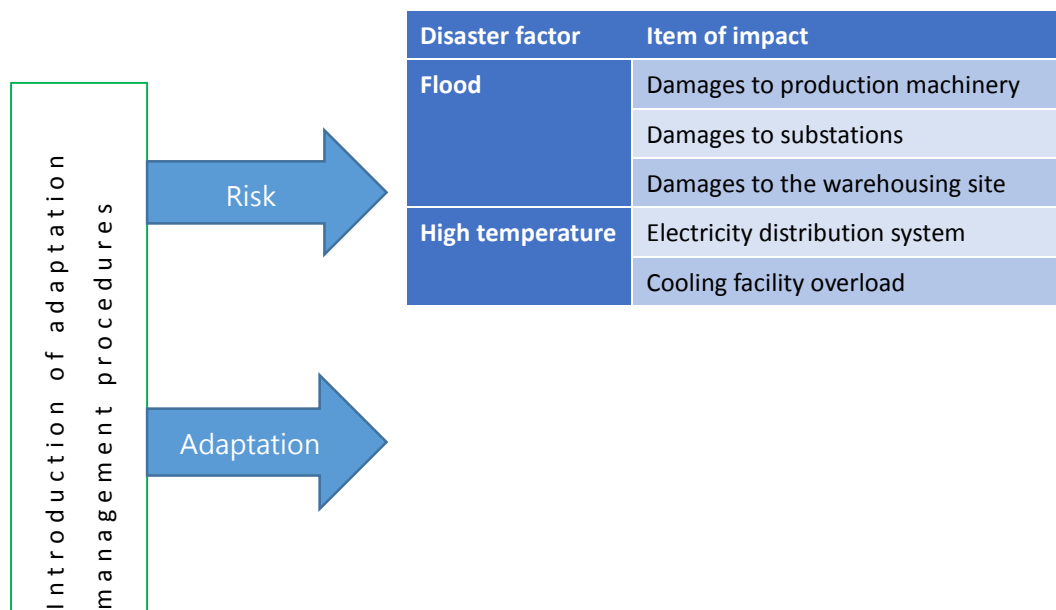
- Production processes
- Supply chain
- Asset
- Financing
- Personnel

Climate Change Item

- Struck by lightning
- Floods
- Strong winds
- Rise in temperature
- Salt damage and corrosion
- Drought

An “Adaptability Promotion Team” chaired by the head of the plant was formed under the mentorship of the Taiwan Green Productivity Foundation. First of all, basic information regarding the site was inspected and past climate-related incidents and relevant data were collected and reviewed. Next, risks associated with climate change at the plant were identified, analyzed, and ranked in order. Finally, an adaptability action plan for the risk of climate change was drawn up, and relevant opportunities were also analyzed.

Nan Pao focuses on the Company’s long-term operational performance, actively responds to risks brought forth by climate change and environmental pollution, and actively transforms these risks to new business opportunities. The following is a compilation of climate change projects and methods from each department and production facility. To pursue Nan Pao’s sustainable development and growth, we plan to undertake risk evaluation in every five years and to continuously manage and respond to risk factors from climate change.



1.5 Sustainable Development

Besides creating economic value and pursuing business growth, Nan Pao is even more committed to achieving sustainable development, and to continue bringing a positive influence to the society. The Company discloses relevant information to stakeholders under the principle of transparency, demonstrating Nan Pao's determination for ethical management. Upholding the philosophy of "legal compliance, pollution prevention, energy-saving, and waste reduction, full participation, and continuous improvement," Nan Pao defines "customers, shareholders, employees, the environment, and the society" as stakeholders, and collectively pursues economic, social, and environmental synergistic, sustainable development.



Nan Pao strives to become crucial partners for every industry through innovative and environmentally-friendly products and to assist customers to respond to the challenges of sustainable development.

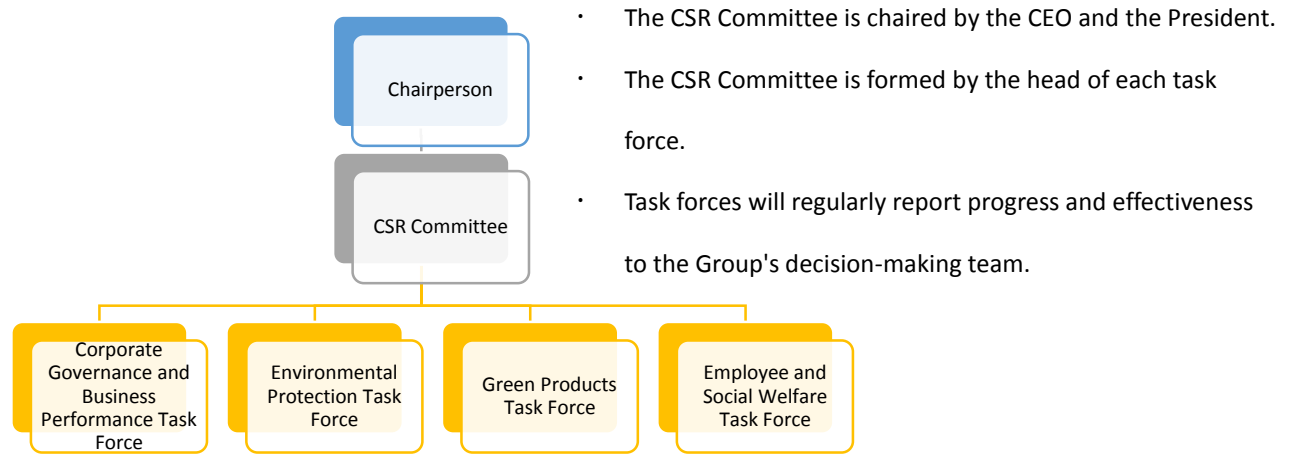


- Striving to provide customers with eco-friendly products, services, and solutions with high added-values
- Developing special chemical substances and materials without harming the environment
- Creating sustainable management philosophy of achieving synergistic growth with the society
- Fulfilling corporate social responsibility
- Protecting human rights and labor conditions
- Sustainable Development Strategies and Organization:

Lifting equipment with padding or relocating to areas not affected by flooding
Waterproof gates, pumps, and improving the drainage system
Equipment load reduction and the emergency power generation system
Increasing the number of cooling towers (improving cooling water transfer)

The members of Nan Pao’s Corporate Social Responsibility (CSR) Team are employees from each department. Four task forces including “Corporate Governance and Business Performance,” “Environmental Protection,” “Green Products,” and “Employee and Social Welfare” have been formed based on the professional division of labor and needs of relevant indicators. The CSR task forces are platforms for identifying stakeholders and material topics. After discussions of each task force, Nan Pao’s stakeholders and the level of material topics of their concerns are respectively identified through consensual agreement, questionnaires as well as interviews with senior managers.

Organization of the CSR Team



Roles of the CSR Task Forces:

Division	Explanation of Responsibilities
Corporate Governance and Business Performance Task Force	<ul style="list-style-type: none"> • Formulate and implement the vision and strategies for sustainable development and disclose operating and financial risks and performance • Manage procurement procedures and supply chain as well as communications with the stakeholders • Market and customer analysis and surveys
Environmental Protection Task Force	<ul style="list-style-type: none"> • Manage energy and climate change issues • Handle worker safety and health issues, pollution site remediation projects, and participation in environmental and social issues

Green Products Task Force	<ul style="list-style-type: none"> Plan product quality control, innovative development, and the development of green products
Employee and Social Welfare Task Force	<ul style="list-style-type: none"> Promote community service and social welfare activities, labor rights, and Code of Ethics Legal compliance and information disclosure Social Participation

Sustainable Governance

In terms of corporate governance at Nan Pao Resins Chemical Co., Ltd., the Board of Directors is responsible for supervising the economy, the environment, and the society. Moreover, the executive general manager of each business unit is also responsible for communications with stakeholders related to sales and production. The general manager of each subsidiary is responsible for strengthening internal control and emergency response, and to regularly convene meetings to review relevant actions. Nan Pao places the Company's sustainable development as the core vision, strives to integrate business sustainability with the core businesses, and continues to make necessary adjustments in terms of corporate values, culture, development blueprints, and strategies. In addition, Nan Pao ensures the timeliness and comprehensiveness of management over sustainable topics through fluent communication channels between each department. We review operation performance and focus on trends in the overall industry and the market through organizing multiple regular meetings in each month. This allows the Company to make timely responses to external changes and to seize opportunities.

When the head of the CSR Team reports the Company's sustainable development results and plans to the Board of Directors, he/she shall focus on explaining economic, environmental, and social developmental topics and international trends to the Board. This will help to enhance Nan Pao's highest governance body's awareness of sustainability.

Regular Meetings of Nan Pao include the following:

Nature of meeting	Name of meeting	Theme of discussion	Frequency of discussion
Project	HR management and development	Social, governance	Twice every year

	New release from R&D and Innovation	Environmental, social	Once every year
	Operational discussion from the Sales Head Office and Strategy Head Office	Governance	Twice every year
	Budget review	Governance	Once every year
	New business management meeting	Governance	Once every month
Periodic meeting	Operations and management meeting	Governance	Once every month
	Sales meeting	Governance	Once every month
	Occupational safety and environmental meeting	Environmental, social	Twice every month

The Head of the CSR Team will report relevant CSR topics to the Board of Directors in each year. In addition, executive general managers from each business division will also regularly report relevant CSR topics to the highest governance level at the Board meeting, and such topics may include safety, health and environment, market overview, research and development, internal audit, risk management, finance, and sales update and more.

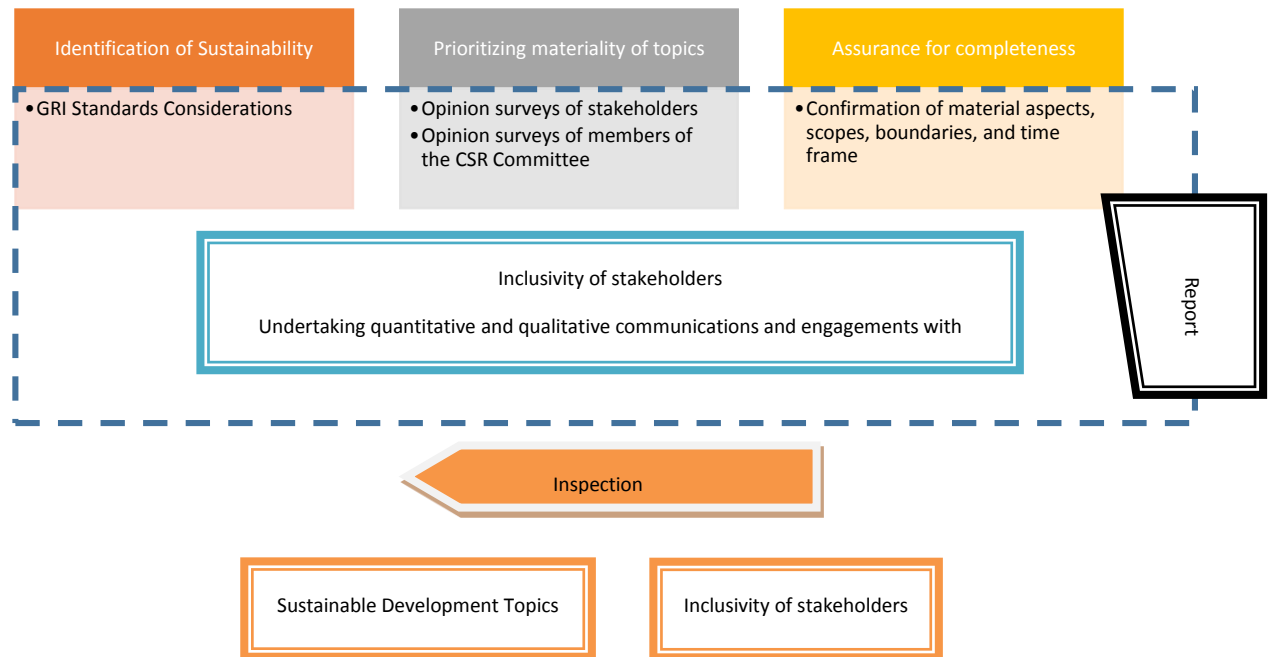
The Board of Directors had convened 9 meetings in 2017, and the General Managers and departmental executive managers have reported the following topics in these meetings:

Reporting matters:

1. Operation performance and market overview
2. Audit report
3. Significant personnel changes
4. Social welfare donations
5. Financial status
6. Sales update

1.6 Stakeholders and Stakeholder Identification

The CSR Committee and its affiliated task forces are platforms for identifying stakeholders and material topics. After discussions of each task force, Nan Pao’s stakeholders and sustainability topics are respectively identified through consensual agreement and through distributing questionnaires to the stakeholders. This Report has identified the sustainable development topics of concern to the stakeholders through the following manners and in accordance with GRI Standard:



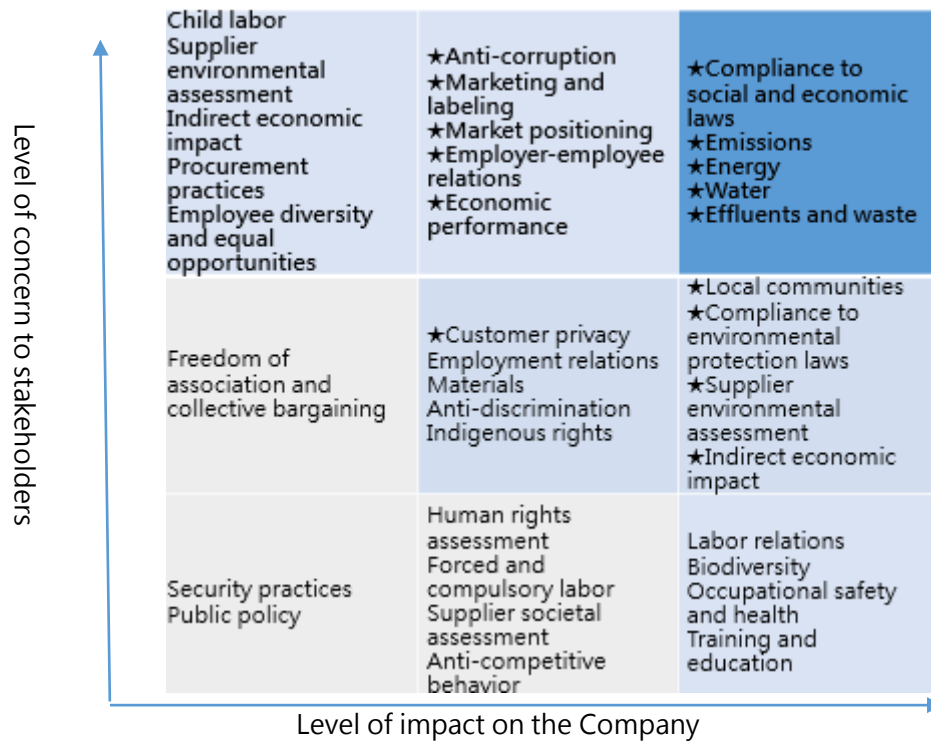
The Company’s CSR work groups have identified the following entities as our stakeholders in sustainable development: employees, suppliers, local communities, investors, NGOs and NPOs, competent authorities, and customers. The stakeholders have been identified in accordance with the Company’s sustainable characteristics, industry practices, and work experiences, and in reference to the five principles of AA1000 Stakeholder Engagements Standard (AA1000 SES): dependency, responsibility, tension, influence, and diverse perspective.

We have created channels and platforms to communicate with each stakeholder and receives feedback through daily communications. Moreover, the CSR task forces have also compiled the sustainability topics of concern to each stakeholder.

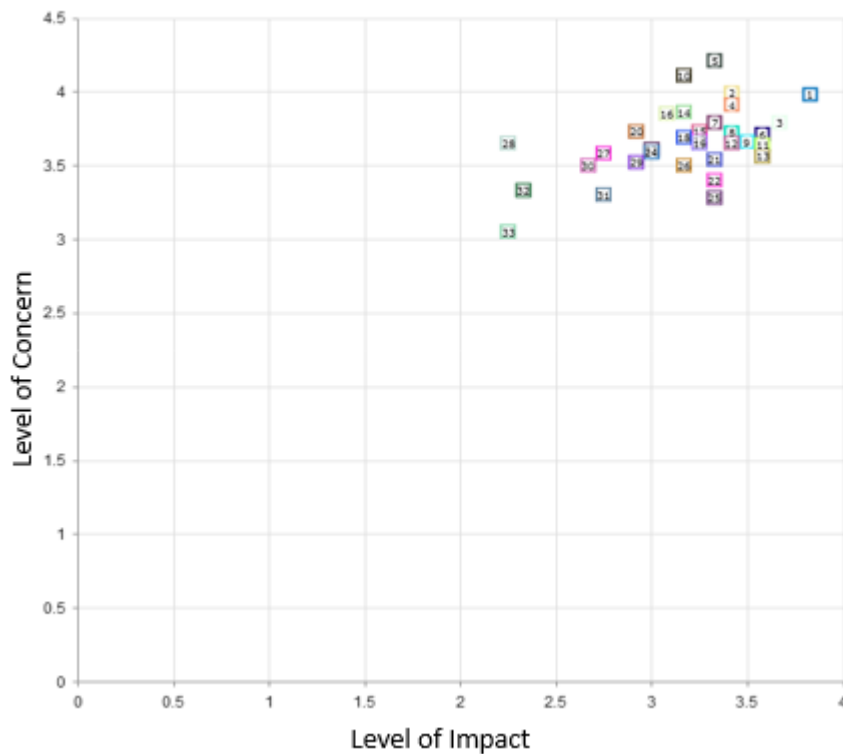
Stakeholders	Topics of Concern from Stakeholders	Methods of Communication and Response
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Employee	Respecting human rights, equal treatment, and employee health promotions	The grievance mailbox, employee health seminars, the Employee Welfare Committee, labor unions, bi-weekly meetings, and regular employee health checkups
Suppliers	Supplier management, fair procurement	Quality negotiation meetings, and onsite visits from time to time
Members of the Communities	Respecting local culture and participation in regional social activities	Sponsorship & other community caring activities, arts promotions, and participation in community activities
Non-Profit Organizations (NPOs)	Social contributions	Community caring and participation in activities
Non-Governmental Organizations (NGOs)	Environmental protection	Disclosure of environmental data on the official website
Investors	Information disclosure transparency	Regular meetings, audit meetings, sales meetings, and regular shareholders' meetings
Competent Authorities	Legal compliance, paying taxes, and legal promotions	Formal written correspondence and onsite visits from time to time
Customers	Providing quality products and good services and Increasing customer satisfaction	Customer satisfaction surveys and the customer service mailbox

For the sustainability topics of concern to the aforementioned stakeholders, Nan Pao has designed a questionnaire to research stakeholders' levels of concern in regards to social, environmental, product, and social aspects. The CSR task forces distribute the questionnaires to stakeholders, including employees, suppliers, members of communities, NGOs and NPOs, investors, competent authorities, and customers. Subsequently, we analyzed the levels of concern and materiality of the topics based on the result of the questionnaires and have listed the top 10 topics of concern to relevant stakeholders; these topics will be disclosed in this Report. After research from each CSR task force, the topics of concern to our stakeholders in 2017 are listed in the following matrix diagram:



Dispersion Chart



- 1 Compliance to social and economic laws
- 2 Emissions
- 3 Energy
- 4 Water
- 5 Effluents and waste
- 6 Anti-corruption
- 7 Local communities
- 8 Customer health and safety
- 9 Marketing and labeling
- 10 Compliance to environmental protection laws
- 11 Market positioning
- 12 Customer privacy
- 13 Employment relations
- 14 Economic performance
- 15 Supplier environmental assessment
- 16 Indirect economic impact
- 17 Employer-employee relations

- 18 Materials
- 19 Child labor
- 20 Biodiversity
- 21 Occupational safety and health
- 22 Training and education
- 23 Human rights assessment
- 24 Forced and compulsory labor
- 25 Procurement practices
- 26 Diversity and equal opportunities for employees
- 27 Supplier social assessment
- 28 Anti-competitive behavior
- 29 Anti-discrimination
- 30 Indigenous rights
- 31 Freedom of association and collective bargaining
- 32 Security practices
- 33 Public policy

We have defined the internal and external boundaries and influences on our industry chain for each material topic of concern to the stakeholders.

1.7 Changes in Operations and Capital

Material Topics	Corresponding Material Aspects in GRI Standard	Value Chain Judgment (Organizational)					Corresponding Chapters and Content
		Internal		External			
		Nan Pao Resins Chemical Group	Investors	Upstream and downstream industry chain	Local communities	Customers	
Sustainable development strategies	G4-14	●	●	●	●	●	Chapter II: Corporate Governance
Product safety and health	PR1-PR2	●				●	Chapter IV: Product Quality Management and Customer Service
Energy Management	EN3-EN7	●	●	●			Chapter III: Environmental Protection
Workplace Environment	LA6-LA8	●					

Exhaust, Effluents, and Waste Processing	EN22-EN26	•				•	Chapter III: Environmental Protection
Service Quality	PR5	•					Chapter IV: Product Quality Management and Customer Service
Occupational Safety and Health	LA-LA8	•	•				Chapter V: Friendly Workplace
Mutual Community Caring	SO1-SO2	•	•			•	Chapter VI: Social Participation
Talent Cultivation	HR2	•	•				Chapter V: Friendly Workplace

Material Operational Changes

Nan Pao's first green production facility - Nan Pao Materials Viet Nam Office, was opened on July 21, 2017, and has received LEED-Gold certification. The design of the Vietnam site in Thu Dau Mot City allows for natural lighting, heat insulation, and buoyancy-driven ventilation, and keeps exposed pipelines to a minimum within the facility. It has indeed established a new benchmark for the next generation of green factories in the resin industry.





Nan Pao's reinvestment strategies are mostly centered around applications for its core business in resin and structured in accordance with industry developmental trends, proximity to customers, and lowering production costs. Concurrently, such strategies are also in line with the Company's diversified management policies (such as investment in pharmaceutical and health and biotechnology) to enhance competitiveness and to pave way for the Company's long-term development. Investment plans over the next year include:

1. Nantong Plant, China: The Company anticipates reinvesting in Nantong Plant through the subsidiary Nanpao Advanced Investment Co., Ltd. to replace the existing Kunshan Plant (Nan Pao Resins (China) Co., Ltd). This is because local laws prohibit the production of solvent and powder-type products, and the Company plans to set up a production site at the Chinese government's designated zone. The new site will be the Company's base in Huabei, China.
2. Yuhua Plant, China: In line with the Group's strategy to continue developing in Huanan region in China, we anticipate to acquire land and build the Yunan Plant in the Huanan Chemical Engineering Zone through the subsidiary Nanpao Advanced Investment Co., Ltd. The new plant will replace the existing Foshan and Fuqing plants.

