

2022

Annual Environment Social and Governance Report of Huali Group

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About the Report

This report is the second social responsibility report issued by Zhongshan Huali Industrial Group Co., Ltd.

Preparation Basis

This Report is prepared with reference to the Global Reporting Initiative (GRI) Standards, as well as Shenzhen Stock Exchange Guidelines No. 2 for Self-discipline Regulation of Listed Companies, the United Nations Sustainable Development Goals 2030 (SDG), and other relevant documents.

Reporting Period

This Report is an annual report covering a period from January 1, 2022 to December 31, 2022. The report of previous year was released in April 2022.

Scope of Reporting

The contents covered in this Report are for companies and units within the scope of the Group's consolidated statements, which are consistent with the scope covered by the Group's annual report. The companies disclosed are those both in China and in Vietnam within the scope of the Group's consolidated statements.

Report Disclosure

This Report is disclosed simultaneously with the annual report of Huali Group in 2022. The financial data involved are consistent with the financial report, which has been audited by an independent third party. The amounts in this report refer to RMB unless otherwise specified.

Description of Reference

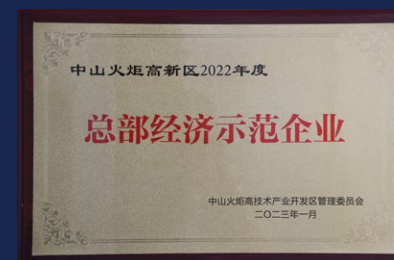
For the convenience of presentation and reading, Zhongshan Huali Industrial Group Co., Ltd. is referred to as "Huali Group", "Group", "Huali", "Company" or "we/us/our" in this Report (except as otherwise specified herein).

Report Acquisition

This Report is compiled in both simplified Chinese and English in electronic form that is available on the official website <http://www.huali-group.com> of Huali Group. In case of any discrepancy between the Chinese and English versions, the simplified Chinese version shall prevail.



Review 2022 Honors and Awards



Huali Group won the title of "Headquarters Economic Model Enterprise" in 2022



Huali Group won the title of "Tax Contributor" in 2022



Huali Group won the title of "Special Contributor to Economic Development" in 2022



Adiana Vietnam Footwear Company Limited was awarded the Sustainable Contribution Award by New Balance in 2022.



Huali Group was awarded the Supply Chain Resilience and Planning Innovation Award by Nike in 2022.

Letter from President

2022 witnessed a special period with the increasingly complicated international situation, intensified geopolitical risks, and the uncertain global economic situation, which brings great challenges to our operation.

In 2022, we went beyond the unstable international supply chain and the disturbance to the orders caused by the destocking of some customers, and shipped more than 220 million pairs of sports shoes in the whole year, with a revenue exceeding RMB20.5 billion, up 17.74% year-on-year.

As an international operation group, we turn to a question in view of the impact of the complex international political and economic situation on the supply chain: how to maintain business resilience against emergencies and remain capable of providing high-quality services to customers in difficulties. Decentralizing the manufacturing bases clears up the confusion. In 2023, we will further accelerate our global layout. With the operation of our factories in Indonesia and Myanmar, Huali's business resilience and customer service capabilities will be greatly improved.

In 2022, we had more than 150,000 employees in China and Vietnam. But many of them were greatly challenged in living due to the uncertain economic environment. We fully understand that securing employment is our top social responsibility. Even when the orders in the second half of the year were less than expected, we negotiated with the employees and adopted the method of partial reduction of working hours to maintain the employment of the employees to the greatest extent and avoid the occurrence of layoffs.