No material change has occurred to Nan Pao's capital in 2017. Please see the following for explanations of our capital structure in 2017:

April 16, 2018

Shareholder structure Number	Government institutions	Financial institutions	Other juristic persons	Overseas institutions and foreign persons	Individual	Total
Number of persons	0	4	46	9	1,208	1,267
Shares held (in number of shares)	0	2,989,969	69,523,511	11,737,089	24,370,211	108,620,780
Shareholding ratio	0	2.75%	64.00%	10.81%	22.44%	100.00%
Note: No shares are held by Chinese entities.						

GREEN SUPPLY CHAIN

2.1 Green Procurement

2.2 Green Material Recycling & Reuse

2.3 Green Logistics

2.4 Green Certification

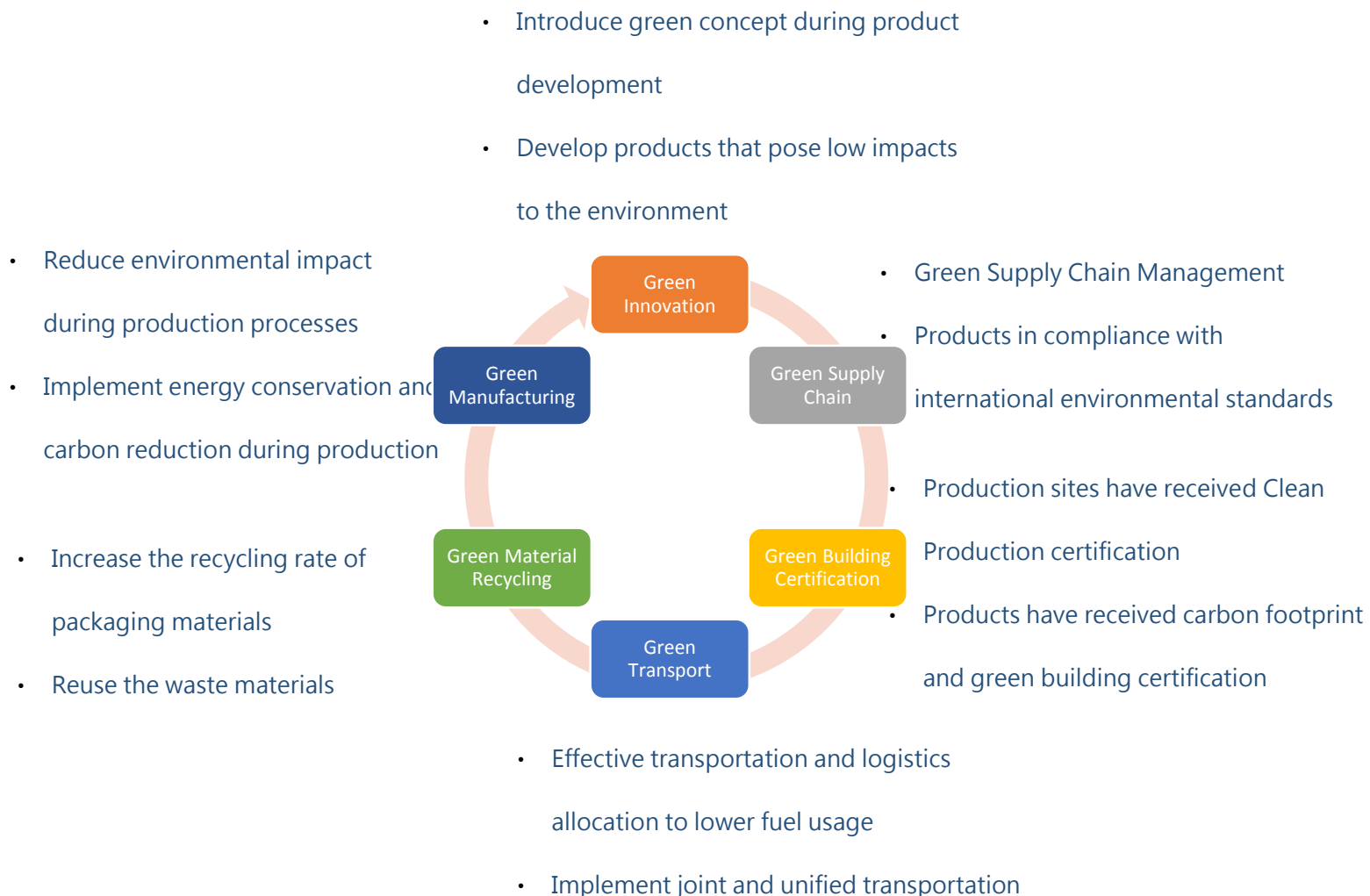
2.5 Green Production

2.6 Green Innovation

Green Supply Chain

2.1 Green Procurement

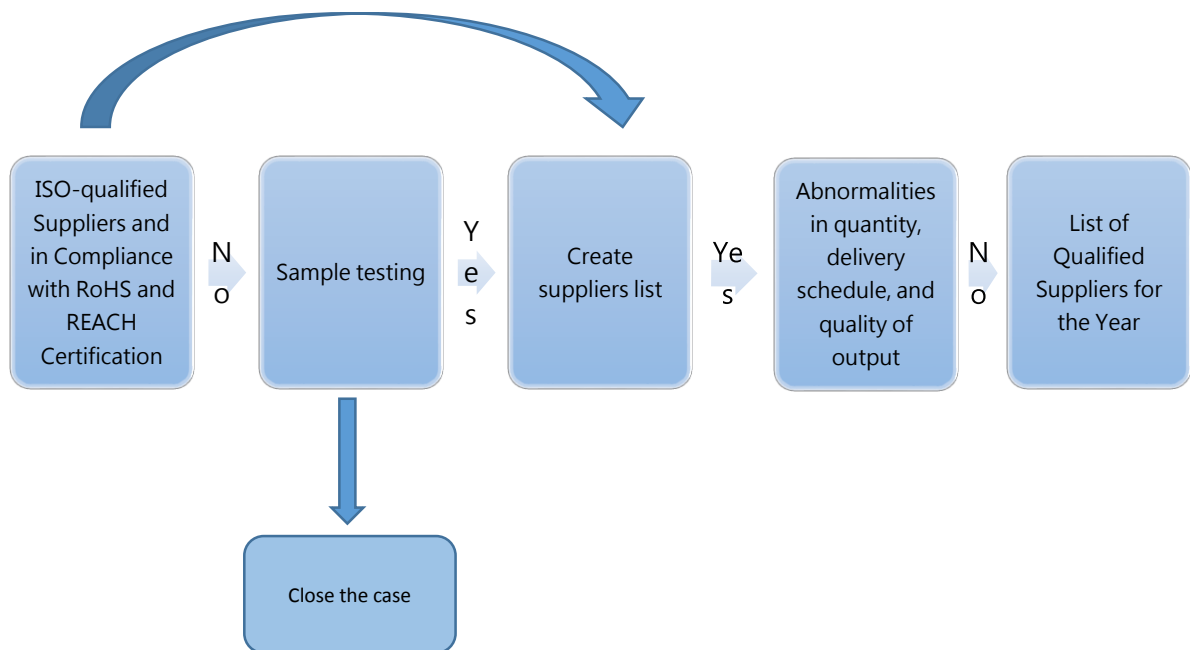
To prevent causing irreversible damage to the environment during product production and selling processes, Nan Pao has always persisted to green procurement policy, which reflects our focus on the planet and for the future. Nan Pao has started to choose suppliers who care for the environment over others starting from 2013. Our green procurement policy introduces product life cycle and green design concepts from the six major aspects ranging from product innovation, production and manufacturing, material recycling and reuse, supply chain management, environmental certification, and global logistics. We also strive to produce products that pose lower impacts on the environment.



Select qualified green suppliers

Based on our persistence for quality and to protect the rights of the consumers, Nan Pao has adopted a prudent and rigorous attitude in the screening process of suppliers as a part of the supplier management procedures. We require suppliers to provide copies of qualified certification of ISO 9001, ISO 14001, and OHSAS 18001, or other copies of qualified certification of similar management philosophies, or certification in compliance with RoHS and REACH standards. In addition, we also investigate the suppliers' environmental, safety, and health policies to confirm that suppliers have complied with Nan Pao's requirements of environmental sustainability. Before joining the list of qualified suppliers, new suppliers need to actively participate in Nan Pao's audit and document review activities for quality, environmental health, and social responsibility. We hope to establish a long-term partnership with suppliers through a mechanism of mutually fulfilling the corporate social responsibility.

Image: Supplier Selection Process



Nan Pao holds true to the philosophy of sustainable management. Besides enhancing our competitiveness, we also comply with the Code of Ethical Conduct and promote various actions geared to protect the environment and fulfill social responsibility.

Supplier Management Procedures:

New Supplier Screening:	<p>Nan Pao has established a set of “New Supplier Survey” that investigates direct factories and non-direct factories of any new supplier. Besides the supplier’s basic information, the survey also covers detailed investigation and certification for various aspects including the quality control system, quality inspection, input inspection, the production supply system, yield rate, machine usage rate, the transportation facility, the R&D system, the environmental pollution prevention system, and the product abnormality-handling system.</p> <p>Only those who meet Nan Pao’s requirements can become Nan Pao’s suppliers.</p>
Supplier Educational Training	<p>We organize supplier educational training courses every now and then.</p> <p>This helps to promote and communicate the supply chain management practices we advocate for.</p> <p>Supplier Evaluation Management</p> <p>Suitable suppliers also need to pass supplier assessment, which evaluates suppliers’ quality management system, production supply capacity, technical development capacity, environmental protection and pollution preventative management, and product abnormality-handling skills. Only those who are qualified can become our partners and be included in our “List of Suppliers.”</p> <p>The supplier assessment will be carried out once in every year, in which Quality Control, Warehousing, and Procurement departments will mutually score the suppliers’ quality, delivery schedule, and service quality. Qualification will be removed for any supplier who scores lower than the minimum standard.</p>

Three Aspects of Supplier Control and Selection:

- 1. Supplier management: Ruling out monopoly from a single supplier by cross-referencing market conditions, delivery status, pricing, and quality to maintain reasonable procurement.**
- 2. Supplier management system certification: In response to environmental protection and safety and health requirements, suppliers who can provide international quality or environmental management system certification such as ISO 9001 and ISO 14001 will be the first to be introduced to our supply chain.**
- 3. Supplier assessment: Evaluating suppliers based on the quality management system, production and delivery competency, technical development skills, environmental protection and pollution preventative management, and ability to handle product abnormalities on an annual basis; suppliers with scores lower than 70 (excluding 70) points will be placed under remedial procedures.**

Quality Management System	Technical development competency	Somewhat Satisfied	Qualified
Production capacity and efficiency and competency	Environmental protection and pollution prevention management	Dissatisfied	70 points or above (inclusive)
Transportation and logistics competency	Product abnormality handling competency	Highly dissatisfied	Unqualified
Product supply competency	Level of completeness of the product abnormality handling system	10 points	Below 70 points (excluding)
Level of independence and completeness of the quality control organization	Ability to retrace and handle abnormal products	8 points	
Level of completeness of the production process quality management system	Rating	6 points	
Level of completeness of the raw material and finished goods inspection system	Superior	4 points	
Level of completeness of input and output material management	Good	2 points	

Nan Pao holds true to the philosophy of sustainable management. We highly emphasize product quality and timeliness delivery in procurement. To ensure quality and stability in products, raw material suppliers are all put through rigorous reviews as well as regular assessments annually on quality, transaction conditions, and service quality. Due to product quality problems and delays, two external suppliers have been placed on temporary cease of transactions since 2017. New suppliers and transactions for the particular products had also been completed within that month.

Supplier Risk Management:

Besides understanding suppliers' output delivery conditions, we also obtain in-depth understanding to suppliers' operating status, development, and production environment through supplier interview and market data collection. If it has been determined that a supplier may have delivery and other unstable risks, we can timely respond and adjust to maintain stable production and partnership, achieving mutual sustainable development as well as new opportunities for growth. No forced or compulsory labor incidents occurred from Nan Pao to the Company's suppliers or contractors in 2017. In addition, no child labor was hired or used by suppliers in 2017.

The Supply Chain of Nan Pao's Headquarters

Costs of raw materials account for Nan Pao's largest production costs. Moreover, the quality of raw materials is also a critical factor for the yield of production; therefore, stable raw material supply and positive material quality are our most important objectives for raw material procurement. For the top 10 raw materials that we had procured in 2017, in addition to factoring in the convenience and the freshness of raw materials, we also supported the development of Taiwanese industries. Local procurement of raw materials accounted for 84%, while overseas procurement made up the remaining 16%. All top 10 raw materials used by Nan Pao were procured locally.

Type		Percentage of top 10 in 2017
Raw Materials	Taiwan	79%
	Overseas	21%
	Total	100%

Type		Percentage of top 10 in 2017
Supplies	Taiwan	100%
	Oversea	0%
	Total	100%

Top3	Source	2015	2016	2017
Primary materials	(Country)	(Unit: ton)	(Unit: ton)	(Unit: ton)
Vinyl acetate	Taiwan	4,263	4,270	3,569
2. Methyl ethyl ketone	Taiwan	3,742	3,612	3,490
3. Adipic acid	China, South Korea	2,945	3,017	3,920

In addition to raw materials, the following is a list of procurement statistical data concerning labor practices, financing, and engineering at Nan Pao's headquarters:

Type of contract (by company type)	Region of purchase	2015		2016		2017	
		Number of companies	Ratio of this procurement on the overall procurement (%)	Number of companies	Ratio of this procurement on the overall procurement (%)	Number of companies	Ratio of this procurement on the overall procurement (%)
Labor (contractual and service)	Domestic	360	2.64%	368	2.98%	373	3.14%
	Overseas	0	0%	0	0%	0	0%
Financing (raw materials)	Domestic	339	68.6%	364	67.13%	361	66.74%
	Overseas	33	18.92%	34	18.78%	36	18.41%
Engineering (construction and equipment)	Domestic	85	9.84%	92	11.11%	98	11.71%
	Overseas	0	0%	0	0%	0	0%
Total		817	100%	858	100%	868	100%

Remarks: "Domestic" refers to Taiwan, and "overseas" refers to areas outside of Taiwan, such as China, the US, Vietnam, etc.

2.2 Green Material Recycling & Reuse

Nan Pao provides a variety of specification of products for different customers with diverse purposes. Though we offer a variety of packaging choices, we actively respond to the trend of going green and to reduce waste. Therefore, for the bulk of packaging materials, the Bao Li Plant has achieved significant results in collaborating with downstream customers to recycle packaging barrels. After the packaging materials have been used and recycled, we will confirm the cleanliness and safety of the packaging barrels, then wash and reuse the materials. The barrels will not be replaced until they are damaged.

2.3 Green Logistics

As Taiwan's largest commercial port is Port of Kaohsiung and the majority of our domestic customers have factories located in southern Taiwan, we have established our headquarters and production sites in southern Taiwan to enhance service quality and to reduce carbon emission from long-distance logistics. The product transportation process emits enormous carbon emission. In terms of transportation, not only does shipping allow for much more loading than air transport, but its CO₂e per unit is also far lower than other types of transportation. It is known to be the eco-friendliest and effective model for all. To protect the ecosystem, Nan Pao systematically reduces air freight and opts for ocean freight to lower the volume of CO₂ emissions during cargo transportation. In addition, we also encourage our employees to share a ride to and from work. To reduce CO₂ emission, only bicycles are allowed within the production sites.

To manage the quality of logistics contractors, Nan Pao has established the Contractor Vehicle Management Assessment Standard. Registration information for contractors' vehicles will be updated every year, and managers from relevant departments will also convene an assessment meeting for contractors' vehicles for the past year. Managers will discuss the level of satisfaction for logistics services and assign ratings accordingly. In 2017, Nan Pao's contractual logistics vendor "Tong Yong Logistics Co., Ltd." has received qualifying scores for willingness to cooperate, the speed of delivery, service attitude, shipping quality, and speed of recycling empty barrels. Hence, we will continue to collaborate with this vendor. Nan Pao requires partner logistics vendors to establish an effective transportation and logistics allocation and to utilize vehicles returning from delivery routes to lower fuel consumption. We also require them to implement a joint transportation system, in which road, ocean, and air transportation can be effectively linked by using the unit-loading system. This allows the systematized transportation of a cargo unit from the shipper to the consignee, thus saving fuel and reduces waste emissions. Nan Pao's professional export sales and customs program have planned to carry out all aspects of the logistics process in a centralized manner and to comprehensively manage the process. This helps us to effectively link the scattered, separate logistics activities.

2.4 Green Certification

Greenhouse Gas (GHG) inventory was introduced in 2009 to understand the Company's GHG emissions through the inventory process and results, and to reduce GHG emissions in the future. The Company is committed to fulfilling our responsibility as a corporate citizen to mitigate global warming.

In 2012, carbon footprint inventory was introduced to inspect the carbon emissions during the operation activities throughout each product cycle, including the raw material stage, the material transportation stage, and the production stage. This helps us to calculate the carbon footprint of our products and to receive SGS carbon footprint inventory assurance for Reasonable Assurance Certification. The Water-based PU Footwear Adhesive (NP-99) has also received SGS "Carbon Footprint Inventory Statement," which makes Nan Pao the only company in Taiwan and throughout the world to receive this product-related accolade.

In 2013, our Water-based NP-3761G was given the "Product Footprint Certification Seal" by the Environmental Protection Agency, which indicates the emission volume of CO₂ from procurement of raw materials, manufacturing, assembling, logistics, and all the way to product consumption and waste processing or recycling. We wish to convey the Company's commitment to protecting our planet to the consumers by obtaining factual statistics through such rigorous carbon footprint inventory procedures.

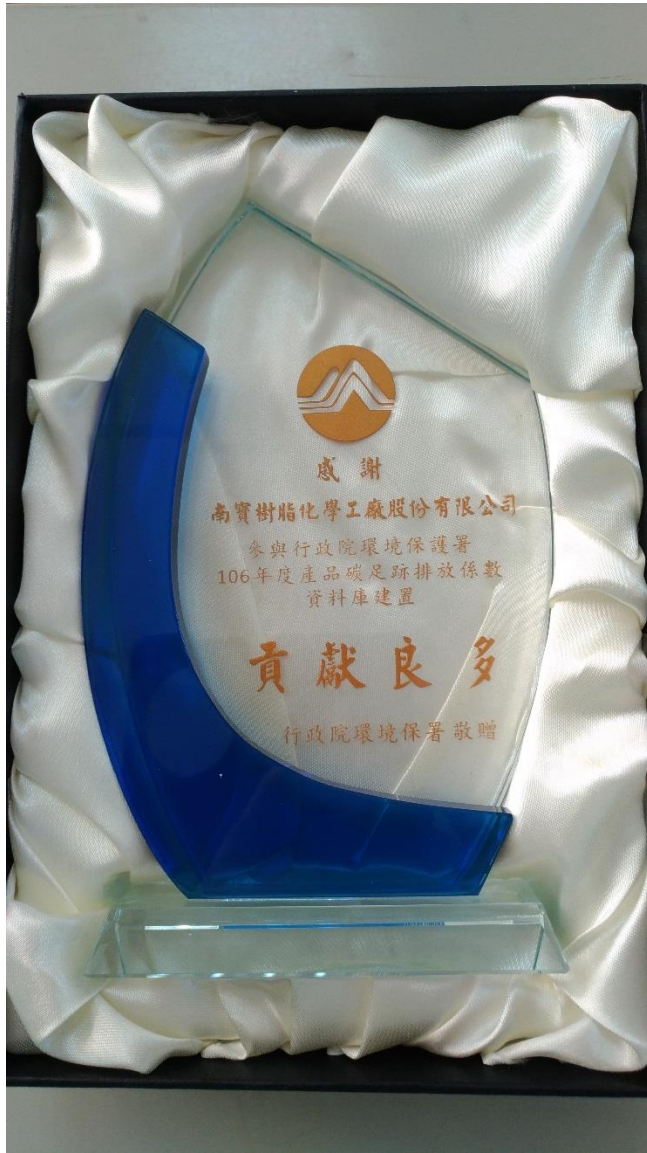
In 2014, our hot melt adhesive production facility in Taiwan received the qualifying certification from the National Clean Production Evaluation System and the Green Factory Label, which further solidifies the Company's determination to promote environmentally-friendly products.

In 2016, we completed ISO14064 verification for 188 Construction Glue and 3761 PVA Glue and are in compliance with the Carbon Footprint Calculation Guide for Products and Services. The life cycle of Nan Pao's products, including designing, manufacturing, logistics, sales, and product uses, is guided by the 3R's, which are Reduce (reducing energy and resource consumption), Reuse, and Recycle. In the future, Nan Pao will continue to allocate resources to reduce the environmental impact of the product life cycle to meet or even surpass the standards stipulated by laws.

In 2017, Nan Pao participated in the "Manufacturing Product Environmental Footprint and Resource Sustainability Promotion Project" conducted by the Industrial Development Bureau, Ministry of Economic Affairs, with the Water-based PU Dispersions, and won the award as a model manufacturer of product environmental footprint.



In 2017, Nan Pao participated in the establishment of the Database of Product Carbon Footprint Emission Coefficients coordinated by the Environmental Protection Administration of the Executive Yuan and received an award for the participation.



In 2017, Nan Pao's first green factory site, the Vietnam Production Center, is in compliance with rigorous standards for energy, photovoltaic, water sources, and material consumption, and in accordance with sustainability policies, which helps the Company successfully receive LEED-Gold Certificate from the U.S. Green Building Council (USGBC) and attests Nan Pao's efforts to maintain sustainable management and environmental protection.



NAN PAO MATERIALS VIET NAM OFFICE

Thu Dau Mot City, Vietnam

HAS FULFILLED THE REQUIREMENTS OF THE LEED GREEN BUILDING RATING SYSTEM CERTIFICATION ESTABLISHED BY THE U.S. GREEN BUILDING COUNCIL AND VERIFIED BY GREEN BUSINESS CERTIFICATION INC.

LEED 2009
NEW CONSTRUCTION AND MAJOR RENOVATIONS

GOLD

October 2017

A handwritten signature in black ink that reads 'Mahesh Ramanujam'.

MAHESH RAMANUJAM, PRESIDENT & CEO, U.S. GREEN BUILDING COUNCIL,
PRESIDENT & CEO, GREEN BUSINESS CERTIFICATION INC.

In 2017, our Environmental-friendly Water-based Neoprene Glue 105G was the first in the world to receive Singapore Green Label. From a safety and eco-friendly perspective, we strive to research and develop green products that are hazard-free to human beings and the environment through technical innovations.



The Singapore Green Labelling Scheme Secretariat hereby grant

Nan Pao Resins Chemical Co Ltd

No. 12 Nanhai Village, Xigang District, Tainan City 72344, Taiwan

the right to use the Singapore Green Label for

105G - Eco Friendly and superior strong waterborne adhesive
040-047-3070

“Low Emission Low Toxicity Adhesive / Sealant”

Validity: 15 December 2017 to 14 December 2018

LAM JOON KHOI
EXCO Chairman
Singapore Environment Council



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As of December 31, 2017, Nan Pao has received four “Green Building Material” certifications in Taiwan for the following four coating products: Water-based 815 Cement Paint, Water-based 815 Interior Emulsion Paint, Green Building Materials Solventless Epoxy Floor Primer (918AMB2G), and Green Building Materials Solventless Epoxy Floor Topcoat (918ABTG). In the future, we will increase

the ratio of revenue from green products step-by-step through marketing strategies and R&D, making Nan Pao a truly green enterprise.

2.5 Green Production

Nan Pao has always focused on process management and going green. Since 2000, we have been striving to simplify our production processes to conserve energy and reduce carbon, on top of recycling and reusing resources to reduce waste. Our business expansion is founded on the basis of posing no harm to the environment, and we see considerations of possible environmental impacts as the number one priority. In evaluating the product lifecycle, we consider the range from the choice of raw materials, processing, product packaging, logistics, consumers, all the way to the disposal stage. In addition, we are dedicated to the long-term focus on global environmental trends and persist in the philosophy of sustainable management and advocacy for green products. We see quality as our goal and research and design green products that are in compliance with environmental regulations. Furthermore, we have been developing energy-efficient, solventless, water-based, and low-toxic green products one-by-one to reduce impacts on the environment and on human health.

2.6 Green Innovation:

Product environmental management can be traced back to its original design. Nan Pao introduces the green design element in as early as the design stage and works in line with market and customer requests. We have reduced environmental impacts from each stage of the product life cycle since the R&D stage. Moreover, we integrate the green design R&D processes with quality processes and undertake inspection and adjustment during each stage of the product development. To maximize the greatest benefits of green design, we have developed various types of products that pose lower environmental impacts, including “solventless, fast-hardening, water-based, and low-toxicity” products.

Nan Pao’s Research and Development Strategies:

The main direction of the Company’s future development is as follows: Internally, the Company will continue to diversify and expand fields of research, be more environmentally- friendly (move toward water-based products/fast hardening, low-toxicity and lower VOC (volatile organic compounds), energy- efficient (UV light) hardening, normal/low temperature applications, manufacturing process improvements and automation), reduce carbon footprints (manufacturing process simplification and use of bio-materials), and continue to improve product quality to adapt to the current trends of lowering cost and increasing competitiveness. Externally, the Company will provide customizable services, low-energy/high-efficiency products, and effective solutions for customers to enhance customer relations, increase market share, and increase the added-value of products.

R&D Result Competition:

Since 2018, Nan Pao organizes the R&D Result Competition and Product Release for the R&D performance of each operating site and each business division in the previous year. We undertake comprehensive assessment for the annual R&D results, and the criteria include innovative technology, pioneering technology, derivative application, and profitability of technology as well as effectiveness in comparison to domestic and overseas benchmark companies. This helps to inspire the development of products that are market-ready, competitive in both domestic and overseas markets, and innovative. Incentives are also given to cultivate outstanding talent and to encourage the R&D personnel to actively develop pioneering products, which allows for effective utilization of R&D manpower and resources.

The following is a compilation of Nan Pao's R&D Results in 2017:

Code	R&D Theme	Selling area	Result
1	Coating for Ecological Ponds	Nursery ponds, culture ponds, nurturing ponds, scenic ponds, and swimming pools.	Completed the development of the solution in April of 2017 and officially launched to market in May Obtained test results from multiple national test centers in China:
2	Green powder coating and water-based coating for computer cases	Computer cases	Continue to deliver and test with major computer case manufacturers
3	Development of one-component water-based epoxy resin for woodwork paints	Epoxy resin for the base coat and top coat for indoor furniture, kitchenware, and outdoor furniture	The development of wood sealing agents, easy-polishing and fast-drying water-based base coat for woodwork is close to completion and is continuing to be tested
4	Improvement of water-based Polyol manufacturing process	Synthesis of water-based shoe adhesives	Achieves VOC-free Completed development; the manufacturing and delivering are stable.
5	PUR for WPC (wood plastic composite) floor lamination	Woodwork flat lamination markets, including: WPC floor, decorative panels, and door panels	Stable sales to Chinese market with large quantities
6	Green lawn adhesives	Applications include soccer fields, tracks, and scenic areas	Meets China's GB18583-2008 environmental protection standard and has created outstanding single product sales numbers

7	PVC adhesive for filters	Vehicle oil filtering and air filtering	Currently the manufacturing and delivery are stable, and the viscosity and density can be customized to customer needs. Currently developing solutions that meet environmental protection requirements
8	Multi-functional electronics grade general purpose pressure sensitive adhesives	Copper thermal tapes, acetate cloth conductive tapes, glossy/matte silver polyester tag printing tapes, black PET masking tapes, regular PET tapes, tissue double-sided tapes, waterproof PE foam tapes, EVA foam tapes, TPU tapes, and transfer tapes	The general purpose type already meets the requirements of related fields. Completed the establishment of the heat-resistant formula; the Company is continuing the testing.
9	Water-based neoprene spray adhesive	Foam adhesion of soft-bodied furniture (such as leather, artificial leather, fabric), and adhesion between foam and leather for shoe industry	Completed the development of one-component water-based spray adhesive; now the Company is developing high-strength two-component adhesive suitable for all types of materials.
10	Development of high performance PUD for shoes	Water-based PU adhesive for shoes	Passed the tests of major sportswear manufacturers and created exceptional sales numbers
11	Adhesives for the car interior decoration market	Car interior decoration product industry	The various environmental tests are passing the inspections of customers.
12	Solution for bending resistance of vulcanized rubber for high-hardness and complex shoe uppers	Vulcanized Shoes	The formula is finalized and has passed the initial tests of major sportswear manufacturers.
13	Development of fluorine-free waterproofing and anti-wicking agent	Material for textile clothing and shoe uppers	The water-based or solvent-based waterproofing agents have the initial waterproofing ranked at least level 4, withstand washing for at least 20 times, and pass the anti-wicking tests, and their

			colorfastness to dry rubbing maintains above level 3.5.
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Past Eco-Friendly R&D Results:

Solvent-free Products:

After the completion of the development of PUR glue for textile lamination in 2013, the Company invested into developing PUR products for woodworking and completed the development of PUR for wood lamination in 2015, which was praised for good quality. It not only replaced the traditional solvent-based adhesives but also solved the issue of traditional woodwork adhesives containing formaldehyde. Nan Pao heavily invested into the development of Solvent-free PUR reactive hot melt adhesives. Nan Pao opened the PUR laboratory and manufacturing plants in 2016 and continues to work hard in the research of Solvent-free chemistry.

Water-based products: Water-based super glue

In response to the green construction material policy, Nan Pao started to invest in water-based super glue that contains almost no solvents in 2012. After endless efforts and tests, the initial results were produced in 2015, and the performance of the product received good reviews from customers. Nan Pao will begin to promote the new product for replacing the products containing solvents or formaldehyde for interior design uses and for improving the quality of living and safety of buildings. All the products submitted to SGS for green construction materials certification in 2016 had met the standards in all properties.

Low Toxicity Products:

1. SVHC-free plasticizer based white glue

In order to be environmentally friendly, comply with legal regulations, promote sustainable economic growth, and conform to customers' needs, all our water-based white glue product series now use environment-friendly plasticizers and have passed the RoHS testing standards.

2. BPA-free Bio-based Epoxy Resin

Many countries now have laws for the BPA content in food packaging materials. With environmental protection and health in mind, Nan Pao collaborated with the Industrial Technology Research Institute in 2009 to develop a can coating product using lignan as an alternative material. In 2015, the

production testing was completed and the product was tested on coffee cans, which proved that the canned food product retained its original flavor after prolonged storage. The lignin-based can coating test plates were tested by a third party testing facility, with results stating that no BPA content was discovered and that the product met the Sanitation Standard for Utensils, Containers, and Packages released by the Ministry of Health and Welfare of Taiwan. Going forward, Nan Pao will continue to improve our products and contribute to the food safety of the world.

SUSTAINABLE ENVIRONMENT

3.1 Energy Management

3.2 Greenhouse Gas Management

3.3 Water Management

3.4 Air Pollution Prevention Management

3.5 Effluents and Waste Management

GRI Standards Management Policy: Environmental: Emission, Energy, Water, Effluents and Waste, Compliance to Laws Related to Environmental Protection

Number of Item	Reporting Requirements	Explanation and Examples of Reporting Requirements
103-1	Materiality of Topic	<p>Environmental awareness had a huge awakening toward the end of the 20th century. The natural environment is no longer an external influence, but rather, businesses should include environmental protection into its overall strategic consideration. Businesses should see environmental protection as its mission.</p> <p>Energy: Energy is scarce across the world. To increase a company's competitiveness, the company should conserve energy costs and fulfill environmental protection through effectively utilizing energy resources and increasing energy circular utilization rate.</p> <p>Water: The United Nations has indicated that climate change and global population growth pose threat to water consumption safety of over 1 billion people worldwide. Water management should be reinforced to prevent relevant conflicts; hence, companies need more effective water management to reduce operating risks.</p> <p>Emissions: The Paris Agreement has indicated that international carbon reduction trends should be reinforced responses to the threats of climate change from across the world. Laws and customer requests at each operating site have prompted businesses to promote greenhouse gas (GHG) reduction programs with mitigation effects to remain sustainable competitiveness.</p>

		<p>Effluents and Waste/Compliance to Laws Related to Environmental Protection:</p> <p>Environmental laws of each country and customers' requirements for environmental protection are increasingly strict; companies should consider reducing environmental burden and effective resource utilization during production processes to enhance their sustainable competitiveness.</p>
	** Boundaries of This Theme	Within the Organization (Including operational sites in Taiwan, China, and Southeast Asia)
	** Limitations to Disclosure of the Set Boundaries for This Theme	For the environmental topic, this Report will disclose information about the Company's Taiwan headquarters, and will partially disclose relevant information about subsidiaries in China and in Southeast Asia.
103-2	** Management Objective for This Theme	Relevant management procedures have been established to effectively manage the Company's risks of climate change, water consumption and water recycling, waste processing, and compliance with environmental laws.
	* i. Policy	<p>Nan Pao's Environmental Policies</p> <ol style="list-style-type: none"> 1. Environmentally-friendly products: We continue to enhance green product R&D capacity and rigorously require environmentally-friendly products with international standards. 2. Legal compliance: Legal compliance is the basic requirement for the Nan Pao Group, and we will continue to carry out operations with standards that surpass the laws. 3. Pollution prevention: We manage pollutants from the source, and reduce pollution through improved solutions, equipment, and processes; the P-D-C-A management method has been adopted to promote continuous improvement of environmental management. 4. Energy conservation and waste reduction: Energy-saving equipment have been adopted at the plants, and we also recycle effluents and reuse packaging barrels. 5. Full participation: We clearly convey policies and require all employees to implement the policies to collectively protect the environment. 6. Continuous improvement: We propose improvement plans for processes and products that fail to meet requirements, carry out the improvement in practice, and review the result.

	* vii. Specific Actions	To effectively manage the topic of emissions, Nan Pao has introduced international management systems, including ISO 14001 and ISO 50001 one-by-one.
103-3	** Management Evaluation Mechanism	In line with the ISO 50001 internal management review procedures, Nan Pao undertakes P-D-C-A effectiveness evaluation on emissions management every year.
	** Performance and Adjustment	<p>From our greenhouse gas inventory, it was found that most of the emissions came from energy consumption. Hence, Nan Pao will implement energy consumption management to further achieve carbon emission reduction. Each of our production sites will establish energy baselines [power consumption per ton of product or volume of heavy oil consumption per ton of product (amount of natural gas)], an annual review will also be carried out to achieve the objective of energy conservation and carbon reduction.</p> <p>Nan Pao's production sites have been equipped with effluent processors. After purifying, parts of the effluents will be recycled and reused to wash machinery and recycling buckets, as well as reused in refilling the cooling tower basins. In recent years, depending on water quality, we also separately collect the cleaner processing water for steaming or for discharging into coolant water basins and circling to various departments to cool off the production machinery. Other secondary uses include refilling for soaking during effluent treatment, for washing the filter cloth, or for washing and flushing toilets, etc. We also use the water consumption control method to lower the consumption of tap water and increase the overall ratio of water recycling and reuse. Nan Pao is committed to working toward using only recycled coolant water and cyclical consumption.</p>

Environmental Sustainability

Nan Pao's major products include adhesives, resins, and coatings, etc. To reduce impacts to the environment from the processes of producing chemical substances, the Company is continuously improving green product research and development as well as production technologies. We continue to reduce the use of organic solvents and chemical substances that are hazardous to the environment, and all products are in compliance with customers' requirements as our primary bases and improvement targets. Nan Pao also actively shoulders the mission and faith of environmental protection. We continue to monitor and reduce carbon emissions and volumes of wastewater and solid waste, strive for environmental protection work and implement standard environmental

management systems.

Nan Pao's Environmental Policy:

Green Products

- Continue to enhance green production competency and strictly adhere to international environmental product standards

Legal Compliance

- Legal compliance is Nan Pao's fundamental requirement, and we continue to carry out business operations at levels beyond legally-stipulated standards.

Pollution Prevention

- Manage pollutants from the source and reduce pollution fundamentally through improving materials, equipment, and processes by adopting the P-D-C-A management model to push for continuous improvement in environmental management

Energy Conservation and Waste Reduction

- Energy-saving facilities have been adopted at the production sites, and wastewater and packaging tanks are also recycled and reused.

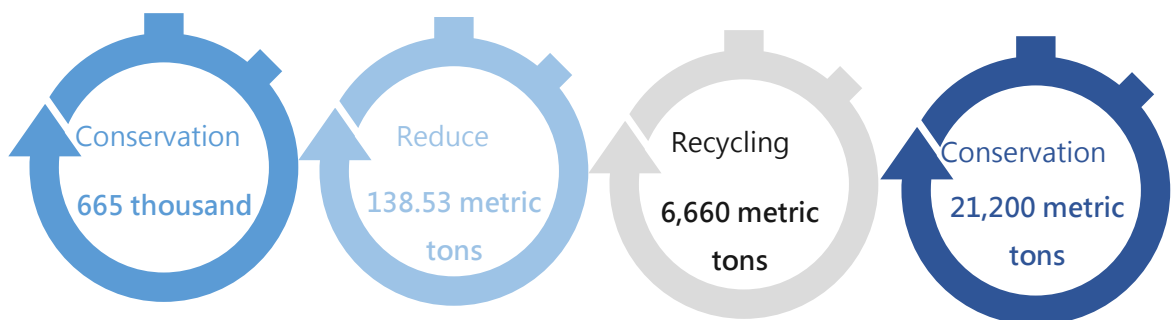
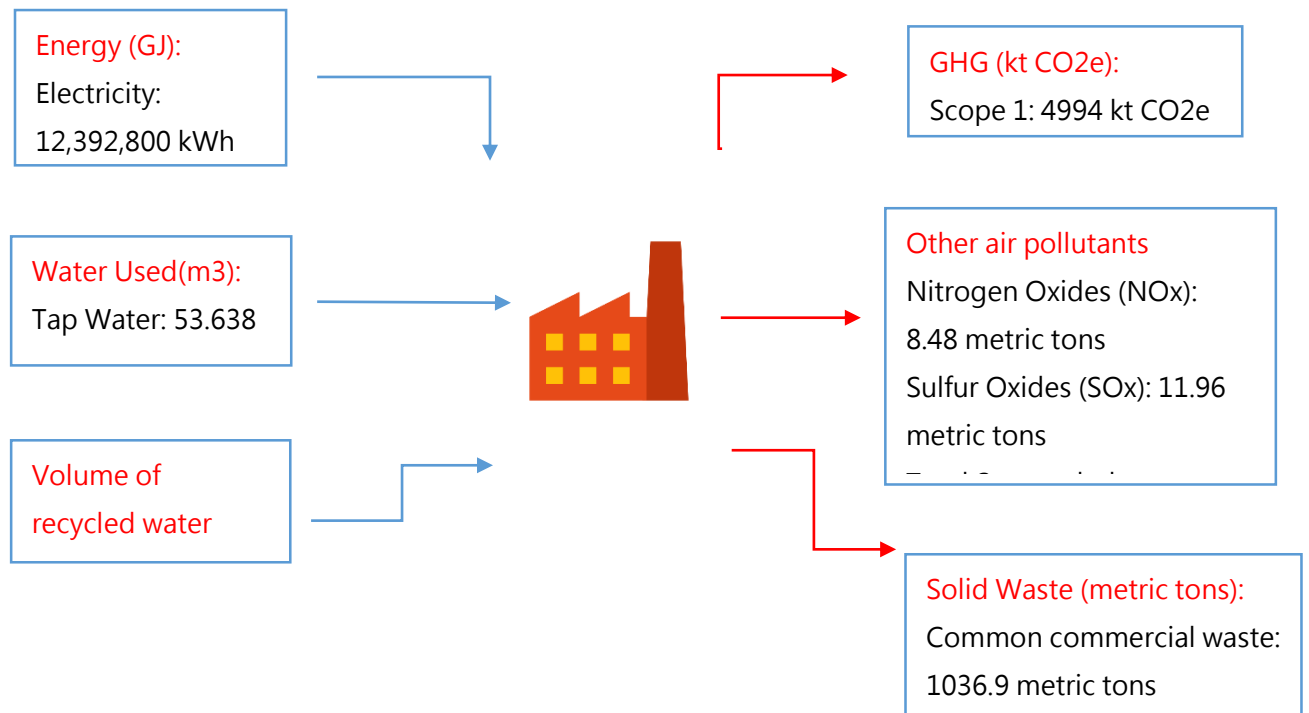
Full Participation

- We clearly announce policies and require fulfillment from all employees to protect the environment as a group.

Continuous Improvement

- We propose improvement measures for processes and products that fail to meet standards and implement the measures and review results after improvements in practice.

Overview of Key Environmental Indicators:



Steam Gas Energy Conservation
 Setting up flash steam Recovering system

Reduce waste sludge
 Establishing frame filter presses

Wastewater Reduction
 Cooling water filtration, vacuum system improvement, and white glue washing tank waste water recycling

Power saving
 Opting for LED lighting

3.1 Energy Management

Global warming has led to weather abnormalities, and climate and environmental changes have led to perils and financial losses, in addition to the public’s increased awareness of climate issues. Nan Pao sees energy and greenhouse management as important issues in day-to-day operations, and we

continue to promote energy conservation and carbon reduction measures, improve energy efficiency and greenhouse gas management to reduce the impact on climate change, and reduce risks brought forth by fluctuations in energy prices and energy supply. Concurrently, we also actively work with energy policies stipulated by local governments. The photovoltaic system has been established at the Bao Li Plant, which leads to more than 1% of autonomous production in renewable energy consumption.

Each production site has passed environmental management certification

Certification standards	Sites that have passed certification standards
ISO 14001 Environmental Management System standard	Headquarters, Bao Li Plant, Plant No. 5, Bao Yi Plant, Dongguan Nan Pao, Foshan Nan Pao, Kunshan Nan Pao, and Vietnam Nan Pao
ISO 50001 Energy Management System standard	Bao Li Plant, Plant No. 5, Bao Yi Plant, Dongguan Nan Pao, and Foshan Nan Pao

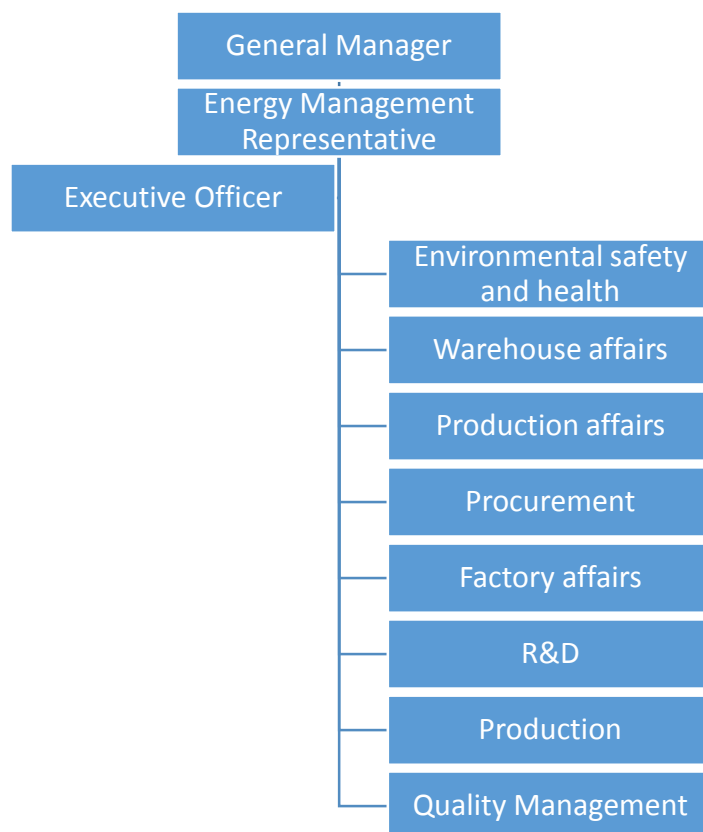
Energy Management Review Team

Chaired by the General Manager at Nan Pao’s headquarters, a cross-departmental Energy Management Review Team has been set up. Executive positions are assumed by the energy management personnel and Quality Assurance Department representatives of each plant and divisional managers of each department relevant to the energy management system are appointed to join the Team upon delegation from the General Manager. The Team regularly meets to review energy consumption status and formulates energy-saving measures. It continuously monitors the performance of energy-saving projects and has set up relevant procedures and standards in accordance with the Energy Team’s relevant energy policies to facilitate implementations. In addition, the Team also provides detailed project information for the Energy Team to review.