In 2022, we continued our investment in renewable energy. The first phase of the rooftop solar PV project jointly operated by Huali Group and Total Energies of France has a capacity of 1.71MWp. In 2022, the cumulative

power generation reached 1.97 million kWh, equivalent to 1,432t greenhouse gas emission reduction. In August 2022, the Group's Annora Vietnam Factory began to cooperate with Total Energies to start the second phase of the rooftop solar PV project, with a project capacity of approximately 6.2MWp and an estimated annual solar energy generation capacity of 7.35 million kWh, equivalent to 5,300t greenhouse gas emission reductions. The project is expected to be officially put into commercial operation in 2023. Further, Zhongshan facilities of the Group began to use solar power in September 2022. By December 31, 2022, the electricity consumption was 57,000 kWh, equivalent to 32.3 tons of greenhouse gas emission reduction. In 2023, we will pay continuous attention to the progress of DPPA projects in Vietnam and Indonesia, and further expand the operations of rooftop solar PV projects. Huali Group will formally join the Science Based Targets initiative in 2023, and formally release the short-term and long-term greenhouse gas emission targets of the Group by 2025 through cooperation with international organizations.

In 2022, Huali Group also achieved further development in the field of circular economy, and the proportion of environmentally friendly materials and sustainable products was further increased. According to the plan of the Group, by 2035, all solid wastes generated in the manufacturing process of the Group will be reused and recycled.

In 2022, Huali Group continued to participate in community and employee care activities, regularly donated to poor employees, children with disabilities and orphans, donated teaching equipment and outdoor sports equipment to community schools, participated in public welfare activities such as blood donation and tree planting, and conducted garbage sorting training for primary school students, further enhancing the reputation and goodwill of the factory in the community.

In 2023, challenges are still everywhere, geopolitical conflicts are intensifying, and inflation is increasing. Together with various impacts, the global economy is full of uncertainties. In the face of many challenges, we will cooperate more deeply with stakeholders and strive to build a more socially responsible, resilient and sustainable Huali!

Milestones of History

In 1999 the Company established development and design center in Zhongshan.

In 1995 the Company started cooperation with Converse .

In 1986 the founder of the Company opened a shoe factory in mainland, China.

In 1978 the founder of the Company opened a shoe factory in Taiwan , China.

In 2009 the Company started cooperation with Columbia.

In 2005 a factory was operated in Vietnam, and the production base was gradually transferred to Vietnam.

In 2004 the Company started cooperation with VANS.

In 2001 the Company started cooperation with UGG.

In 2019 the Company was restructured into a joint-stock company.

In 2018 the Company started its cooperation with Under Armour, and the assets of the founder's footwear factories were reorganized in the same year.

In 2016 the shipment volume exceeded 100 million pairs.

In 2014 the Company started cooperation with Cole Haan.

In 2013 the Company started cooperation with Puma.

In 2012 the Company started cooperation with Nike.

In 2011 the Company started cooperation with Hoka.

In 2022 the Company started cooperation with New Balance and Reebok.

In 2021 the shipment volume exceeded 200 million pairs.

On April 26, 2021 Huali Group was listed on the Growth Enterprise Market of Shenzhen Stock Exchange.

In 2020 the Company started cooperation with Asics and On Running.

Governance



About the Company

Company Profile

Zhongshan Huali Industrial Group Co., Ltd. was listed on the GEM of Shenzhen Stock Exchange on April 26, 2021, with the securities code of "300979" and the securities abbreviation of "Huali Group". The parent company of Huali Group was established in 2004 with the registered capital of RMB 1.167 billion and the registered address in Torch Development Zone, Zhongshan City, Guangdong Province.

The Company is engaged in the development, design, production and sales of sports footwear, and is the world's leading professional sports footwear manufacturer, mainly offering development, design and manufacturing services for world-renowned sports brands such as Nike, Converse, Vans, Puma, UGG, Under Armour, HOKA, etc. Its main products include sports casual shoes, outdoor boots and shoes, sports sandals and slippers, etc.

The Company's management headquarters and development and design center are located in Zhongshan, its manufacturing factories are located in Vietnam, Dominican Republic, Myanmar and Indonesia, and its trade settlement centers are located in Hong Kong and Zhongshan of China.

Mission

Through our dedication and passion, we provide innovative footwear solutions that lead to our customers' maximum value and competitiveness.

Vision

To be a World Class footwear manufacturer through relentless innovation, passionate people and outstanding customer service.

Core values

| | |
|---|---|
| 01 Respect Our Past and Create the Future | 06 Be a Contributor |
| 02 Serve the Customer, Always | 07 Be Diligent |
| 03 Be Passionate and Proactive | 08 Take Responsibility and Be Accountable |
| 04 Innovate in All You Do | 09 Act with Integrity |
| 05 Master the Fundamentals | 10 Be True to Your Commitments |

Industrial Scale

Main products, services and brands

The Company's main products are sports shoes, including sports casual shoes, outdoor boots and shoes, sports sandals and slippers, etc.

The Company adopts the strategy of high-quality major customers, and the Company's main customers and service brands:



The global business layout

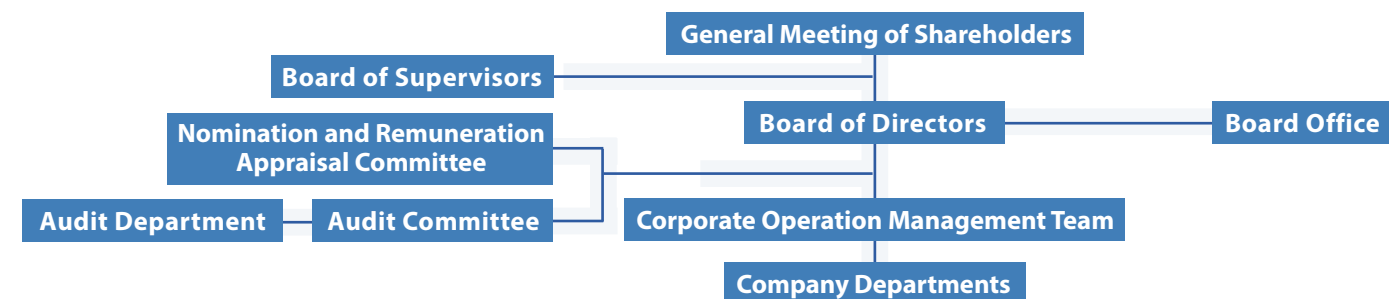


Business data

- By the end of 2022, Huali Group had **155,481 employees**, and the Company had established **more than 20** shoe-making factories in Vietnam, Indonesia, Myanmar and Dominican Republic.
- In 2022, the Company sold **221 million pairs of sports shoes**, a year-on-year increase of **4.65%**; the revenue was **RMB 20.569 billion**, up **17.74%** year-on-year, and net profit attributable to shareholders of listed companies was **RMB 3.228 billion**, up **16.63%** year-on-year.

Corporate Governance Structure

The Company has continuously improved the corporate governance structure and the system for safeguarding shareholders' rights and interests. It also has improved the Company's internal control management system and business processes, enhancing its standardized operation. The Company has established a corporate governance structure consisting of the General Meeting of Shareholders, the Board of Directors, the Board of Supervisors, and the management team, and defined the scope of powers and responsibilities and working procedures among the General Meeting of Shareholders, the Board of Directors, the Board of Supervisors, and the management team, effectively ensuring the standardized operation of corporate governance and the equal and legitimate rights and interests of all stakeholders.



1 General Meeting of Shareholders

The General Meeting of Shareholders is the authoritative body of Huali Group, and exercises the highest decision-making power on major issues of the Group. The Company ensures that all shareholders have equal right to know and vote on major issues stipulated in laws, regulations and the Articles of Association. The Company adheres to the rights and interests of shareholders and holds general meetings in strict accordance with the Rules of Procedure of the General Meeting of Shareholders. All general meetings adopt the combination of on-site voting and online voting to facilitate shareholders' exercise of their rights. Additionally, lawyers will be present to witness the convening of general meetings, ensuring the legality of the convening procedures, the qualifications of conveners and attendees, and the legality of voting procedures and voting results, and safeguarding that the legitimate rights and interests of all shareholders, especially minority shareholders, are not infringed.