Nan Pao Energy Policy	In compliance with legal regulations
	Procurement performance
	Energy conservation and carbon reduction
	Continuous Improvement

Energy Review Target and Management of Action Plan
 Analyze energy use and consumption, identify material energy usage, and identify and prioritize opportunities of improving energy performance to continuously enhance energy efficiency

Structure of the Energy Management Review Team:

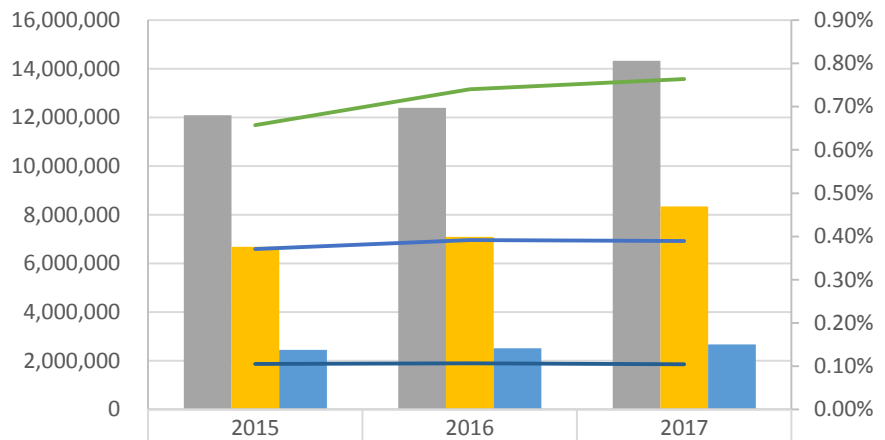


Nan Pao's major energy use include power, heavy oil, and diesel. Heavy oil is primarily used in boiler systems; diesel is used by fork-lift trucks, emergency power generation system, and fire pumps. To effectively reduce environmental impacts from greenhouse gas effect, the Bao Li Plant and Plant No. 5 have already received ISO 50001 Energy Management certification in 2013, and the Bao Yi Plant and the Head Office have also received this certification in 2016. Moreover, our overseas facilities Dongguan Nan Pao and Foshan Nan Pao have also passed the laboratory certification. Over the years, Nan Pao has continued to introduce various energy-saving technologies and to undertake improvement measures to increase the energy efficiency of facilities. The energy consumption intensity in China facilities are higher than the other locations, and we will actively manage the energy consumption in China in the future.

Nan Pao's Power Consumption Data from 2015 to 2017:

Statistical Data on Nan Pao's Power Consumption

Power consumption unit: kWh; Intensity: kWh/production value



■ Taiwan - total power consumption	12,096,003	12,392,800	14,330,900
■ China - total power consumption	6,681,296	7,095,170	8,339,148
■ SEA - total power consumption	2,452,160	2,514,000	2,675,680
— Taiwan - power consumption intensity	0.37%	0.39%	0.39%
— SEA - power consumption intensity	0.11%	0.11%	0.10%
— China - power consumption intensity	0.66%	0.74%	0.76%

Nan Pao's various operating facilities have all established management procedures for energy management. Below is the management performance of each facility in 2017: Cumulatively, Nan Pao's worldwide operational sites have conserved approximately 180,000 kWh of power in 2017, which accounts for approximately NT\$860,000 in savings based on the average electricity bill. Adding in the costs saved from recycling steam gas and more, we collectively conserved more than NT\$1.5 million in energy consumption in 2017.

2017 Energy-saving Measures and Approximate Volume of Conservation			
Area	Energy-saving measure	Practice	Approximate volume of conservation
Taiwan	Replacing high efficiency water cooler	Replacing the 80RT water coolers with 1.26KW/RT efficiency for more efficient models	Estimated annual power savings of 59000 kWh
Taiwan	Using high efficiency	Replacing LED lightings	Estimated annual power savings of 2800 kWh

Taiwan	Improving air compressors	Replacing with more efficient air compressors	Estimated annual power savings of 29000 kWh
Taiwan	Improving manufacturing processes	Replacing pulverizes	Estimated annual power savings of 1200 kWh
China	Using high efficiency	Replacing all the plants' interior and exterior lighting with LED lights	Estimated annual power savings of 86,616 kWh
China	Recycling steam	Recycling boiler thermal energy (recovering flash steam)	Conserved NT\$60 thousand in comparison with diesel consumption in 2015

3.2 Greenhouse Gas Management

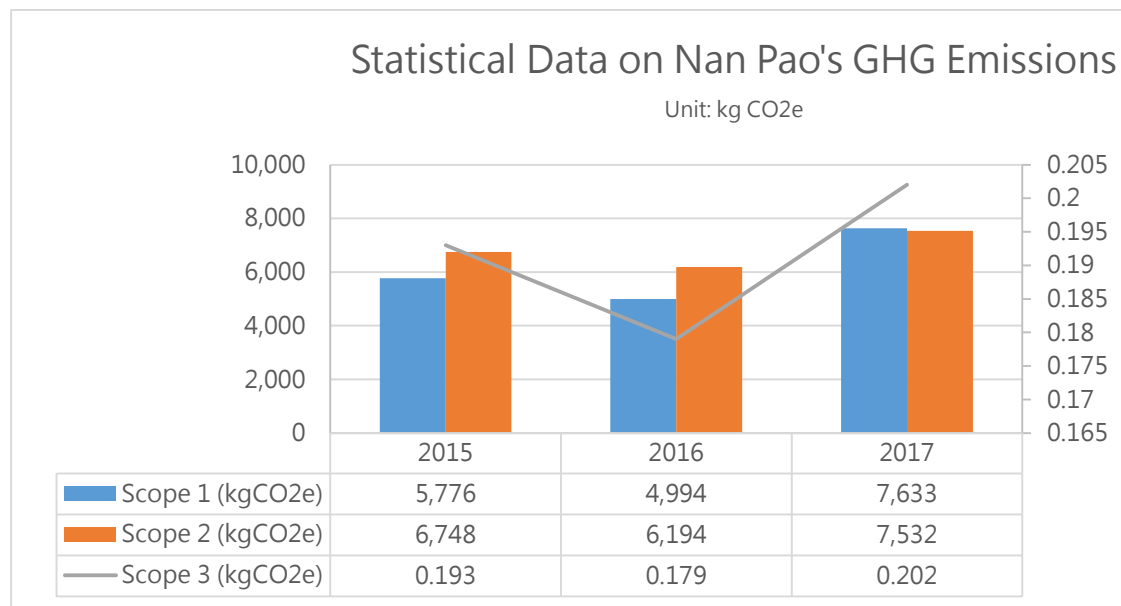
In 2009, we introduced the Greenhouse Gas (GHG) Inventory and established a GHG Inventory Team. Relevant operating procedures have been standardized into Greenhouse Gas Inventory Management Procedures, and we can effectively understand the Company's GHG emissions through GHG inventory and results. In 2012, carbon footprint inventory was introduced to inspect the carbon emissions during the operation activities throughout each product cycle, including the raw material stage, the material transportation stage, and the production stage. This helps us to calculate the carbon footprint of our products and to receive SGS carbon footprint inventory assurance for Reasonable Assurance Certification.

Results of product carbon footprint and GHG inventory have indicated that our primary emission sources are carbon emissions during the production phase. As its emission sources are GHG and power used during production processes, our primary carbon reduction targets are GHG and regulation over power consumption and its gradual reduction.

To control GHG emissions, Nan Pao undertakes GHG inventory procedures every year in accordance with the International Standards Organization's ISO14064-1 to better understand the Company's emissions and to continue reduction efforts. The scope of GHG emissions is in line with environmental laws. In the future, it may be included in GHG reporting industry; hence, the GHG inventory for Plant No. 5, the Bao Li Plant and Plant No. 1 is carried out in accordance with the environmental management codes, in which Nan Pao's GHG emissions can be classified as Scope 1, Scope 2, and Scope 3. Scope 1 includes direct emissions from Nan Pao's plants. Sources include greenhouse gases used during production processes (per fluorinated compounds (PFCs), hydrofluorocarbons, nitrous oxide, methane, carbon dioxide, sulfur hexafluoride, and nitrogen trifluoride) and fuel use (such as heavy oil and diesel). Scope 2 is mostly indirect emissions from purchased electricity. Scope 3 includes

other indirect emissions, including employees' travels and transportation of raw materials and waste recycling and processing. Since carbon emissions from employee transportation and product transport are very few in comparison, Scope 3 emissions are currently not included in the GHG inventory.

According to Nan Pao Headquarters' 2015-2017 GHG emission statistics, the GHG emissions from Nan Pao's other operational sites have not been taken into inventory yet, and we will continue our effort to implement GHG inventory and management throughout all an in the future.



Nan Pao takes GHG inventory on an annual basis and continues to monitor this data. If a material change is found in the volume of emissions, we will immediately draft an energy-saving and carbon reduction plan and establish reduction standards. Moreover, from the GHG inventory, it was found that nearly 60% of emissions came from energy consumption. Therefore, if we can implement energy management in practice, carbon emissions will also be reduced. Subsequently, each plant has already established annual energy baselines (power consumption per ton of product) and timely reviews the baselines to achieve effective energy conservation and carbon reduction. Our GHG emission standards from 2015 to 2017 have all been maintained at a very small average.

To reduce GHG emissions, we plan to gradually replace high energy consumption machinery to gradually lower energy consumption. Apart from replacing high energy consumption equipment, the Company also invests heavily in replacing the heavy oil used by boilers at plants with natural gas and the renewable energy source - solar power. The Company initiated the solar power station project, evaluated the feasibility and cost-effectiveness of placing solar panels on the tops of production plants and completed the installation of the rooftop photovoltaic system at the hot melt adhesive plants in 2017. All the production facilities are being evaluated for installation, which would reduce

carbon emissions, thus lower the cost of purchasing carbon emission permits. This demonstrates Nan Pao's efforts to reduce GHG emissions and to do what we can for the society.

Nan Pao's production processes do not involve the use of ozone-depleting substances (ODS), such as hydro chlorofluorocarbons (HCFCs), halon, carbon tetrachloride (CCl₄), 1,1,1-trichloroethane, hydro bromofluorocarbons (HBFCs), and methyl bromide. The old air-conditioning units still use R22 coolant, which is an ozone-depleting substance (ODS). In order to reduce ODS, the new air-conditioning units procured by Nan Pao since 2011 have been using R410A coolant instead. In the future, we will continue to replace old air-conditioning units. Furthermore, in response to the GHG reduction and management policies in Taiwan, we have researched into the work needed to reduce GHG emissions and mitigate the global warming trends. In 2017, Nan Pao initiated plans of replacing the heavy oil used by the boilers at the manufacturing plants with natural gas and installing solar panels to reduce greenhouse gas emissions and fulfill our social obligations.

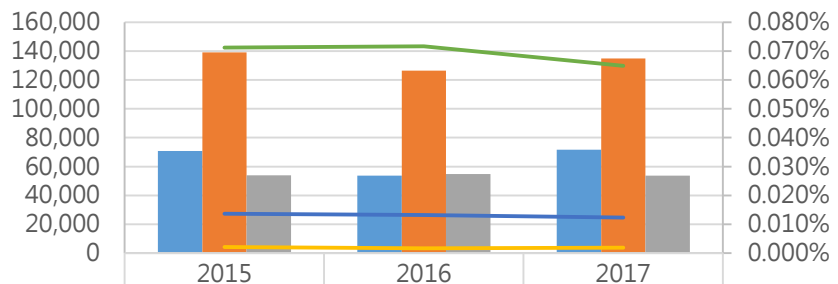
3.3 Water Management

Nan Pao's water source comes from tap water supplied by water companies at our operational sites. We do not consume water from ecological conservation areas, nor do we use groundwater source. Effluent processing grounds have been set up at each operating facility. Some of the processed effluents are recycled and used to wash machinery and recycling buckets. Based on water conditions, discharge from production processes is also separately collected by individual pipelines. In recent years, we also actively recycle and reuse the cleaner discharge in production, or for other secondary uses, such as refilling for washing the coolant tower basins, for soaking during effluent treatment, for washing the filter cloth, for washing and flushing toilets, etc. Since 2016, rainwater has also been collected and used in coolant water basins so that our tap water consumption has decreased over the years.

The 2015 to 2017 Nan Pao Headquarters Water Consumption Statistics. Currently, our Southeast Asian operational sites are actively planning and managing water recycling and reuse, and will gradually reduce tap water consumption and water intensity in the future.

Statistical Data on Nan Pao's Water Consumption

Power consumption unit: kWh; Intensity: kWh/production value



Taiwan - total water consumption	70,680	53,738	71,617
China - total water consumption	139,081	126,443	134,736
SEA - total water consumption	53,956	54,773	53,753
Taiwan - water consumption intensity	0.002%	0.002%	0.002%
China - water consumption intensity	0.014%	0.013%	0.012%
SEA - water consumption intensity	0.071%	0.072%	0.065%

The water-saving measures of Nan Pao Headquarters include reducing the times we wash the machinery and using recycled water to wash the machinery and equipment to lower tap water consumption. Both have shown significant water-saving results. Nan Pao continues to use coolant water and recycled water and has adopted water consumption management methods to reduce water consumption in production and cleaning. According to our newly established Water Management Method, each department shall calculate monthly water consumption. And if an abnormality is found, the Company can undertake timely revisions to reduce waste. We had reorganized the Water Management Method and Recycled Water Consumption Program in 2016 to increase the consumption of recycled water. Furthermore, we also manage various water resources and evaluate and gradually implement the rainwater collection and reuse system. We also establish baselines for water consumption per ton of product in each production process to enable regular review, which improves reduction in tap water consumption over the years.

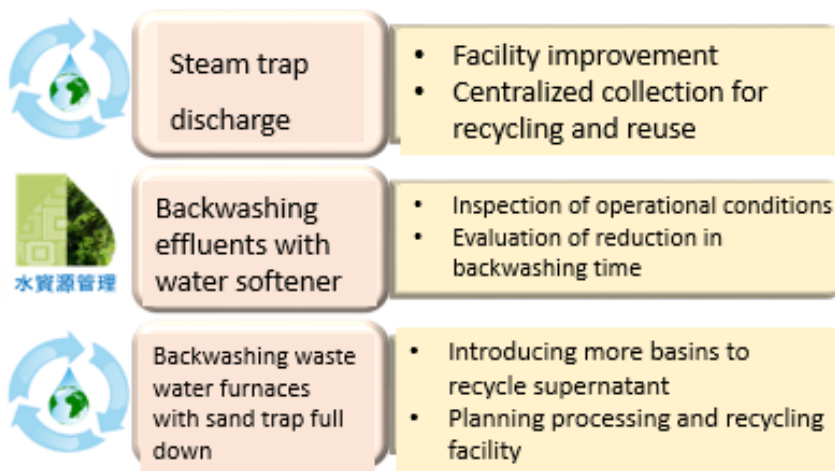
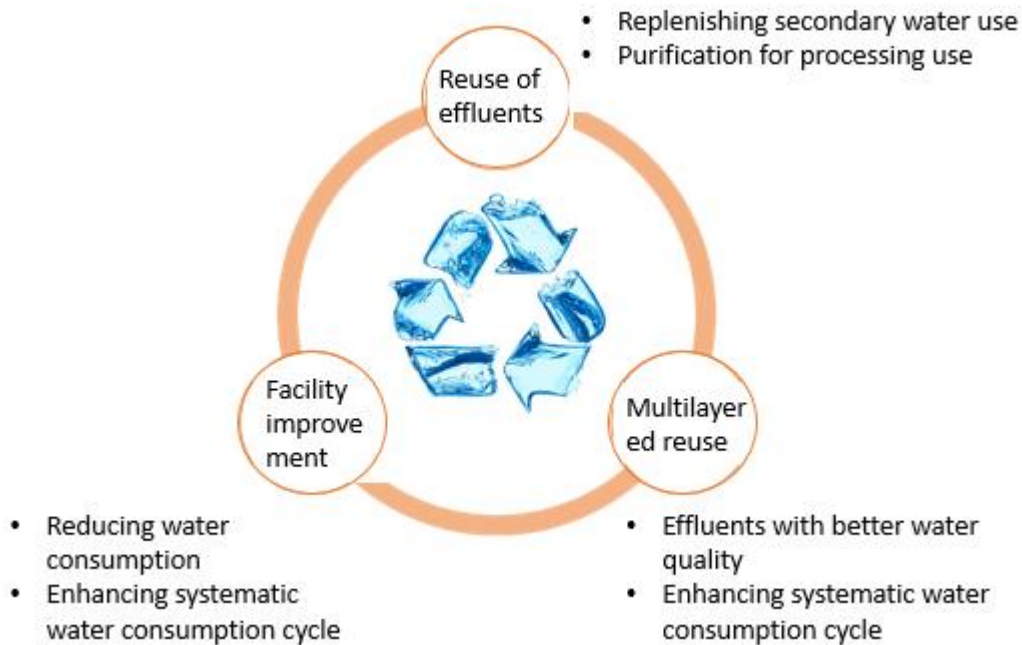
Discharge and/or surface runoff from Nan Pao Operating Headquarters is discharged to the Liu-cuo drainage system and flows through the Cigu River. The Cigu River is approximately 15.5-km long and covers approximately 38 square km. It is formed by the convergence of the mainstream Liu-cuo drainage system and the tributary Cigu drainage system and flows through the Jiali, Xigang, and Cigu Districts. It enters the sea through the Cigu Lagoon. All other discharges or surface runoff from other

operational sites do not pose significant influence on water bodies and biological habitats.

All Nan Pao's operational sites have established procedures for water management. Below is the management performance of each site in 2017. Compared to 2016, Nan Pao's facilities have cumulatively saved 16,100 tons of water and saved approximately NT\$2 million in water consumption.

2017 Water-saving Measures and Approximate Volume of Conservation			
Area	Water-saving measure	Practice	Approximate volume of conservation
Taiwan	Reusing water use	Reusing collected rain water	Annual water savings of 5290 m3
Taiwan	Reusing recycled water	<ol style="list-style-type: none"> 1. Re-heating condensed steam water for use 2. Installing sand filter towers to recycle discharged cooling water 3. Using effluent water to refill coolant water pools 4. Other secondary uses like soaking during effluent treatment, washing filter cloth, and washing or flushing toilets 	
China	Recycling cooling water	Placing a jacket of cooling water discharge and steam recovery loop around reaction tanks to recycle the water	Annual water savings of 5000 m3
China	Reusing recycled water	Reusing collected rain water	Annual water savings of 5000 m3
China	Reusing recycled water	Using recycled water for oil tank cooling water and cleaning toilets	Annual water savings of 810 m3

2017 Nan Pao water resource planning and management process:



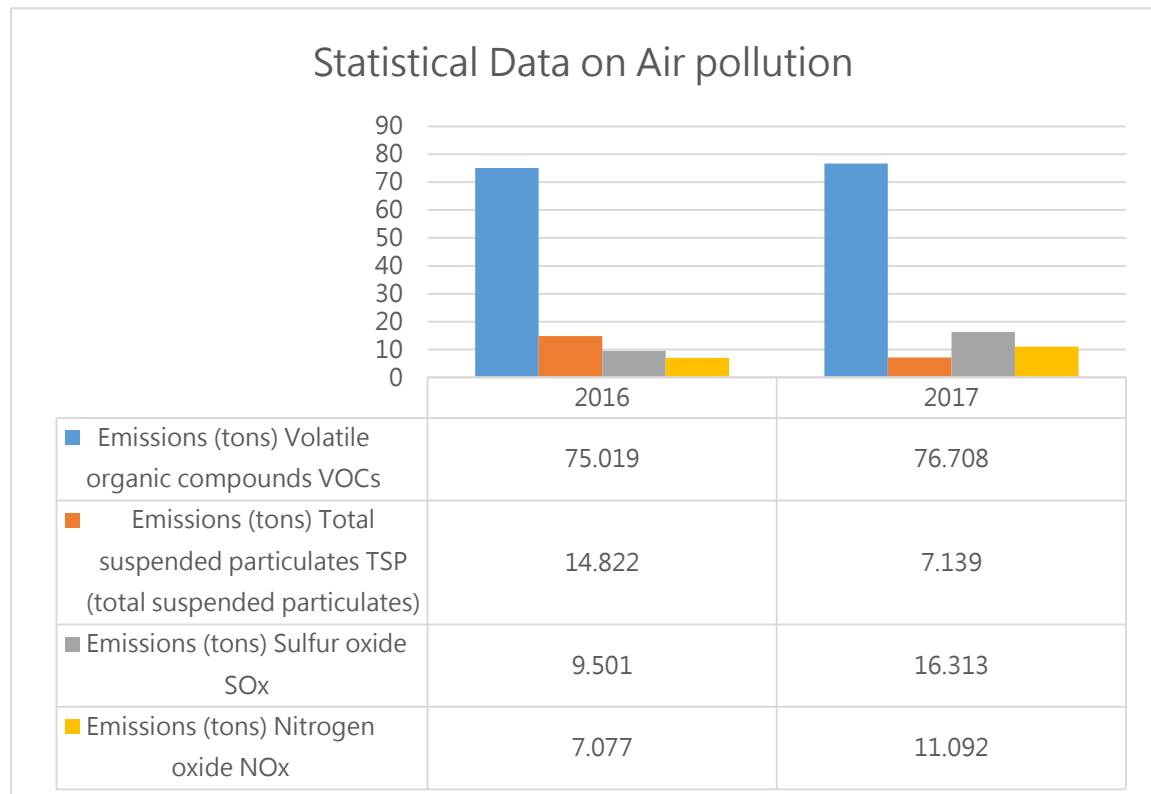
3.4 Air Pollution Prevention Management

The air pollutants emitted by Nan Pao are primarily particulates, sulfur oxides, nitrogen oxides, and gaseous volatile organic compounds (VOCs), where the sources of pollution can be from manufacturing, operating boilers, and effluent treatment processes. To effectively reduce air pollution and emissions, we have reinforced the availability of machinery, and actively monitored concentrations of all flue gas emissions to ensure that the emitted concentrations can meet regulatory standards. The plants at Headquarters that are required to declare emissions under the environmental protection regulations in terms of air pollutant discharge are Plant No. 1, the Bao Li Plant, and Plant

No. 5. Due to the degradation of air quality in recent years, the competent authority had tightened the laws relating to the emission of particulates. Hence, in order to improve air quality, Nan Pao actively researched into changing of raw materials and installing new equipment for air pollution prevention and has been replacing the heavy oil-based boilers with natural gas based boilers since 2017.

Since the plant area contains many chemical substances, the chemical smells often escape into the air. We have replaced feeding materials through manholes in reaction tanks with diaphragm pumps to avoid the chemicals contacting air, which would reduce the odors and the exposure to operators. Subsequently, we will also reform the worn equipment components in the plants (e.g., shaftless motors, open-blind assembly, autonomous inspection, etc.) to improve the odor problems in the plants.