In 2022, the Company held one annual general meeting and two extraordinary general meetings.

2 Board of Directors¹

The Board of Directors is the executive body of the resolutions of the General Meeting of Shareholders and is accountable to the General Meeting of Shareholders. The Board of Directors consists of 13 directors, including 5 independent directors and 4 female directors. Under the Board of Directors, there is a Secretary of the Board of Directors to handle the daily affairs of the Board of Directors. Under the Board of Directors, there is the Audit Committee and the Nomination and Remuneration Assessment Committee. The special committees of the Board of Directors perform their duties in strict accordance with the Working Rules of the Special Committees of the Board of Directors, operate in compliance with laws and regulations, and play an important role in the scientific decision-making of the Board of Directors.

In 2022, the Company held 7 board meetings.

Independent directors shall, in accordance with the Company Law of the People's Republic of China, Guiding Opinions on Establishing Independent Director System in Listed Companies and other relevant laws, regulations and rules, as well as the Articles of Association and the Working System of Independent Directors, earnestly perform their duties, carry out all the work diligently and dutifully, pay attention to the operation of the Company, supervise the standardized operation of the Company, actively participate in all the affairs of the Company based on the principle of safeguarding the interests of the Company and shareholders, especially public shareholders, and perform their duties objectively, fairly and independently.

3 Board of Supervisors¹

The Board of Supervisors is the supervisory organization legally established by the Company, which legally exercises supervisory power, protects the rights and interests of shareholders, interests of the Company and legitimate rights and interests of employees from infringement, is accountable to the General Meeting of Shareholders, and reports its work to the General Meeting of Shareholders. The Board of Supervisors consists of 3 supervisors, including 2 shareholders' representatives and 1 employee representative.

In 2022, the Company held 7 supervisor meetings.

4 Senior Management¹

The CEO, General Manager, Deputy General Manager, Chief Financial Officer (Financial Head) and Secretary of the Board of Directors of the Company are senior management personnel of the Company. The Company has one CEO, one general manager, several deputy general managers, one chief financial officer (financial head) and one secretary of the Board of Directors, all of whom are appointed or dismissed by the Board of Directors, and perform their corresponding duties in strict accordance with the Articles of Association, Working Rules of the CEO, Working Rules of the Chief Financial Officer and Working Rules of the Secretary of the Board of Directors.

According to laws and regulations, relevant requirements of China Securities Regulatory Commission and Shenzhen Stock Exchange, the Company has established and improved internal control systems such as the Related Transaction Management System, the External Guarantee Management System, and the Foreign Investment Management System in combination of the organizational structure, industry characteristics, operation mode and the Company's operation and development needs, covering the management of subsidiaries, foreign investment, financial management and other matters, to ensure that all the work carried out by the Company has rules and regulations to guard against operating risks. The Company has been committed to standardizing the internal control system of the Company, constantly improving the corporate governance structure, standardizing the Company's operation, strengthening the professionalism and accuracy of information disclosure, and effectively improving the corporate governance level.

¹For details about the gender and age of directors, supervisors and senior managers of the Company, please refer to the 2022 Annual Report of the Company.

Business Ethics

• Anti-Corruption

Huali Group has always maintained a zero-tolerance attitude towards bribery and corruption. We strictly abide by the laws and regulations of the host country, standardize the process of handling corruption incidents and clarify the responsibilities of relevant personnel, and insist on anti-corruption and anti-bribery superior to commercial interests.

The Group has set up a rationalization department to take charge of anti-corruption issues. Through daily anti-corruption training and publicity, setting up a report mailbox (anti.corruption@huali-group.com) and employee suggestion boxes to collect corruption clues and investigate, the Company regularly reports the anti-corruptions to the president, to ensure fairness, impartiality and transparency within the Group. When investigating the reported incident, whistleblower information is not allowed to be disclosed to prevent retaliation.

• Fair Competition

Huali Group abides by laws and regulations, respects competitors, and adheres to the principle of fair competition. It strictly follows the anti-unfair competition and anti-monopoly laws of the countries and regions where it operates, striving to make certain contributions to a fair competition market.

Huali Group earnestly practices the concept of operating in good faith and standardizing operation according to law, so as to achieve honesty and trustworthiness, operate and pay taxes according to law. Further, the Group actively cooperates with the local government departments in all aspects of their work and establishes a good relationship with them. The Group also constantly conveys the values and the principle of good faith of Huali Group to employees, customers and suppliers, and adheres to compliance management to achieve the Group's goal of efficient and steady sustainable development.

• Internal Audit

The Board of Directors of the Company has an Audit Committee to lead the internal audits of the Company in a unified way. The Audit Department conducts internal audit under the leadership of the Audit Committee and maintains a high degree of independence. The Audit Department conducts independent and objective evaluations on the appropriateness and effectiveness of the Company's business activities, internal controls and risk management, the authenticity and integrity of financial information, and the efficiency and effectiveness of business activities.

The Audit Department will prepare an annual audit plan based on risks, which shall be implemented after being approved by the Audit Committee. The Audit Department reports its work to the Audit Committee on a quarterly basis, including the implementation of the audit plan and the problems found in the internal audits, etc. In cases involving the improvement and perfection of corporate governance, the Audit Committee reports to the Company's board of directors, and the Company's Board of Directors for relevant resolutions on the improvement and perfection of governance, so as to achieve the goals of promoting the improvement of corporate governance and ensuring the smooth operation of the Company.

On the basis of daily supervision and special supervision, the Audit Department organizes and implements the evaluation of the Company's internal control, which covers all the business and matters of the Company, and makes an independent and objective evaluation of the design and operation effectiveness of the Company's internal control, so as to achieve the goals of promoting the continuous improvement and perfection of the Company's internal control.

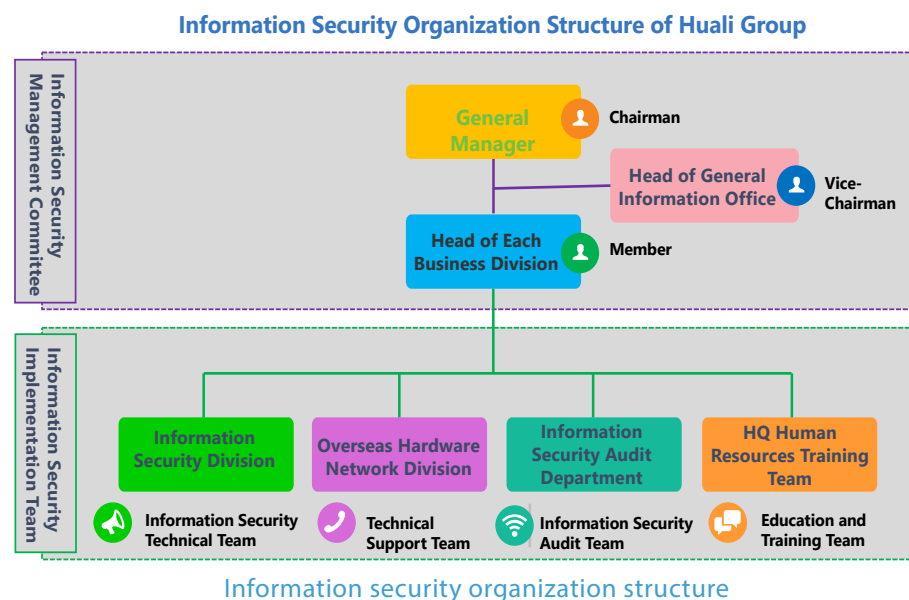
In the process of internal audits, the Audit Department actively introduces the knowledge and practice of corporate governance such as internal control and risk management to the audited unit or department, assists the staff of the audited unit or department to deepen their understanding of the knowledge of corporate governance such as internal control and risk management, and enhances their application ability in internal control and risk management.