Below is the statistical information of Nan Pao Headquarters' various air pollutants. Nan Pao is committed to reducing emittance sources and VOCs from products and production processes from the source.



3.4 Effluents and Waste Management

Effluent Management:

Effluent treatment grounds have been established at Nao Pao's facilities. The operation process first goes through chemical coagulation, chemical treatment, and biological sludge treatment and discharge. In addition to the regular inspection and monitoring by designated personnel, each facility will also bring a water sample for inspection at an external testing agency. Effluents will only be

discharged when they meet effluent standards. In addition, the Company has also set up an MBR processing unit to increase the effectiveness of effluent-processing. Currently, we monitor discharge at a fixed time every day, and the average COD inspection value is in compliance with effluent standards of the operational sites.

Item	2016	2017
Total effluent volume in Taiwan (m3)	23,595	20,374
Total effluent volume in China (m3)	11,956	9,786
Total effluent volume in Southeast Asia (m3)	23,164	21,073

Below is the effluent volume of each operational site. Our operational sites in China have achieved significant performance in terms of water recycling, and thus their discharge volume is the lowest of all sites. In the future, Nan Pao will be even more committed to planning water recycling and reuse and continue to lower influences of effluent discharge on the environment.

Effluent processing also creates sludge. We have begun discussions to reduce the sludge created from effluent processing since 2015. Currently, we have already effectively reduced the volume of sludge by revising the processing unit and reducing the volume of chemicals added. In 2016, we planned to use a new model of frame filter press to replace the old dehydrator to lower the volume of water content in the sludge. In the second half of 2016, we also added an MRB processing unit and a new model of frame filter press. By 2017, the amount of sludge had been further reduced by 30-50%.

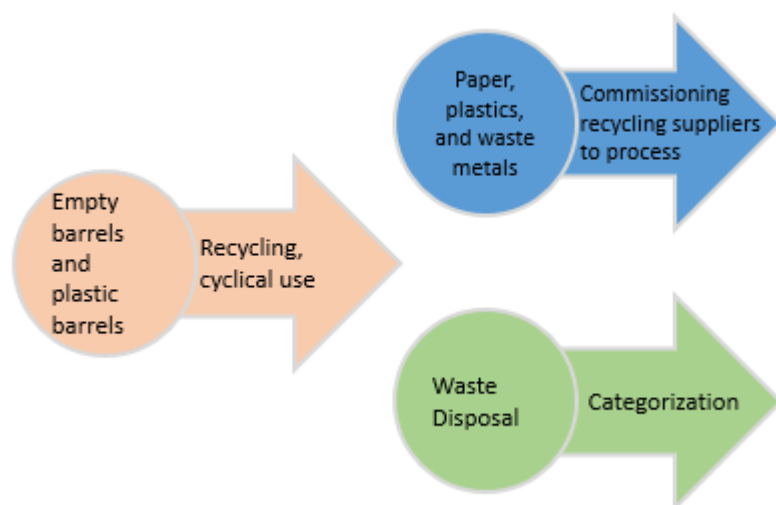
Waste Management:

Most of the waste generated by Nan Pao are waste solvent, waste resin, chemical waste barrels, waste dust, waste organic sludge, waste plastic mixture, and waste activated carbon. Our production processes mostly generate waste solvent and waste resin, while the air pollution prevention facilities lead to the generation of waste dust and waste activated carbon.

The toxic waste from Nan Pao Headquarters is mostly waste solvents and chemical waste barrels. Besides comprehensively classifying and managing the waste generated by the Company, we also actively plan waste recycling programs to effectively reduce waste and alleviate the burden on the environment. In line with environmental laws, we have included waste management in the ISO 14001 Environmental Management System to ensure that domestic waste can be cleaned and processed in accordance with procedures, which helps us to maintain the environmental sanitation of offices and production sites. We commission domestic qualified waste processing firms to handle the waste.

Currently, we have delegated Kao Chuan Energy Co., Ltd. to transport the waste solvents to Sung Yi Chemical Engineering Co., Ltd. for physical treatment. Chun Ta Industrial Co., Ltd. and Jason Environmental Technology Co., Ltd. will transport the waste solvents to Lu-Ta Industrial Co., Ltd. and Libaijing Eco Technology Co., Ltd. respectively for incineration. Chenmao Environmental Protection Co., Ltd. will transport the waste to Plant 2 of Shi Chuan Coating Co., Ltd. for reuse-processing. Currently, the cleaning of chemical waste buckets that will be reused is delegated to Ding Chia Industrial Co., Ltd.

Nan Pao's resource recycling and reuse procedure are as follows: after sorting, the waste, paper, plastics, scrap iron, etc. will be recycled by recycling businesses. To reduce the amount of waste, some empty iron drums and plastic buckets will be reused at our plants or used toward circular use.



Solvents account for most of the waste that we generate. Since Nan Pao's operating headquarters has dedicated much effort toward fractionation facilities and process improvement to distill and reuse the solvents, we cleared 1,741.32 tons of waste in 2017, which shows a 45% reduction compared to the 3,178 tons in 2016. This indicated the Company's positive performance in waste reduction, bringing significant benefits to the Company.

The following are statistical data of total waste disposal from Nan Pao's operating headquarters in 2017:

Type of waste	Item	Code	Processing method	Waste disposal in 2017 (tons)
Toxic commercial waste	Waste solvents	C-0301	Physical treatment	1366.96
			Reuse	302.99
			Incineration	71.37
	Waste empty buckets used for loading chemical substances	C-0301	Washing	495.155

No material leakage incident occurred at Nan Pao's operating headquarters in Taiwan in 2017. However, the Company was fined for the unsanitary waste storage area and contamination of the ground in 2017.

Date of Audit	Date of penalty	Plant	Explanation of Breach	Legal Reference for Penalty	Fine	Improvement measures
106.07.20	106.09.05	Taiwan	<p>On July 20, 2017, upon investigating a report from the public, we found that your Company's Plant No. 1 had piled large amounts of waste resin (waste code: D-0202), and some of the waste resin was placed among the waste liquid storage area rather than a specific classified storage. Furthermore, the storage location was not sanitary and there had been leakage and contamination on the ground. Some waste resin was stored on the open-air ground, and equipment or measures to prevent the inflow of rainwater were not established.</p>	<p>Article 36-1 of Waste Disposal Act and Article 6-1-1, Article 6-1-2, and Article 10-1-1 of Methods and Facilities Standards for the Storage, Clearance, and Disposal of Industrial Waste; a penalty was made pursuant to Article 52 of Waste Disposal Act.</p>	6,000	<p>1. Strengthen classification, reduction in volume, labeling, and timely cleanup of the waste storage area 2. Install partition and iron-wrought doors in the waste storage area</p>

QUALITY AND CUSTOMER SERVICE

- 4.1 Product Quality Management
- 4.2 Toxic Substance Inspection Standard
- 4.3 Customer Service
- 4.4. Protection of Customer Privacy and Rights
- 4.5 Customer Satisfaction

GRI Standards Management Policy: Customer Service: Customer health and safety/marketing and labeling

Item Number	Reporting Requirements	Explanation and Examples of Reporting Requirements
103-1	<p>** Material Causes Behind this Theme</p>	<p>To maintain product safety, during production processes from raw material input to finished output, we sample all batches of products. Only products that have passed inspections can be stored for subsequent delivery. At the same time, the production batch number would be printed on the packaging to allow for subsequent follow-up and tracking. Products that do not pass inspection would be rejected to rework. We maintain rigorous control over raw materials and product inspection standards in accordance with the CNS inspection standards in Taiwan.</p> <p>Marketing and Labeling Products produced by the Company are industrial specialized chemical substances, and labels must be clearly indicated on the product packaging so that customers and users will clearly understand the product name, hazardous substance label, warning message, and hazard preventative measures. We also clearly indicate on the label that the product is food-prohibited to prevent unethical businesses from adding the Company's products in food.</p>
	<p>** Boundaries of this Theme</p>	<p>The Company's scope of impact for emission topic includes raw material suppliers in our value chain and the Company's operating headquarters in Taiwan.</p>
	<p>** Limitations to the Disclosure of the Set</p>	<p>This Report will disclose relevant information about the operating headquarters in Taiwan for the emission topic.</p>

	Boundaries for this Theme	
103-2	** Management Objective for this Theme	<p>Management procedures have been established to effectively manage Nan Pao's product quality and provide customers with products and services that are stable, safe, and in compliance with legal regulations.</p> <p>Quality is a fundamental factor in the overall management of the Nan Pao Group. Our goal is to provide customers with stable and safe products and services in compliance with legal regulations. The Company sees quality as the cornerstone to brand development and sustainable growth. In terms of internal management, we never compromise on our commitment to quality requirement and on meeting standards. In terms of advocacy, we promote the Quality Policy to all employees to ensure total compliance and implementation. The policy also serves as the guiding indicator to work responsibilities and day-to-day working mindset and actions.</p>
	* i. Policy	<p>Nan Pao's Quality Policy includes the following:</p> <ol style="list-style-type: none"> 1. Quality First: Ensuring quality is the responsibility of each and every employee. All tasks related to products and services need to comply with enforced procedures and standards, and products that do not comply with quality inspection standards shall never be allowed to be distributed to customers. 2. Technical Leadership: We continue to develop products that meet customers' needs and to assist customers to enhance their added-value and lower costs; we focus on the provision of energy-saving, carbon-reducing products with low pollutants to prevent environmental pollution and damaging the Earth, as well as to protect the ecosystem. 3. Service-oriented: Service is a key added-value of Nan Pao's products; we actively solve product application problems and work with customers on joint product development. To ensure customer satisfaction, a comprehensive technical service team has been designated to solve customers' problems of product use, R&D, and improvement at all times.
	*ii. Management Procedures	To effectively manage quality, the ISO 90001 international quality management system has been introduced to Nan Pao. We also

		regularly obtain certification and version update to comply with the latest international management standards.
103-3	** Management Evaluation Mechanism	Pursuant to the ISO 90001 internal management review procedures, Nan Pao undertakes effectiveness evaluation on quality management in each year. We never compromise on quality requirements and on our determination to comply with relevant standards.
	** Performance and Adjustment	<p>To clearly protect the safety of customers, we introduced the IECQ/QC 080000 Hazardous Substance Process Management (HSPM) system in January 2010. At the same time, we have also reinforced educational training for employees so that employees could better understand that it is our basic responsibility to produce products that are safe. The system was officially implemented in May 2010, and certification from BSI was received in September of the same year.</p> <p>From that point on, BSI carries out follow-up review every year, and the same hazardous substance management goal - hazardous substance shall not be found during inspection - is also established every year. Inspection of hazardous substances is carried out by Nan Pao's Quality Assurance Team in accordance with "Raw Material Inspection Standard" and "Finished Goods Inspection Standard" on the input and finished goods respectively. The purpose of which is to confirm whether the hazardous substance meets the target objective. No abnormalities have been found so far.</p>

4.1 Product Quality Management:

Ensuring Product and Service Quality:

Nan Pao has clearly established Quality Policy: Quality is a fundamental factor in the overall management of the Nan Pao Group. Our goal is to provide customers with stable and safe products and services in compliance with legal regulations. The Company sees quality as the cornerstone to brand development and sustainable growth. In terms of internal management, we never compromise on our commitment to quality requirement and on meeting standards. In terms of advocacy, we promote the Quality Policy to all employees to ensure total compliance and implementation. The policy also serves as the guiding indicator to work responsibilities and day-to-day working mindset and actions. To implement Nan Pao's Quality Policy, the following action plans have been adopted:

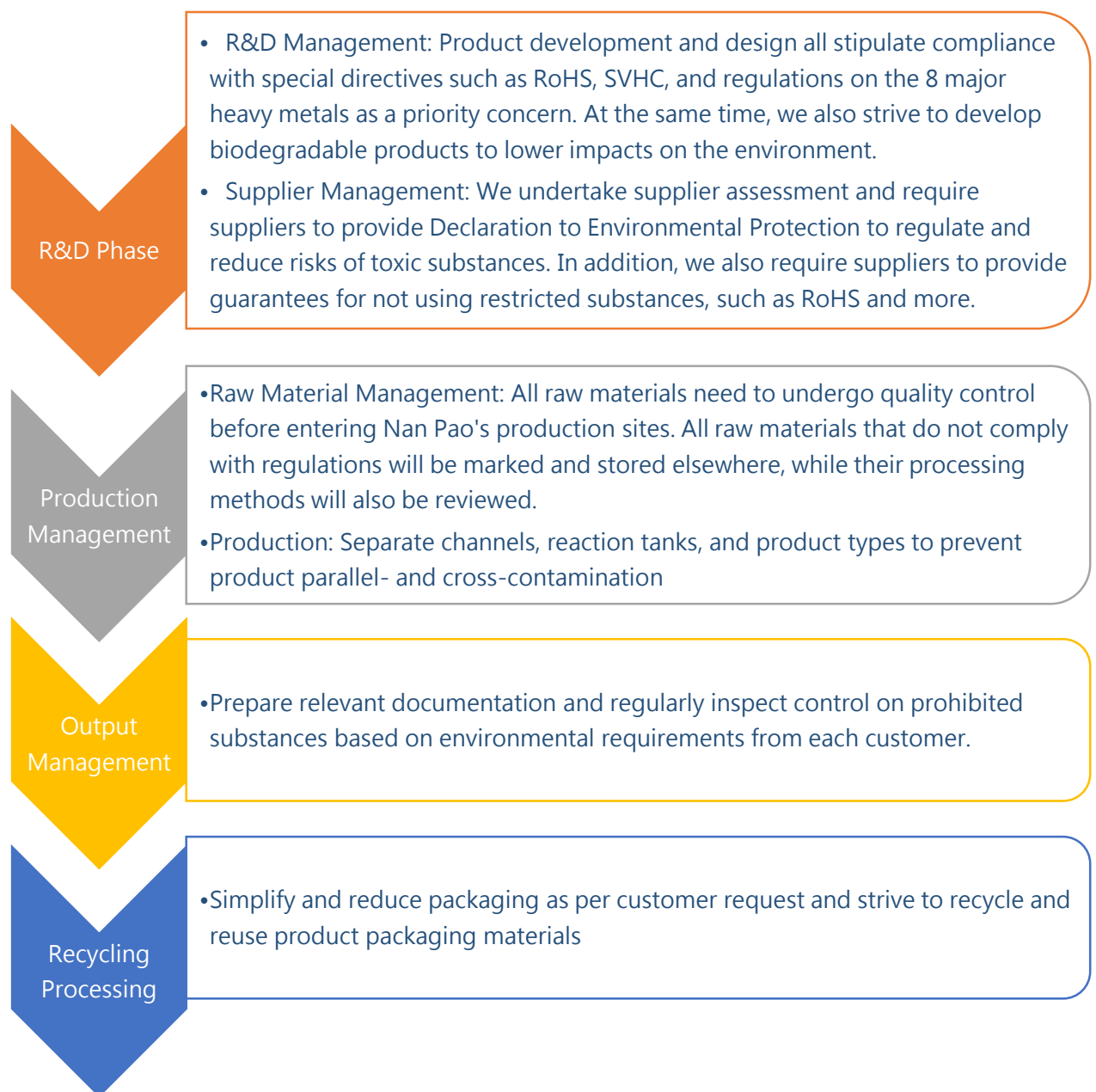
Quality First: Ensuring quality is the responsibility of each and every employee. All tasks related to products and services need to comply with enforced procedures and standards, and products that do not comply with quality inspection standards shall never be allowed to be distributed to customers.

Technical Leadership: We continue to develop products that meet customers' needs and to assist customers to enhance their added-value and lower costs; we focus on the provision of energy-saving,

carbon-reducing products with low pollutants to prevent environmental pollution and damaging the Earth, as well as to protect the ecosystem.

Service-oriented: Service is a key added-value of Nan Pao's products; we actively solve product application problems and work with customers on joint product development. To ensure customer satisfaction, a comprehensive technical service team has been designated to solve customers' problems of product use, R&D, and improvement at all times. The ratio of environmentally-friendly products (water-based or solid-state) produced by Nan Pao's operating headquarters in 2017 accounted for 66%.

The following are Nan Pao's evaluation and management procedures for product health and safety and green product evaluation throughout the product life cycle:



Nan Pao's various operational sites have all passed the regular follow-up review of ISO 9001. The quality unit of each department has established relevant quality indicators in each stage of product development in accordance with the Company's Quality Policy and Quality Assurance Handbook. We comply with Plan-Do-Check-Action (PDCA) cyclical quality management policy in carrying out supervision, measurement, analysis, and continuous improvement over raw material input and finished goods. We strictly require the R&D process to be in total conformity with the environmental laws and relevant requirements of customers starting from raw material selection; the raw materials and finished goods inspection in each stage shall be completely fulfilled. For instance, our products are in compliance with the 168 substances in Substance of Very High Concern (SVHC), the 2.0 version of RoHS directive, REACH, and the 8 heavy metals from EU's EN71 part 3. With the cross-control and supervision pursuant to Nan Pao's clearly stated Raw Material Management Method, Production Management Method, and Processing Management Method, all products have been sampled and inspected before being stored as finished goods. We rigorously achieve our quality objective and never compromise on quality control.

4.2 Hazardous Substance Inspection Standard:

Nan Pao complies with the REACH standard by EU and investigates chemical substances contained in our products in line with the supply chain to ensure that our products do not contain the Substance of Very High Concern (SVHC) stipulated by REACH directive. As for customer requirements based on environmental pollution prevention or prohibited substances for health concerns or other restricted substances over a certain volume, we rigorously undertake quality inspection on the raw material input and finished goods in accordance with Nike (RSL), Adidas/Reebok (A-01), EU WEEE (RoHS), Sony (SS-00259), REACH, 8 major heavy metals, and Green Building standards.

We provide inspection reports (SGS, TUV, etc.) and guarantees from independent third-party institutions based on customers' request. No breach of product/service and consumption incidents occurred in 2016. No product has been banned from sales in any particular market, nor have there been any product-related conflict.

Over 90% of all products provided by Nan Pao's operating headquarters for customers have gone through safety and health evaluations, including RoHS 2.0, REACH, EN-71 Part 3 (8 major heavy metals), NIKE RSL, and Adidas A-01.

Product Safety Inspection Process:

To maintain product safety, during production processes from raw material input to finished output, we sample all batches of products. Only products that have passed inspections can be stored for subsequent delivery. At the same time, the production batch number would be printed on the packaging to allow for subsequent follow-up and tracking. Products that do not pass inspection would

be rejected to rework. We maintain rigorous control over raw materials and product inspection standards in accordance with the CNS inspection standards in Taiwan.

To ensure customer health and safety in product consumption, all footwear products produced by the Company are sent to independent third-party institutions such as SGS to receive reports on substance prohibition directive from brands including Nike, Adidas, and Converse and more. Moreover, as the Company persists on exceptional quality and product safety, all products sold to EU have passed quality inspection. In 2017, the quality of all export products has complied with EU's RoHS and REACH standards. Products produced by Nan Pao are industrial specialized chemical substances, and labels must be clearly indicated on the product packaging so that customers and users will clearly understand the product name, hazardous substance label, warning message, and hazard preventative measures. We also clearly indicate on the label that the product is food-prohibited to prevent unethical businesses from adding the Company's products in food.

To clearly protect the safety of customers, we introduced the IECQ/QC 080000 Hazardous Substance Process Management (HSPM) system in January 2010. At the same time, we have also reinforced educational training for employees so that employees could better understand that it is our basic responsibility to produce products that are safe. The system was officially implemented in May 2010, and certification from BSI was received in September of the same year. From that point on, BSI carries out follow-up review every year, and the same hazardous substance management goal - hazardous substance shall not be found during inspection - is also established every year. Inspection of hazardous substances is carried out by Nan Pao's Quality Assurance Team in accordance with "Raw Material Inspection Standard" and "Finished Goods Inspection Standard" on the input and finished goods respectively. The purpose of which is to confirm whether the hazardous substance meets the target objective. No abnormalities have been found so far.

4.3 Customer Service:

Technical Service:

Customer satisfaction is not only built upon product quality, but after-sale service is also the true determining factor to customer satisfaction. Our Technical Service Department is brimming with professional talent who has years of technical experience and has solved technical problems for many years. Moreover, a comprehensive database has been established, and professional talent is dispatched to each sales and services center to provide professional technical support for customers. In addition, based on the nature of products, we also provide complete coaching and support on product use for customers' production teams.

Nan Pao's technical service team can provide feasible plans during customers' new product R&D stage to solve product issues. If a customer experiences any difficulty in using a product and reports back to our Sales Department, the technical service team will immediately take charge and proceed with the

needed support.

After product launch, the technical service team will collect all customers' problems with the production line, undertake troubleshooting training at customers' end, and organize technical seminars quarterly to actively solve customers' technical issues.

Development Overview of Simplifying Customers' Production Processes:

Besides actively improving our production processes and enhancing efficiency, Nan Pao's R&D Department also works with customers to develop products with simplified processes as well as help customers to simplify their production processes to achieve better efficiency.

Products with simplified processes currently include water-based PU glue, water-based CR glue, hot melt adhesive, adhesive films, and insulating glass sealant.

Development Overview of Simplifying the Production Processes of Water-based Footwear

Water-based polyurethane

2010 - Accomplished liquefaction of water-based polyurethane glue

2012 - Achieved mass production of liquefied water-based polyurethane glue

2013 - Accomplished liquefied water-based footwear leather treatment agent

2014 - Promoted liquefied adhesive and automatic treatment agent spray with trading companies, and received certification from NIKE and Adidas

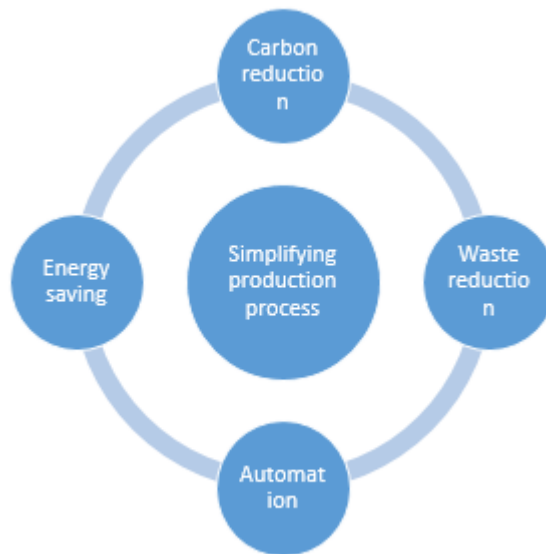
2015 - Liquefied adhesive and automatic spray system: products NP-200H, UE-312, and NP-101 have all gone into mass production and are supplied to NIKE and Adidas.

2016 - Developed water-based UV treatment agent and the automatic spray system

2017 - Developed high-performing water-based PUD adhesive and significantly enhanced the water resistance and stability of water-based polyurethane glue

Reduced customers' mixture processing and lowered energy consumption

Reduced the number of gel-mixing personnel and increased productivity per employee to allow for better project implementation



No hardening agent is used to prevent solvent use.
Reduced VOC

Extended pot life of adhesive and no expired adhesive was thrown away

4.4 Product Innovation

Developed high-tech green eco-friendly wood plastic composites:

In 2017, Nan Pao developed wood plastic composites (WPC) by using wood (wooden fiber and plant fiber) as the base. Mixed with thermoplastic polymer materials (plastic) and heated, the base is molded to form a high-tech eco-friendly material. It has characteristics of both wood and plastic and does not contain VOC or emit formaldehyde.



Core Innovative Technology from 2% footwear adhesive to 48% of footwear material:

Presently, Nan Pao is striving to break through the existing constraints of footwear adhesive, in which

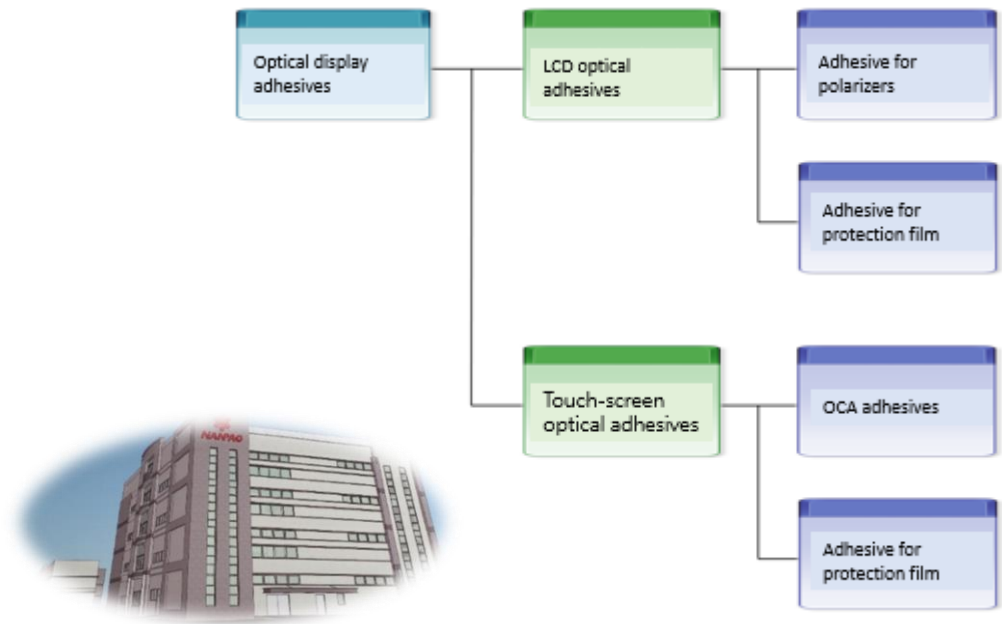
the adhesive accounts for approximately 2% of the overall shoe material. Nan Pao is actively developing various footwear materials, including fluorine-free water repellent, shoe fabric, various high-performance midsole, and 3D-printed insoles and soles. All products have been developed and tested to prove outstanding performance. After they are successfully introduced to footwear brands, 48% of the overall shoe material will be produced by Nan Pao.



LCD Panel and Polarizing Plate Optical Adhesive:

Over the past decades, major Japanese producers have always monopolized the market of adhesive for products in the computers, communication, and consumer electronics (collectively known as “3C”) industry, such as advanced LCD panels and polarizing plates. Since Nan Pao expanded into the 3C adhesives, we have actively enhanced our own R&D competencies and sales and marketing ability to win over market shares from Japanese competitors.

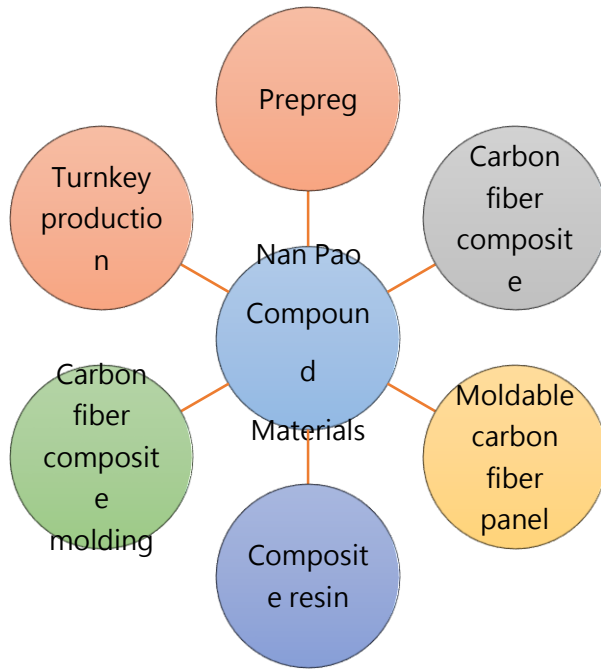
The following is a list of our major products for optical adhesive:



Carbon fiber composite material made from one-stop-shop starting from raw materials, developing machinery, to production processes:

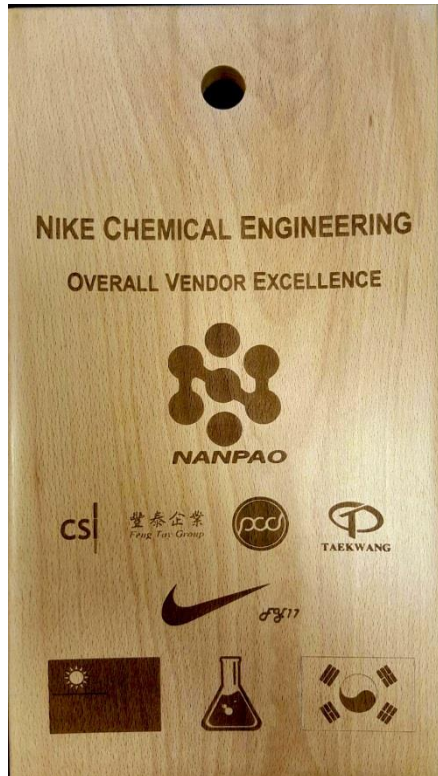
Reinforced plastic made from carbon fiber is strong and lightweight and has qualities including heat-resistance, radiation resistance, water resistance, and corrosion resistance. It is widely used in general industries, such as sporting goods, the vehicle industry, the 3C industry, and the aviation industry.

Founded on Nan Pao's competitive advantages of developing resin, we have launched the "thermoplastic halogen-free flame-retardant environmental friendly thermosetting epoxy resin based carbon fiber reinforced polymer composite material" by incorporating features including thermosetting, thermoplastic, flame-retardant (UL-94V0 level), halogen-free (RoHS 2.0), high strength, high toughness, and easy-to-process with machines.



Awards and Recognition by Customers:

In 2017, Nan Pao was the only chemical material supplier throughout the world awarded with the “Overall Vendor Excellence” by Nike’s Chemical Engineering Team. In the past, Nan Pao actively collaborated with Nike to develop a variety of products. We will continue to be dedicated to supporting Nike’s automation and processing optimization projects in the future. In 2017, we were also honored with the “Best Chemical Supplier Award” by Global Technology Services Ltd. (GTS) China. To enhance Nan Pao’s importance in the footwear business, we aspire to an opportunity to enter the materials market in the future.



4.5 Protection of Customer Privacy and Rights:

In terms of customer privacy protection, we have dedicated personnel to file and document any business information, transaction information, or any information provided by customers that may have to do with their confidentiality. We implement personal data management to comply with the relevant regulations of the Personal Information Protection Act. Internally, any access to customer information needs to be approved and authorized, which helps to ensure that customer privacy will not be easily revealed. No grievances related to damages to customer privacy or loss of customer information were received in 2017.

The development, product registration, marketing and advertisement, and product sales of any product are completed according to established procedures. Moreover, product marketing and

promotional activities are all carried out in accordance with legal regulations. No counterfeit or intellectual property infringement occurred in 2017

4.6 Customer Satisfaction:

To understand the level of customer satisfaction for Nan Pao's services, we attempt to understand customers' awareness and valuation for products and services through questionnaires every year. We review deficiencies of products and services by compiling relevant information and propose improvement measures to provide services that better meet customers' expectation. Currently, the content of the customer satisfaction survey includes "service," "product and quality management," "shipping," "staff service," "customer information collection," and "market information collection."

To understand the true opinions of Nan Pao Group's customers, the Group customer satisfaction survey is carried out through interactive interviews, where customers are invited to explain actual problems and conditions so we could have a better understanding of their actual problems and opinions. As a whole, Nan Pao's 2017 customer satisfaction remained in line with the results over the years, in which "staff service" received the highest score, especially the service attitude of the frontline salespersons. Nevertheless, we need to work more on "product and quality management." The questionnaire feedback of 2017 indicated that compared to our competitors, Nan Pao's competitive advantages include good technical service, stable product quality, good product application, a renowned brand, good service from salespersons, and positive service quality, which is very positive feedback and encouragement for the Group.

Explanation for Relevant Implementation:

1) Scale of Survey and Targets

Based on needs for the year, the Business Head Office would propose a list of customers to visit, and the scope of this survey and targets include the headquarters and each subsidiary (Taiwan, Dongguan, Foshan, Fuqing, and Kunshan in China; Vietnam, Indonesia, and Thailand in Southeast Asia). Since 2013, the Group has visited approximately 100 companies for a survey every year; in 2017, 103 companies were visited.

2) Survey Method & Frequency

Based on the key needs of the Group for the year, each subsidiary would designate managers to visit customers in-person along with salespersons. This helps to strengthen customer relationship, while in-person visit also helps us to perceive customers' true opinions for each

aspect of our service and avoids text distortion. The customer satisfaction questionnaire is undertaken during the customer visit (once every year).

3) Feedback Mechanism

Problems reported by customers through the annual customer satisfaction survey will be turned into matters to be improved and must be solved within a designated time frame. Follow-up will be done next year to reduce reoccurrence of the same problems.

Every year, customer satisfaction survey is carried out for the Group's three major business divisions, adhesives, footwear, and coating. In addition, timely response and handling of problems reported by the customers will be made. Each business division is in full support of the regular annual customer satisfaction survey, as the enhancement of customer satisfaction is the highest guiding principle of the Group's service. Nan Pao Group will continue to work toward enhancing customer satisfaction.

FRIENDLY WORKING ENVIRONMENT

5.1 Talent Recruitment

5.2 Employee Caring

5.3 Fluent Communication Channels

5.4 Employee Development and Educational Training

5.5 Safe Working Environment

5.1 Talent Recruitment

Nan Pao understands that outstanding human resource is one of the most important factors in becoming a successful business, and a company fulfills its strategic goals through its teams and executive competencies. Nan Pao provides quality work, and our employment principles are recruiting talent and placing the right persons in the right positions. Employees can realize their full potential under our reasonable and fair HR policies and healthy internal structure. We treat all job-seekers with different races, genders, ages, religions, nationalities, and political standpoints equally, and our recruitment selection processes are open and fair. Upholding the philosophy of “valuing talent and being people-oriented,” we believe that not only are employees our most important partners, they are also our most important asset. In addition, Nan Pao strives to create a friendly working environment and has planned a comprehensive training system. We encourage employees to undertake self-initiated learning and promote professional enhancement in various competencies, helping to cultivate talent while creating opportunities for employees to grow with Nan Pao. Based on the basic human right of equal employment opportunity for all citizens, our recruitment is based on professional competency and experiences as we strive to create a fair employment environment.

Nan Pao’s recruitment is based on professional capability and does not discriminate on the basis of race, gender, age, physical or mental disability, religion, ethnicity, or any other factor protected by relevant laws; we strive to provide equal recruitment opportunities for all employees. In addition, we undertake talent selection through the Internet, campus, employment service centers, and other recruitment channels. We also integrate social responsibility philosophies, including equal opportunity, respect for human rights, employee diversity, ban on child labor, and ban on forced labor, into the recruitment process. No incident of infringement on indigenous rights occurred in 2017.

The Company has established a corporate culture of leadership, integrity, teamwork, and efficiency and has achieved sound development. We have also established a Code of Ethical Conduct for ethical management, no inappropriate profit, open information, intellectual property rights, fair trade, advertising, competition, personal data confidentiality, privacy, and a ban on retaliation. We respect our employees and treat them fairly. No infringement on human rights will occur. For the environmental, human rights, and social aspects, no incident of discrimination, sexual harassment,

child labor, infringement on indigenous rights, or forced labor has occurred. Every employment contract signed by every employee with the Company throughout Nan Pao's operational sites comply with local laws. In addition, in 2017, no operational site was reviewed by the local government over human rights issues.

Hiring Minorities: To protect disadvantaged groups and to ensure equal employment opportunity, the Company has hired 7 employees with disabilities, accounting for 1% of all employees and surpassing the legal requirement. The Company is located in Xigang District, and when jobs open up at the Company, residents from local communities suitable for the position will be considered first, which helps to increase employment opportunities for the local community. In 2017, one male aboriginal employee (approximately 20-30 years old) was hired.

Diversified Recruitment Channels:

Besides job banks, the Company also recruits international professionals through diversified recruitment channels, including social media websites, campus internship, internal recruitment, industry-academia cooperation, and various recruitment activities. Nan Pao strives to cultivate aspiring youths. Besides actively participating in campus recruitment activities held at each school, we also provide job openings for local communities as a way to give back to the communities. This year, we also actively participated in industry-academia cooperation projects of major universities in hope of providing internship opportunities to foster students' technical and professional competencies. Furthermore, we also provide short-term internship opportunities for students so those still in school can obtain firsthand experiences of the workplace and utilize their knowledge in practice, which helps them to rapidly adapt to the work environment.

Recruitment Policy:

Nan Pao's recruitment, hiring, performance review, promotion, compensation, layoff, termination, and educational training for each position and for employees are completely based on competencies. No different treatment is made based on gender, race, stature, language, thinking, religion, political inclination, ethnicity, birthplace, sexual orientation, age, and/or marital status. In addition, we have also established clear standards to ensure that we are in compliance with the regulations of the Act of Gender Equality in Employment.

The Company welcomes outstanding talent from various industries. The department seeking to recruit will submit their recruitment application to the HR Department based on actual needs, and our talent recruitment process is open and transparent. We welcome talent from various industries and seek suitable candidates.

Human Rights Protection:

1. Besides having clearly established policy and procedures and complying with all relevant laws for

the protection of employees' human rights,

we also implement the procedures and have a comprehensive and effectively operating management mechanism. Our human rights management mechanism encompasses all employees. 2. We respect employees' dignity and actively comply with labor regulations. We make the following promises for protection of employees' human rights:

We do not adopt forced labor and respect employees' free will. Forced labor of any form is prohibited. We do not treat employees in inhumane ways and prohibit any type of humiliation. Moreover, we care about employees' working conditions. Our working hours are in line with the law, and we monitor overtime conditions to prevent overwork.

3. Prohibition on child labor: Any person under the age of 16 cannot be hired by Nan Pao in accordance with the Labor Standards Act.

4. Wages and benefits: Compensation paid to employees will never be lower than the minimum wage stipulated by local law.

5. Freedom of association and employment communication: We respect employees' choice of joining or not joining the labor union or other types of employee organizations, as well as their right to participate in relevant activities.

6. Harassment and abuse:

We respect employees' dignity and ensure their safety by providing a working environment free from sexual harassment, mental harassment, physical harassment, verbal harassment, abuse, or threat.

7. Respect and non-discrimination

We ensure that employees are not prejudiced in recruitment, hiring, compensation, promotion, receiving educational training, penalty, termination of employment, retirement, and any other matter that deals with employees' rights and benefits on the grounds of gender, race, religion, age, disability or illness, marital status, pregnancy, nationality, political inclination, social stature, or other conditions.

8. Protection of female employees

We provide appropriate and reasonable facilities and maternal leave for female employees who are pregnant, giving birth, and nursing. In addition, we also comply with any laws governing working hours and time restraint set for pregnant employees stipulated by local country of the operational site, and adopt reasonable measures to protect pregnant employees from undertaking hazardous work.

In 2017, no breach of the Company's promise to protect employees' human rights occurred, and no grievance for human rights was received in any of the Company's operational sites. We have also passed relevant customer reviews on human rights, child labor, and labor conditions.

Human Resources Structure

As of 2017, Nan Pao's operating headquarters has 698 employees, including 162 female workers and 536 male workers. As the Company is in the labor-intensive chemical engineering industry, over 70% of the Company's employees are males. In terms of age, in 2017, over 62% of Nan Pao's employees are between the age of 30 to 50.

Age	2015				2016				2017			
	Male	%	Female	%	Male	%	Female	%	Male	%	Female	%
<30	117	32%	25	15%	33	7%	8	5%	87	16%	35	22%
30-50 years old	162	44%	71	43%	304	66%	67	46%	351	65%	80	49%
>50	90	24%	68	41%	126	27%	72	49%	98	18%	47	29%
Total	369	100%	164	100%	463	100%	147	100%	536	100%	162	100%

Talent Retention and Turnover:

Nan Pao uphold the philosophy that employees are the most important asset to a business, and we comprehensively enhance our management courses and employee benefit system to encourage employees to grow. With regard to turnover management, once an employee submits his/her resignation, the person's supervisor shall actively care and understand the situation. Moreover, the HR Department will also immediately arrange for an interview with the person to understand the reason for resignation and his/her suggestions for the Company if needed. We will strive to retain and to care about the employee, and provide various ways by which each management level could improve. The HR Department regularly analyzes data to understand the types of positions employees resign from and their years of experience in order to get an overview on turnover. In addition, the HR Department also arranges internal job rotation or public recruitment from time to time in the hope of placing the right person in the right place and achieving sustainable development. Since turnover ratio for direct personnel is higher at 16%, when employees submit their resignation, the turnover interview will be separately conducted by their supervisors and the HR Department to understand the real causes of turnover. Subsequently, adjustment to their work or place of work will be made based on the understanding of their competencies, or internal job rotation may be provided to retain the employees.

Personnel Changes at Nan Pao's Operating Headquarters:

Statistical count by type of turnover	2015		2016		2017	
	Male	Female	Male	Female	Male	Female
Number of voluntary turnover	68	7	52	9	100	22
Number of retirement	12	4	13	6	9	6
Ratio on total turnover for the year (%)	79%	11%	76%	18%	75%	19%
Number of involuntary turnover	8	2	4	1	9	0
Ratio on total turnover for the year (%)	8%	2%	5%	1%	6%	0%

Details on Personnel Changes at Nan Pao's Each Operational Site

Details on Personnel Changes

Year		2015	2016	2017
Beginning number of employees		2570	2663	2887
New entrants for the year		679	793	878
Number of turnover for the year		574	457	732
Retirement, termination, and others		12	112	77
Ending number of employees		2663	2887	2956
Turnover	Managers or above	12	10	20
Employees	General staff	263	219	333
Nature	Production line staff	299	228	379
Analysis	Total	574	457	732
Turnover ratio		0.18	0.14	0.20

5.2 Employee Caring

Employee Benefits:

The Employee Welfare Committee has been established at Nan Pao. All employee welfare expenditures in Taiwan have been allocated in accordance with legal regulations. A total of 0.5% of salaries, 0.05% of revenues, and 20% from selling scrap have been allocated and used for organizing various welfare activities for both local and foreign employees. Expenditures from each branch of the Employee Welfare Committee are autonomously decided by the committee members and employees. These expenses include the costs of regularly organizing employee travel, Labor Day lucky draws, club activities, health checkups, scholarships, various bonuses and holiday gifts/bonuses, and employee group insurance.

To build employee cohesion and foster healthy recreational activities after-work, the Company highly encourages employees to participate in club activities. For instance, the founding of the badminton club and golf club helps employees enhance their physical well-being and connect with coworkers through weekly training. Employees are able to foster positive ties with coworkers, which further helps them establish better teamwork at work.

To care for employees on business trips or dispatched overseas, we also file for NT\$5 million in accident insurance; should major harm or death occur to the employees, their families will not be left helpless. Other benefits include provisional aids (birthday, wedding, childbirth, in-hospitalization, and funeral), holiday benefits (New Year's red packets and gift vouchers), medical (health checkups),

transportation, food, accommodation, and travel benefits. We regularly evaluate the employee cafeteria and change caterers to diversify taste and food types, and improvements are also made through understanding employees' needs.

The following is a list of Nan Pao's employee benefits:

- 1) meal allowance; 2) provision of uniforms and work shoes; 3) wedding allowance; 4) funeral allowance; 5) the year-end party; 6) in-hospitalization allowance; 7) a golf membership discount for employees; 8) a discount for Biorich employees; 9) labor and health insurance; 10) employee regular health checkups; 11) the retirement pension system; 12) group insurance for overseas Taiwanese staff; 13) awards for model employees; 14) employee mutual assistance funds.
- The Employee Welfare Committee: 1) employee travel; 2) employee lucky draws; 3) in-hospitalization allowance; 4) wedding allowance; 5) funeral allowance; 6) birthday gifts; 7) employee group insurance; 8) gifts or cash bonuses for the three traditional holidays
- The Professional Union: 1) childbirth allowance; 2) birthday cakes; 3) in-hospitalization allowance; 4) wedding allowance; 5) funeral allowance
- The Salary and Compensation System: 1) performance-based bonuses; 2) Mid-Autumn Festival bonuses; 3) year-end bonuses; 4) employee profit-sharing; 5) sales incentive and disincentive measures; 6) R&D bonuses; 7) improvement proposal bonuses; 8) seniority awards; 9) awards for special contribution projects

Compensation and Benefits:

We provide a diversified and competitive compensation system and do not differentiate on the basis of age, gender, marital status, political inclination, or race. Our average compensation standard is also more competitive than industry competitors'. We attract outstanding talent and inspire and retain current employees by upholding the vision of sharing profits with our employees.

1. Salaries: Based on the Company's overall operational status, salary adjustment will be made based on individual performance.
2. A certain ratio of profit and surplus will be allocated as the basis for employees' profit-sharing.
3. We assist employees in long-term investment financing and their pension plans to encourage employees to hold Company stock.

4. Performance review for both female and male general staff will be undertaken on an annual basis. We recognize, reward, and inspire employees' outstanding performance through multiple incentive measures. Gifts or cash bonuses for the three traditional holidays, production contribution bonuses, project bonuses, idea proposition bonuses, awards for special contributions, teamwork bonuses, outstanding employee bonuses, seniority awards, etc.

Nan Pao Group (including Taiwan headquarters and overseas subsidiaries) is in compliance with all local requirements for employee compensation and benefits, and no breach of employee compensation or benefits occurred at any of the operational sites in 2017.

Caring for Foreign Employees:

Nan Pao currently employs 29 foreign employees who offer invaluable help at work. Nan Pao focuses on caring for every employee and does not differentiate based on nationalities. Foreign employees are offered timely care starting from the day they enter our country, which helps to bridge any gap created by nationality, language, or culture.

1. Caring for Foreign Employees

Date of arrival in Taiwan: The Company provides daily necessities (blankets, pillows, amenities, etc.), promotes matters relevant to dormitories, and offers employee health checkups.

Date of arrival at the factory: The Company will process their registration and introduce the HR system, distribute uniforms and safety shoes, promote safety and health education and relevant tests, and introduce the factory environment.

On the job: The Company provides on-site production line educational training, and the agency company will arrange for a translator who will be on-site for half a day on every Monday, Wednesday, and Friday to undertake day-to-day caring and translation.

Others: The agency company will promote relevant matters at dormitories from time to time; an employment relations meeting will be held every 3 months with the agency company and foreign employees.

2. Caring for the Livelihood of Foreign Employees

Medical assistance: Besides caring for the mental needs of foreign employees, we also focus on their physical conditions. Nan Pao will actively send unwell employees to hospitals or contact their

agencies, who will arrange for translators to visit the hospital with the said employees, so they can receive appropriate medical treatment and be assured at work and in their daily lives.

3. Shuttle bus: Based on safety considerations, Nan Pao arranges for shuttle buses to pick up foreign employees to and from work.

4. Dormitory:

Food: A centralized kitchen will provide authentic, local food, and foreign employees can dine at the factory cafeteria, which is brightly lit and spacious.

Clothing: Dorms are equipped with laundry machines and spaces for hanging up laundry.

Living: Dorms are regulated 24/7 to prevent accidents. Doors are access-controlled and a key card or identification card is needed to enter or leave the dorms. Access is also computer-controlled to protect security. A convenience store is set up at the dorm center. Besides providing daily necessities, international products, magazines, books, and music are also provided. Instant noodles and beverage vending machines are also set up in the hall to allow for a more convenient lifestyle. In addition, a cooking area is also set up so employees can cook in their own time.

Others: Religious centers are established for different religions. For instance, an Erawan statue is set up for Thai workers. In addition, international festivities are also regularly organized, such as the Songkran Festival of Thailand and the Mid-Autumn Festival.

5. Festivities and Gifts:

Nan Pao provides gifts (or gift vouchers) on traditional holidays and organizes family day activities such as barbecues, getaways, and other outdoor activities. This allows employees to enjoy leisure time away from the office. At the same time, foreign employees are also invited to attend Nan Pao's event of the year - the Nan Pao Year-End Party. Nan Pao wishes to use the year-end party as a chance to thank all employees across all genders, languages, and nationalities for their contributions to the Company.



Retirement Plan and Protection:

The Company has filed for labor insurance, public health insurance, and group insurance in accordance with the legal regulations in Taiwan. All employees who joined the Company after July 1, 2005 (inclusive) would be placed under the new pension scheme according, pursuant to the Labor Pension Act. All pension allocations are implemented within the legally stipulated standards. Since July 1, 2005, who have joined the Company prior to June 30, 2005 (inclusive) could voluntarily opt for the new scheme or the old pension scheme. Nan Pao handles employee retirement matters in accordance with the law. The Employee Pension Reserve Supervisory Committee has been established in compliance with legal regulations to review and supervise the use of pension funds. The Company allocates pension reserves on a monthly basis, and the full amount is remitted to the designated pension account of the Bank of Taiwan to ensure the rights of pensioners. Nan Pao carries out relevant calculations and payment principles for employees' pensions in accordance with the Labor Standards Act. Sound pension allocations and payments are given to every employee to protect their retirement lives. Besides joining labor insurance and public health insurance according to the law, the Company also provides additional group insurance for overseas Taiwanese staff and expat personnel. Moreover, the Company also remits employees' pensions to legally-stipulated accounts,

pursuant to Article 55 “Pension Payment Standards” and Article 56 “Employees’ Pension Reserves” of the Labor Standards Act. The ratio of employer contribution is 6% and 2% for the new and old employee pension schemes respectively. At the beginning of each year, calculations are made for those who follow the old pension scheme. As of December 31, 2017, full amounts have been allocated, and all formal employees have joined in the pension schemes.

Type of Retirement Plan	Source of Remittance	Ratio of Remittance
Old Pension Scheme (Labor Standards Act)	Remittance from the employer	15%
New Pension Scheme (Labor Pension Act)	Remittance from the employer	6%
	Voluntary remittance from the employee	Upper ceiling 6%

Mother Protection Plan:

For work that may pose health hazards to mothers, in order to ensure the health of female employees and infants for those who are anticipated to get pregnant, pregnant, gave birth in less than one year, or still nursing, the labor safety personnel, nurses, and departmental managers will assist them to arrange for environmental inspection, hazard evaluation, and hazard control. Moreover, medical doctors and on-site nurses will manage on a case-by-case basis, in which interview, health risk evaluation, risk classification management, and opinions about the appropriateness of work will be given. The on-site nurses will also care for the mother in each stage. If an occupational doctor has confirmed that the work will not pose health threats, the mother will be notified and her willingness to work will be respected in order to achieve equal opportunity to work and mother protection at the same time. In 2017, 10 employees had finished the mother protection evaluation.

The protection mechanism toward the beginning of pregnancy has been reinforced. Hence, when a pregnancy has been informed, we will provide a pink uniform for the pregnant employee to prevent accidents (e.g. collision and tapping the person’s shoulder). We provide a reserved parking space for pregnant employees and ask security guards to help them to get to and from work by guiding traffic. Moreover, we distribute a nursing room satisfaction questionnaire from time to time to understand their current conditions and make improvements based on the results to provide a more comfortable and relaxing environment. The questionnaire results had indicated 100% satisfaction from the current 9 users.

The Company and the Employee Welfare Committee also sign contracts with high-performing day care centers near the factory to provide childcare service and benefits for employees. To respond to the government’s call for parental leave without pay policy, Nan Pao employees can apply for parental leave without pay, pursuant to Act of Gender Equality in Employment and Regulations for Implementing Unpaid Parental Leave for Raising Children. Moreover, employees can apply for

extended leave based on personal needs as well as to return to the workplace early. Employees can continue to file for labor and health insurance at the Company during their parental leave period.

From 2014 to 2017, the ratio of returning to work after parental leave without pay and retention by gender shows that in 2017, one female had applied for parental leave without pay, and she is currently still in parental leave.

Number of Applicants for Parental Leave Without Pay from 2014 to 2017:

	Male	Female	Total
Number of applicants for parental leave without pay in 2017	0	1	1
Rate of returning to work	0	In parental leave	
Number of applicants for parental leave without pay in 2016	2	0	2
Rate of returning to work	100%		100%
Number of applicants for parental leave without pay in 2015	0	0	0
Rate of returning to work	-	-	-

5.3 Fluent Communication Channels

Diversified Communication

Nan Pao established various bi-lateral channels of communication for employees. To ensure smooth communications between employers and employees, we regularly organize employee-employer meetings, bi-weekly meetings, departmental management meetings, seminars, and toolbox meetings. Various employee grievance mechanisms, including the opinion mailbox and Chairman's Mailbox, have also been set up. If a breach of regulations or illegal incidents has been found, grievances and whistle-blowing can be reported through relevant channels to the Company. During the regular employee-employer meetings, the management and employer and employee representatives will all attempt to understand and discuss matters of concern to the employees as well as propose effective and feasible solutions. In addition, pursuant to the law, we also grant employees the right to freedom of association. The Company does not hinder or interfere with the employees' right to freedom of association.

Nan Pao has established employee communication channels to allow for the optimal and greatest benefits of timely communications, including the Head of HR Mailbox, whistle-blowing for frauds, sexual harassment grievances, CEO's Hotline, Toolbox meetings, a variety of seminars, and Nan Pao's website. They have led to benefits of communication and promoted the positive relations between the employer and employees. Based on the protection of employees' human rights, the Company

carefully keeps confidentiality and handles grievances and the subjects they're involved with to ensure the freedom and confidentiality of employees in filing grievances.

Nan Pao's Channels of Communication with Employees:

Title	Target	Description	Frequency
Head of HR Mailbox	All employees	Whistle-blowing of frauds and sexual harassment grievances	Any time
CEO's Hotline	Employees and investors	The Company's operating problems	Any time
Web-based customer service mailbox	Employees and external parties	Any issue	Any time
Weekly meeting	All employees	Divisional managers and above, including senior managers, will report the Company's operating policies and management performance to the employees.	Once every two weeks
Employee Union seminar	Members of the Employee Union	Communicating and discussing employees' benefits and employee-employer issues with members of the Employee Union	Once every year
Toolbox meeting	Production departments	Any work-related issue can be raised and will be answered by managers and the accountable personnel.	Once every week
Employee Welfare Conference	Members of the Employee Welfare Committee	Explaining employee welfare activities and funding status to each member of the Employee Welfare Committee elected from each production site	Once every quarter



Organization of the Employee Union

Nan Pao's Employee Union is established to promote solidarity, protect the rights and interests of members, enhance the knowledge of members, seek the welfare of members, improve the lives of members, strengthen mutual assistance and cooperation between the employer and employees, promote career development, and assist the government in pushing administrative orders. The Union serves as a channel of communication for both the employer and employees and actively promotes "harmonious employment relations and synergistic, win-win growth" as an objective.

One chairperson is established to represent the Union and handle day-to-day matters. The chairperson is elected by all members of the Union. Nan Pao's Employee Union spares no effort in striving for employees' rights and interests. Its efforts are made in a rational and peaceful way, for example, through employment relations meetings, and seminars and conferences with the management, directors, supervisors, and general managers, in which the Union strives for the rights and interests of employees through negotiation. A members' conference is held once every year, and a directors and supervisors' meeting is held once a month, while an employment relations meeting is held once in every quarter.

Having been established for more than 50 years, the Company has always held true to the vision of maintaining harmonious employment relations and creating synergistic, win-win growth. We promote and advocate for positive employer-employee relations. The Company complies with all labor laws, including the Labor Standards Act, the Occupational Safety and Health Act, the Labor Insurance Act, etc. Besides the aforementioned laws, we also maintain barrier-free employer-employee communication channels. Some of the key performances include 65% of employees participating in the Employee Union, maintaining smooth bi-lateral communication between the employer and

employees, the Union’s staff and the Company’s representatives regularly meeting, and the Union’s chairperson being invited to attend the Company’s sales meetings for employees to have a comprehensive understanding of the Company’s operational status and direction.

Number of Employees of Nan Pao’s Operating Headquarters Who Participate in the Employee Union:

Number of employees in the Employee Union	2015	2016	2017
Male	344	349	350
Female	115	110	106
Total	459	459	456

5.4 Employee Development and Educational Training

A company’s sustainable management and continuous improvement need to arise from the development and cultivation of its human capital. Nan Pao’s training policy is “to develop competencies of the Organization in accordance with the Company’s vision and strategies so that the corporate culture and values are ingrained in the day-to-day actions of employees. We will develop unique competitive advantages by continuously enhancing core competencies, and foster well-rounded and globalized management talent, and formulate an organizational culture keen on learning and practice.”

For the educational training plan to meet organizational strategic needs, the HR Department would understand the operational status of each business division through participating in the annual conference, then develop an annual training program based on the Company’s overall operational strategies. Moreover, divisional managers and ranks above from each department are asked to fill out a “Departmental Training Plan” based on the Company’s policy, annual management objectives, and KPI, and in consideration of actual training needs and employees’ competency development. The HR Department will compile and draft the “Annual Training Program” based on the training needs of each department.

The development of human resource is the cornerstone of a business’ sustainable management and continuous improvement. Nan Pao’s training policy is “to develop competencies of the Organization in accordance with the Company’s vision and strategies so that the corporate culture and values are ingrained in the day-to-day actions of employees. We will develop unique competitive advantages by continuously enhancing core competencies, and foster well-rounded and globalized management talent, and formulate an organizational culture keen on learning and practice.”

To ensure that the educational training plan meets the Organization’s strategic needs, the HR Department will take the following five aspects into consideration when proposing the Annual Training Program:

1. Management objectives
2. Operational strategies
3. Key Performance Indicators (KPI) from each department
4. Departmental training needs
5. Deficiencies in employee competency

The Company calculates the hours of training in each year, and below is a compilation of training hours from 2014 to 2017 in Taiwan:

2017	R&D/QA	Production	Administrative Management	Sales	Total
Number of Employees	108	242	175	101	626
Annual training hours	1856	1825	1637.5	1356.5	6675
Average training hours	17.2	7.5	9.4	13.4	10.7
2016	R&D/QA	Production	Administrative Management	Sales	Total
Number of Employees	114	241	185	95	635
Annual training hours	1053.5	1698.5	1948	1177.5	5877.5
Average training hours	9.2	7.1	10.5	12.4	9.3
2015	R&D/QA	Production	Administrative Management	Sales	Total
Number of Employees	109	233	177	102	621
Annual training hours	1,436	1,830	1,239.50	753.5	5,259
Average training hours	13.2	7.9	7	7.4	8.6

The Company's educational training system has been categorized into three types according to functionalities: new employee educational training, professional competencies, and management competencies. Such classification is made to ensure that the professional capabilities and skills needed in each role and rank can be achieved through specific, systematic training. Below is a summary of each training type:

Management competencies: Classified as the entry-level, mid-tier, and senior management based on managerial roles

Professional competencies: Classified as R&D/QA, production, administrative management, and sales based on functionalities

New employee orientation: All new employees must go through training programs, including organizational culture, work procedures, occupational safety, basic course on hazards, and more.

Management competencies	<ul style="list-style-type: none"> • Management competencies of senior managers • Management competencies of mid-level managers • Management competencies of entry-level managers
Professional competencies	<ul style="list-style-type: none"> • R&D/Quality Assurance • Production • Administration Management • Sales
New employee orientation	<ul style="list-style-type: none"> • Organizational culture • Work Rules • Overview of Occupational Safety Regulations • Fundamental Knowledge to Hazards, etc.

To enhance employees' professional competencies and knowledge to maximize our human resource capital, while carrying out training, internal and external professional lecturers or consulting companies will be commissioned based on the type of training or content.

Nan Pao provides enriched course options through diverse training channels in the hope of enhancing employees' skill-sets and helping employees achieve a balanced life and work through diversified and comprehensive training programs. The training can be classified into two major categories based on relevance to work, including:

1. Professional competency courses, such as professional skill sets, languages, and legal knowledge. Employees can choose to enroll in these courses to enhance work-related competencies.
2. Balanced workplace and family seminars, such as health promotion, family interaction, and balanced diets. These courses are designed to help employees and further improve their quality of life, maintain physical and mental health, enrich lifelong planning, and achieve self-actualization.

Besides providing comprehensive training programs, we also strive to enhance the quality of training through the following methods:

1. Employees are asked to fill out post-training questionnaires for the Company to understand whether the lecturers' performance meets their needs. The results will also serve as a reference for subsequent improvement in scheduling and location arrangement.
2. Employees are required to write down post-training feedback, which allows them to review what they have learned in class to accelerate their learning and internalization process.
3. Furthermore, to encourage employees to practice what they have learned, they will be asked to share their thoughts with their departments or the overall Company.
4. Employee training records are documented for future reference, as well as an important reference for performance evaluation.

Employee Competency Enhancement and Timely Facilitation:

Nan Pao provides diverse and enriched learning channels and developmental resources according to individual working needs, performance evaluation results, and career developmental needs. These resources include on-the-job training, classroom training, work coaching, the mentorship system, job rotation, and more. We conduct research for the employee competency and cultivation plan and require department managers to inspect the deficiencies in functionalities and employee skills based on job profiles and the talent development plan. This will help promote effective resource utilization, as well as systematically cultivate talent and establish talent and technical knowledge database, creating more value for the Organization.

Human Rights Policy Training

The Company arranges "Gender Work Equality" and "Procedural Safety Advocacy" during new employee orientation. The content of which includes the following:

1. Gender work equality: (1) prohibition of discrimination based on gender, (2) prevention of sexual harassment, (3) promotion of work assessment measures, and (4) promotion of sexual harassment grievance channels
2. Procedural safety advocacy: (1) introduction to laws and standards, (2) learning about hazards, and (3) basic knowledge about fire prevention

In 2017, human rights training was conducted to 100 persons (headcount) for 600 hours in total. All new employees have finished this training.



Performance Evaluation

Nan Pao's performance evaluation includes probational period evaluation, day-to-day evaluation, and annual evaluation. Evaluation is compulsory for all employees who have worked at the Company for more than six months. Performance evaluation results are combined with annual performance to achieve comprehensive evaluation results. This includes leadership, self-initiated continued studies, work competencies, work performance, attendance, and participation in educational training. The purpose of such evaluation is to help employees develop their potentials by providing an environment conducive to continuous learning and growth and to promote interaction and communication between managers and employees at the same time. All employees at Nan Pao, regardless of gender or ranks, are subjected to day-to-day employee performance evaluation or KPI (key performance indicator) evaluation, pursuant to the Performance Evaluation Procedures. Employees will first self-evaluate their work performance, then work performance will be assessed based on interviews with their respective managers. Employees with inferior evaluation results will receive assistance with improvement through different methods, including training, procedural improvement, or job rotation.

Alternatively, high-performing employees will receive positive work performance evaluation and year-end performance-based bonuses, salary adjustments, as well as promotional opportunities to further enhance their competencies.

5.5 Employee Health Management

Health Checkups

Nan Pao arranges regular health checkups for employees. Health checkup tiered management is undertaken based on employees' health checkup results, in which abnormality and re-examination notices are individually issued to urge employees for them to seek medical treatment as soon as possible. The Company also signs a preferential agreement with hospitals to establish the concept of early detection and early treatment. Employees who need to arrange regular medical appointments will be cared for on a case-by-case basis to provide timely care for them. In 2017, we had continued to follow up on the conditions of 30 employees. We analyze the health status of all employees and see health abnormalities as indicators. Moreover, we arrange health seminars and develop a series of annual health promotional activities.

A special health checkup is arranged based on the results of the inspection of special operating environment done by occupational health and safety personnel. An occupational doctor will evaluate the tiered results and undertake comprehensive tiered management. Individual health instructions will be provided for employees who require tier-2 management or above, and the occupational doctor will provide consulting service and educational training in order to prevent occupational diseases.

Health Promotion

We analyze the health status of all employees and see health abnormalities as indicators. Moreover, we arrange health seminars and develop a series of annual health promotional activities. The courses are dynamic and interactive to generate employees' interest. We also encourage employees to autonomously quit smoking. The quitting rate is 16%, while the reduction rate is 30%. We ask employees who have successfully quit smoking to share their experiences to encourage more colleagues to join them. In 2017, a total of 17 sessions were hosted with a participation rate of 80%.

Emerging Health Topics

For the four major health topics relevant to Occupational Safety and Health Act, overwork, ergonomics, and workplace stress, Nan Pao has established relevant corresponding protection plans

to be implemented by relevant departments. Management needs to be carried out in many aspects. For example, the HR Department will control working hours, and occupational safety and health personnel will implement relevant management and strengthen employees' work-safety awareness, and the Employee Welfare Committee will organize de-stressing trips for employees. The on-site nurses will also reinforce the management over groups with elevated risks, plan relevant health promotional measures, and request the Southern Taiwan Workers' Service and Health Center to utilize its enriched resources to facilitate management to reduce chances of occupational diseases. Moreover, interview and consulting with occupational doctors will also be arranged to provide professional medical service. In 2017, a total of 70 persons received such interview and consulting service at Nan Pao's operating headquarters.

Educational Training for First Aid (AED and CPR)

Nan Pao has established an automatic external cardiac defibrillator (AED) at the guard's office in each plant since 2015 to prevent emergencies in the plants. In the case of a cardiac arrest due to sudden arrhythmia, if AED and massaging can be given within one minute, the success rate of first aid can be improved. Besides setting up first aid personnel and emergency response personnel, all employees are also requested to learn first aid techniques. Hence, we also regularly arrange educational training.

Thematic Blood Drives - Promoting the "3 Love's" (Love Health, Love Being Helpful, and Love the Planet)

The blood drive is to encourage local residents and industries and the Company's employees to give back to the society, and advocate for green, effective environment and reusing resources. A total of 197 persons participated in this blood drive (increased by 18%), and a total of 278 bags of blood were donated (totaling 69,500 c.c., which shows approximately 17% increase and 10,000 c.c. more than the previous blood drive).

Health Center

Nan Pao hires a professional designated nurse to care for employee health services. The nurse specializes in external injury handling and medical attention, as well as one-on-one consulting so that employees can receive more medical resources and professional consulting. We hope that the professional medical staff will help employees to achieve more accurate health awareness. We organize health promotional activities based on the abnormality obtained through health checkups. A series of activities are designed according to the themes, and the Safety and Health Office will evaluate whether collaboration with the HR, General Administration, Employee's Welfare Committee, or Marketing will be needed to fully realize the functionalities of the Organization. Safety and health operation seminars are regularly held at the plants. Senior managers and labor safety personnel and on-site nurses will talk face-to-face, and the bi-lateral communication will help managers to

understand the health and labor safety needs, which allows for planning of health promotional activities. The managers are in full support of collectively leading to a healthy working environment.

Awards Received for Healthy Working Environment in 2017

- ★ Nan Pao served as a model enterprise for promoting health services for middle to senior age employees for the Labor-Health Service Center on behalf of the Occupational Safety and Health Administration, Ministry of Labor. Nan Pao actively shared our practice experiences and helped to establish a labor health service operational model.
- ★ Nan Pao received the national “2017 Excellent Healthy Workplace - Health Management Award” and received the Healthy Workplace Seal from the Health Promotion Administration, Ministry of Health and Welfare.



5.6 Safe Working Environment

Cultivate a Culture of Safety and Health and Enhance Everyone's Awareness of Workplace Safety:

As a chemical producer, Nan Pao has always been committed to promoting safety and health. All of our chemical substances are subjected to rigorous safety and health inspection management procedures and in compliance with the law of Taiwan and company policies. We also understand that the target of corporate sustainable operation can only be fulfilled through an emphasis on safety. Besides installing quality hardware and protection facilities at our production sites, we are also aware that employees' behavioral safety and attitude are the keys to implementing procedural safety. Therefore, we advocate workplace safety awareness, and workplace safety drills and educational training have become key practices every year at Nan Pao. Each department puts autonomous workplace safety management and safety and health protection into practice, and each site also aspires to achieve zero occupational hazards and strives to become the benchmark for safety and health throughout the industry.

Nan Pao's Safety and Health Policy:

As a chemical producer, Nan Pao has always viewed employees' safety and health as one of the key issues. We undertake safety and health management with regulations that surpass the law and set zero occupational hazards as a goal. We believe that prevention is more important than improvement. Therefore, we undertake risk evaluation to comprehensively manage potential risks to ensure personnel safety and reduce workplace hazards to physical health. Moreover, we enhance employee's awareness of safety and health through educational training so that employees all understand that maintaining safety at workplace environment is the responsibility of everyone. Moreover, they shall also follow safety and health regulations in day-to-day activities to ensure zero health hazards and no work-related safety incidents. The Company promises to implement the following Safety and Health Policy:

- Legal compliance: Legal compliance is the basic requirement for Nan Pao Group, and we will continue to carry out operations with standards that surpass the law.
- Workplace safety: Maintaining workplace safety is the highest principle of our work. We require employees to comply with various standardized health and safety regulations.
- Environmental health: We implement the 5S requirements to maintain a clean, safe, and healthy environment.
- Full participation: All employees across all ranks and departments need to understand, comply with, and fulfill various labor safety requirements and to undertake various educational training.

- Consulting and communication: We establish, implement, and maintain safety and health procedures both internally (employees) and externally (contractors), and consult about whether any changes will pose risks to safety and health.
- Continuous improvement: We continuously reduce various potential risks with the goal of zero occupational hazards.

Establishing the Safety and Health Committee

To comprehensively fulfill occupational safety and health management, Nan Pao established the Safety and Health Committee in 2001. The committee is the highest-ranking organization of reviewing and discussing safety and health management and is chaired by the chief manager of each production site in turn. Members of the Safety and Health Committee include occupational safety and health personnel, business department managers, supervisory personnel, occupational safety and health engineers and technicians, medical personnel related to employee safety services, and employee representatives. These members are responsible for drafting, negotiating, and supervising matters related to the environment, safety, and health at each production site, and the committee regularly convenes once in every quarter.

Statistical Data on Occupational Hazards

Nan Pao focuses on the workplace environment and safety of the operating personnel. An accident reporting and investigation mechanism are established, and the causes of all occupational hazard accidents will be analyzed, and improvement measures will be proposed and implemented. We also regularly analyze in which types of departments occupational hazard accidents are more likely to occur and what these accidents are. Based on the results, we propose relevant countermeasures and management to reduce occurrences.

In cases of an occupational hazard or occupational disease, the on-site nurse will provide immediate medical attention and subsequent assistance and caring for the employee. If an employee has taken work-related injury leave for more than the consecutive days (inclusive), a recovery evaluation meeting will be held, and an occupational doctor will be asked to facilitate evaluating whether the person's work needs to be adjusted or changed. The work-related injury will also be discussed during a weekly meeting at each plant and relevant safety promotion for employees to stay alert will be provided in the hope of lowering the recurrence rate. Examples include posters of emergency reporting procedures and emergency relief network and advocacy for transportation safety.

In 2017, Nan Pao's operating headquarters counted 3 work-related injuries (loss days) and 1 transportation-related injury.

Workplace Safety

As a part of the chemical production industry, Nan Pao sees employee safety and health as one of the Company's top priorities. Therefore, the following safety management tasks are strictly carried out. We implement safety and health management based on high standards set by ISO 14001 and OHSAS 18001: rigorous standards on minimizing occupational hazards. We establish contingency strategies for chemical leaks, fires, blackouts, explosions, odors, earthquakes, typhoons, floods, personnel casualties, abnormalities in wastewater or waste gas treatment systems, public protests, and environmental accidents. To ensure the effectiveness of the annual contingency drill at each production site, we request each site to learn from past experiences and carry out various standardized drills, including earthquakes, fires, gas leaks, and chemical leaks, so that critical contingency procedures can be executed correctly. The highest-ranking managers at each production site will request each site to minimize occupational hazards to a minimum by setting rigorous standards. In addition, we also regularly carry out performance evaluation of production sites and accountable managers every year.

Emergency Response

To take accurately and effectively responsive strategies and procedures in case of emergency to minimize the possible personnel damage, financial loss, and environmental impacts, Nan Pao has planned training programs for relevant personnel. We hope to continuously improve employees' response and thus strengthen the disaster relief capability within the plants. The content includes:

1. Emergency response information: including the map of the plant, distribution of machinery, and emergency response diagrams

Firefighting equipment: including the fire extinguishing system and broadcasting system

Emergency response equipment: including various protective gear, individual protection tools, portable respirators, handheld detectors, leakage processing equipment, and warning equipment

2. Standardized emergency response procedures and strengthening personnel training

3. The staff is well-trained and familiar with the emergency response skills including warning, disaster relief, site control, caring for patients, and disaster relief facility support. Types of training include:

Emergency Response Team training: including fundamental, advanced, and response applications

Firefighting training: Fire extinguishing training is held to all employees in accordance with the law.

The following is a diagram of the Emergency Response Team:

- 1. Responsible for understanding the disaster impact
- 2. Undertake decision-making for various emergency accidents around the plant area

Head Commander

- 1. Assist in planning and supervising all emergency response matters around the plant area
- 2. Supervise the operation of the Emergency Response Team

External Support Unit

Deputy Head Commander



Responsible for contacting internal and external relevant parties in case of emergency

Responsible for taking control of situations and coordinating during a fire, explosion, or toxic incident, and emergency rescue in an emergency chemical disaster

Emergency rescue of injured personnel and the custody and maintenance of first aid kits for all departments

Provide assistance during various types of disasters, such as water outages and blackouts, assist the Fire Extinguishing Team with chemical disasters, and make post-earthquake confirmation

Instruct the direction of evacuation route, guide personnel to the emergency gathering site, and control over on-site personnel

Use gas detectors to carry out on-site environmental detection and determine hot and cold zones

Use emergency response equipment to prevent spillage and chemical leak from spreading and properly handle waste chemicals



Management of Operating Environmental Hazards

To provide a safe and comfortable working environment, Nan Pao improves the operating environment based on the characteristics of the operational sites. We instruct and require employees to use individual protective gear in hazardous operating environments, and set up warning signs to prevent the risk of employees' exposure to hazardous factors at work.

Nan Pao focuses on the likelihood of employees developing muscular and skeletal discomfort at work. After separately assessing the exposure time and risk factors of manual processing, repeated operations, prolonged standing, poor posture, and visual inspection procedures, we have provided facilitative equipment including stackers, trolleys, and forklifts, on top of promoting the accurate posture for lifting objects to the employees. The health management unit is responsible for follow-up inspection, and the case has been closed already.

Chemical Substance Management

One of the most important tasks to achieve corporate sustainable growth is to strengthen internal chemical substance management and safety management throughout the product lifecycle. Nan Pao has established a list of hazardous substances and their corresponding safety data sheet (SDS). The content of the data sheet is in full compliance with regulations of the Globally Harmonized System of Classification and Labeling of Chemicals (GHS).

Supplier and Contractor Management

Nan Pao continues to strengthen its supply chain management. We require and encourage suppliers and contractors to strive to enhance their quality, costs, delivery schedule, environmental protection, safety, and health. We collaborate and strengthen our ties with major suppliers and contractors to pursue better performance and to make a greater contribution to society. When undertaking high-risk procedures, contractors need to clearly define the safety protection and preventative measures that operating personnel must adopt.

Contractor Management Measures

A. Personnel management: Before operating personnel from contractors can begin, they shall form a negotiation organization and warn of any hazards. Personnel must have necessary safety measures and wear individual protective gear during operation.

B. Construction audit: We undertake safety audits of contractors during construction processes, and undertake post-construction performance evaluation and annual audit assessment.

C. Educational training: We undertake relevant training for personnel of contractors to ensure that they can safely carry out their work in the plant area.

Security Guard Educational Training

Security companies and security personnel commissioned by Nan Pao are all reputable businesses throughout the industry. In 2016, the security company we contracted was ETS.

The Company commissioned the professional competency educational training for security personnel to ETS. Besides carrying out the “security personnel training program” from the Ministry of Interior in each year, regular educational training courses on emergency relief drills are also scheduled in every year, and self-defense firefighting teams have also been assigned. The purpose of which is to take effective action when the fire breaks out to reduce the loss of lives and property. By improving the hands-on experience of the security personnel through drills, we can effectively reduce damages from fire and ensure the safety of lives and property.

Awards Received for Healthy Working Environment in 2017

- ★ Nan Pao was honored with the AED Safety Workplace Award by the Tainan City Government, and the Award was presented at the Tainan City Government by the Health Bureau.



COMMUNITY COMMUNICATION

6.1 Educating School Children

6.2 Caring for Senior Citizens

6.3 Caring for Disadvantaged Groups

GRI Standard Management Policy: Local community (safe community environment)

Item Number	Reporting Requirements	Explanation and Examples of Reporting Requirements
103-1	<p>** Material Causes Behind this Theme</p>	<p>After analyzing the level of concern of stakeholders and the level of impact, Nan Pao has realized that emission is a fairly important topic to the Company. The Company may be faced with legal penalties if we do not undertake greenhouse gas and emission management. Alternatively, responsible emission management could lower the Company's operating risks and enhance product competitiveness in terms of sustainability. In response to the reduction requirements for greenhouse gas emissions from the Paris Agreement, many countries around the globe have already established emission reduction targets. Though Taiwan is not a member of the UN, as citizens of the world, businesses that voluntarily reduce GHG emissions have already become a domestic and international trend.</p>
	<p>** Boundaries of this Theme</p>	<p>(Within the organization - the Company) The boundaries of disclosure for the topic of emission include the Company's Taiwan headquarters and subsidiaries in China, Vietnam, and Indonesia.</p>
103-2	<p>** Management Objective for this Theme</p>	<p>Management strategies and methods: Nan Pao's response strategies to climate change is to actively implement measures to conserve energy, voluntarily reduce emissions of the GHG, per fluorinated compounds (PFCs), and undertake GHG inventory at each operational site every year. Currently, we have already encompassed climate change into the Company's risk management, and we undertake risk analysis and a risk reduction management program for climate change.</p>
103-3	<p>** Management Evaluation Mechanism</p>	<p>Each operational site will undertake self-evaluation based on results of GHG inventory and energy consumption; moreover, they will also report their results and improvement measures at the annual Group Conference.</p>

	** Performance and Adjustment	From our greenhouse gas inventory, it was found that most of the emissions came from energy consumption. Hence, Nan Pao will implement energy consumption management to further achieve carbon emission reduction. Each of our production sites will establish energy baselines [power consumption per ton of product or volume of heavy oil consumption per ton of product (amount of natural gas)], an annual review will also be carried out to achieve the objective of energy conservation and carbon reduction.
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Community Health and Safety

As a chemical manufacturer, Nan Pao actively undertakes various protective measures so as not to influence the neighboring community with odors from producing chemicals and emissions of hazardous substances. Since the plant area contains many chemical substances, the chemical smells often escape into the air. We have replaced feeding materials through manholes in reaction tanks with diaphragm pumps to avoid the chemicals contacting air, which would reduce the odors and the exposure to operators. Subsequently, we will also reform the worn equipment components in the plants (e.g., shaftless motors, open-blind assembly, autonomous inspection, etc.) to improve the odor problems in the plants. Moreover, Nan Pao plans to recycle 100% of its effluents in recent years. The wastewater will no longer be discharged to the Liu-cuo drainage system, and there will no longer be a problem of water pollution from effluents. We also strive to reduce VOCs and emissions from products and production processes from their sources, thus lowering the emission of VOCs and its impact on the community environment.

Nan Pao has prepared protective measures for normal disasters, natural disasters, and chemical leaks. We also regularly undertake safety drills every year to minimize the impact of disasters on the community environment.

Community Engagement

Nan Pao believes in the importance of giving back what we have taken from society. Besides being committed to pursuing technical innovation and service quality, we also actively promote social culture and are dedicated to fostering the next generation. Moreover, we also exercise our responsibility to care for senior citizens. In 2007, the Nan Pao Social Welfare Foundation was established to help the Company fulfill corporate social responsibility through three major aspects, "talent cultivation," "caring for senior citizens," and "caring for disadvantaged groups."

Educating School Children

After-school Coaching, Art Classes, and Summer and Winter Camps for Elementary Schools:

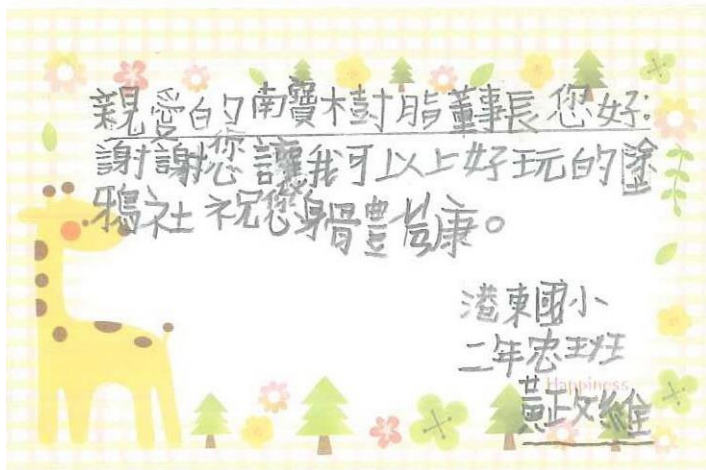
Due to increasingly open policies and social changes, socioeconomic gaps have been widened, which

leads to problems such as single-parent families, intergenerational families, and foreign families. Xigang District is a remote area of Tainan City, and its income standard is far lower than the national average. Children from such family backgrounds will eventually grow old on this land. Only education can help them to choose their lives and pursue and realize their dreams.

Every child is like a seedling. Some are roses with soft petals, while others are strong and resilient like camphor trees. Therefore, we must provide diverse courses and diverse cultural learning opportunities adapted by different children. We need to respect the differences among children and to further unleash their diverse potentials and creative skills. Based on this philosophy, Nan Pao Foundation has teamed up with six elementary schools in Tainan, including Si Gang Elementary School, Gang Dong Elementary School, Hou Ying Elementary School, Song Lin Elementary School, Cheng Gong Elementary School, and Wen Nei Elementary School in the remote Jiali District. We jointly organize after-school coaching and summer and winter camps for the students. The courses by school teachers of each school based on the students' needs. In addition to professional academic development, club activities designed to enhance students' positive interests in arts and athletics are also included.

2017 Talent Cultivation Activities (Only major events are listed.)

Target	Description
Si Gang Elementary School	After-school coaching, summer and winter camps, and the school anniversary event
Gang Dong Elementary School	After-school coaching, sponsorship of the soft tennis competition, and the school anniversary event
Cheng Gong Elementary School	After-school coaching and summer and winter camps
Hou Ying Elementary School	After-school coaching and summer and winter camps
Song Lin Elementary School	After-school coaching and summer and winter camps
Wen Nei Elementary School	After-school coaching and summer and winter camps
Shi Gang Junior High School	Sponsorship of the soft tennis competition









Caring for Senior Citizens

Huashan Social Welfare Foundation:

With the increasing concern over population aging in Taiwan, the problems and needs of senior citizens have attracted more social attention, and even more, commitment should be made to solve these issues. After contacting Huashan Social Welfare Foundation, an NGO committed to the welfare of senior citizens throughout Taiwan, Nan Pao Social Welfare Foundation has learned that currently, there still lacks sufficient caring for senior citizens. Therefore, we partner with the Xigang Angels Team of Huashan and call on the Company's employees to donate gift baskets on the Dragon Boat Festival, Mid-Autumn Festival, and Chinese New Year. The gifts are then delivered in person by the social workers of Huashan to the homes of all senior citizens as a token of caring for senior citizens with physical disabilities or those residing alone. To implement at-home caring for senior citizens on a larger scale, we purchased a designated service vehicle for Xigang District, and provided funds for Huashan's professional social workers to care for senior citizens residing alone. Social workers take turns to accompany the senior citizens to medical visits, assist with bathing, deliver nutrients and food, etc. Besides providing physiological needs, social workers also chat with senior citizens residing alone, helping them to regain self-confidence and the goal of life. Hou Ying Elementary School, which has cooperated with Nan Pao in organizing after-school counseling, also shares the gratefulness and sense of giving back they learn from the courses with the senior citizens residing alone at Xigang. School teachers will arrange for students to visit elderly residents, bringing vitality and fun to the lives of the elderly.

Senior Citizen Welfare Association and Community Events

Though the number of senior citizens is not significantly high in terms of population ratio at Xigang District, Tainan City, as most young people have migrated for work, the senior citizens are suffering from loneliness even though some of them may have sufficient material resources. To encourage the senior residents of Xigang District to participate in social activities to maintain physical and mental well-being, Nan Pao Foundation collaborates with Xigang District Senior Citizen Welfare Association to organize activities and luncheons on Double Ninth Festival. In addition, we also provide funds for Qing-an Community in Xigang District to organize the zongzi DIY event on Dragon Boat Festival. The delicious zongzi (rice dumplings) are then given to all elderly citizens who are disabled, residing alone, or disadvantaged so that all families at Xigang can enjoy warm, heartfelt festivity. Furthermore, Nan Pao Foundation also joins Shulin Community Development Association in Qigu District to establish Shulin Community Senior Citizen Day Care School. Senior citizens residing alone in the community are arranged to participate in classes to enrich their daily lives and to boost their confidence through participating in contests with the skills they have learned from these classes.

2017 Senior Citizen Caring Activities (Only the major events are listed.)

Target	Description
Huashan Social Welfare Foundation	At-home service, gifts on holidays, and corporate volunteer visit
Xigang District Qing-an Community Development Association	The 2017 Dragon Boat Festival welfare event
Qigu District Shulin Community Development Association, Tainan	Shulin Community Senior Citizen Day Care School
Xigang District Senior Citizen Welfare Association	The 2017 Double Ninth Festival welfare event





Caring for Disadvantaged Groups

As the income gap has largely widened in Taiwan within the last decade, wealth and resources have come to be owned by a minority few. Located in a remote area, Nan Pao has firsthand experience of the difficulties in life. Therefore, Nan Pao Foundation also provides emergency relief as solutions in the face of abrupt challenges for disadvantaged families. Since the Foundation was first established in 2007, we have offered emergency relief to help with medical, funeral, and livelihood problems, and provided tuition allowance for children from low-income families.

In addition, we also subsidize multiple foundations in Tainan that are in need of financial support, which helps us spread Nan Pao's love and care to even more remote corners. Non-profit groups that we have assisted include Tainan Xinzhi Welfare Association, Tobias Social Welfare Foundation, Chao Hsing Social Welfare Foundation, Love Child Care Foundation, Eden Social Welfare Foundation, Tainan Welfare Association for the Aurally or Verbally Challenged, etc. In 2017, everyone in the Operation Head Office collectively donated food and resources to Andrew Charity Association during the

Chungyuan Festival. As many as 108 boxes of resources were successfully distributed to families in need on that day. Nan Pao also collaborates with Taipei Medical University and provides funds for the neuro-regeneration medical research in Taiwan. We hope to see more research breakthroughs in the field of neuro-regeneration, which can benefit everyone in Taiwan.

2017 Senior Citizen Caring Activities (Only the major events are listed.)

Target	Description
Tobias Social Welfare Foundation	Tuition allowance
Chao Hsing Social Welfare Foundation	Nutritious meals for children with mental disabilities
Tainan Ciguang Xinzhi Welfare Association	DIY Crafts Class
Eden Social Welfare Foundation	Jiali Dandellion Workshop and Nan Pao Charity Baseball Day
Provision of activity allowance for Tainan Welfare Association for the Aurally or Verbally Challenged	Rice donation to the aurally or verbally challenged
Andrew Charity Association	The food drive during Chungyuan Festival, Nan Pao Charity Baseball Day, and Nan Pao BBQ Day
Eden Social Welfare Foundation	Jiali Dandellion Workshop
Good119 Foundation	Mid-Autumn Festival mooncake donation







Other Donations and Sponsorships in 2017 (only major activities are listed)

Target	Description
Tainan City Philharmonics	Charity Tour for Disadvantaged Groups
Community service clubs from universities	Universities
Taipei Medical University	Medical research
Personal emergency relief and funeral aid	Applicants and individuals in-need

From 2015 to 2017, Nan Pao Social Welfare Foundation has made the following contributions (listed by category and amount):

	Children's Education	Caring for Senior Citizens	Caring for Disadvantaged Groups	Emergency Relief	Emergency Relief Donation	Others	Total
2015	2,533,015	520,600	97,990	387,100	1,093,000	2,050,000	6,681,705
%	37.9%	7.8%	1.5%	5.8%	16.4%	30.7%	100.0%
2016	2,874,840	560,000	200,000	526,869	4,000,000	1,060,000	9,221,709
%	31.2%	6.1%	2.2%	5.7%	43.4%	11.5%	100.0%
2017	2,263,549	658,750	480,000	773,150	0	1,720,000	5,895,449
%	38.4%	11.2%	8.1%	13.1%	0.0%	29.2%	100.0%

The Large-scale Blood Drive in Xigang District

Nan Pao was the chief organizer of a joint blood drive at Xigang District, Tainan in July 2017. Our affiliated companies Biorich Bio-Technology Co. Ltd. and Apogee Optocom Co., Ltd. also participated in the event by providing lucky draw prizes. We called on our employees and the local community to join in the blood drive, and as a result, a total of 278 bags of blood had been donated, and the number of participants also rose by 17% compared to the previous year. This outstanding result also provided a much-needed relief for the blood bank. This was Nan Pao's first time organizing such a large-scale blood drive. The turnout was brilliant, and many Nan Pao employees also rolled up their sleeves to donate blood, which helped lead to the event's success.



Audit from Department of Social Welfare

At the end of 2016, Chia Nan University of Pharmacy & Science (CNU) was entrusted by the Department of Social Welfare, Tainan City Government, to undertake accounting, sales, and financial audit from 2013 to 2016. Our Foundation is believed to be operating with maturity by the auditing unit and fairly sizable. Our annual assessment received a B-rating, and we will continue to be more dedicated to managing the Foundation and to spread love to the external parties.