Information and Product Security

Information Security

Organization and responsibility

The Group has established the Information Security Management Committee and the Information Security Implementation Team as the information security organizations of the Group (as shown in the following figure). The Information Security Implementation Team is responsible for establishing an information security management system, determining information security policies and goals, coordinating the allocation and use of resources, managing the information security implementation and execution, and organizing personnel training. The Committee holds annual meetings regularly every year to evaluate the operation effect of information security management and put forward suggestions for improvement measures.

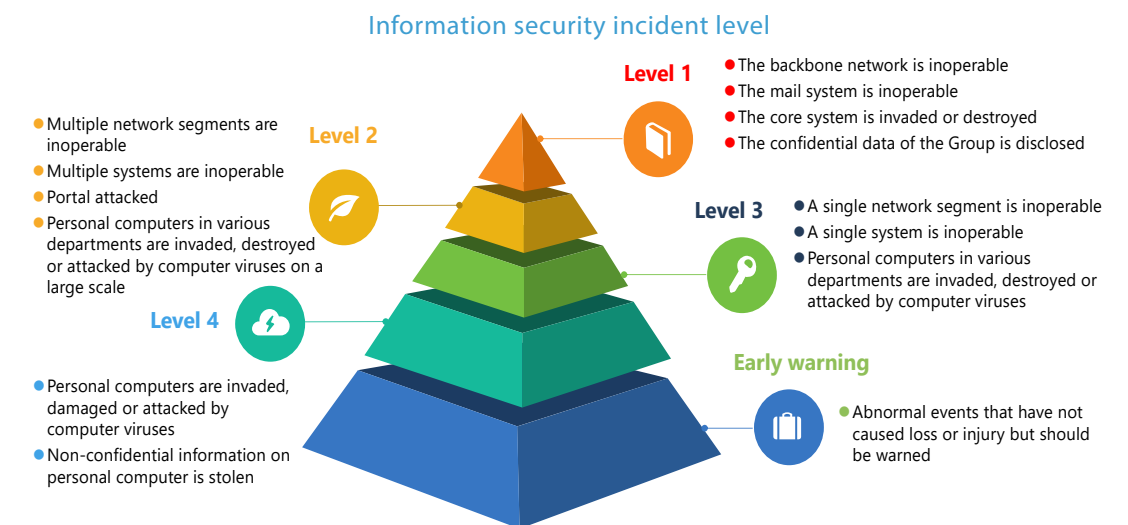


Information security management system

In view of the stricter requirements of laws and regulations on network security, information security and data security, we have developed more than 10 rules and regulations related to network and information security, such as the Information Security Policy and the Information Security Management Measures, and have established a sound network security protection technology system and safe operation system. Among them, the security protection technology system covers key assets, data, applications, endpoints, networks, and the security around entities. The security operation system is composed of the information security implementation team and the third-party security professional team (Kaspersky), and the cloud platform of the Security Operation Center (SOC) is on duty for 7x24 hours, which can quickly respond and dispose of all kinds of security warnings.

Information security management

The Information Security Management Committee of the Group reviews and develops the risk management plan, and identifies and manages the information security risks. We classify the security incidents into level 1 to level 4 and early warning (as shown below). The Group establishes an information security incident handling platform, and when an emergency or security-threatening incident occurs, the platform will timely inform relevant units for emergency response, so as to reduce or avoid the harm caused by the incident to the Group and customers. Improvement discussions are held on the identified threats and risks at weekly meetings to ensure the risks are controlled. In 2022, there was no Level 1 incident (the most serious one), no data leakage incident or related dispute litigation.



Data and privacy protection

Huali Group pays attention to the protection of customer data and privacy, and keeps user information strictly confidential. Combined with the requirements of brands and its own safety management, the Company has standardized the internal workflow and has taken the following measures to ensure that customer data and privacy are not leaked out.

Information security department

- It is forbidden to use computer WeChat and mobile USB flash drive at the Company.
- Maintain network security and give email reminders and propaganda from time to time.
- Conduct information security publicity and training for all employees.

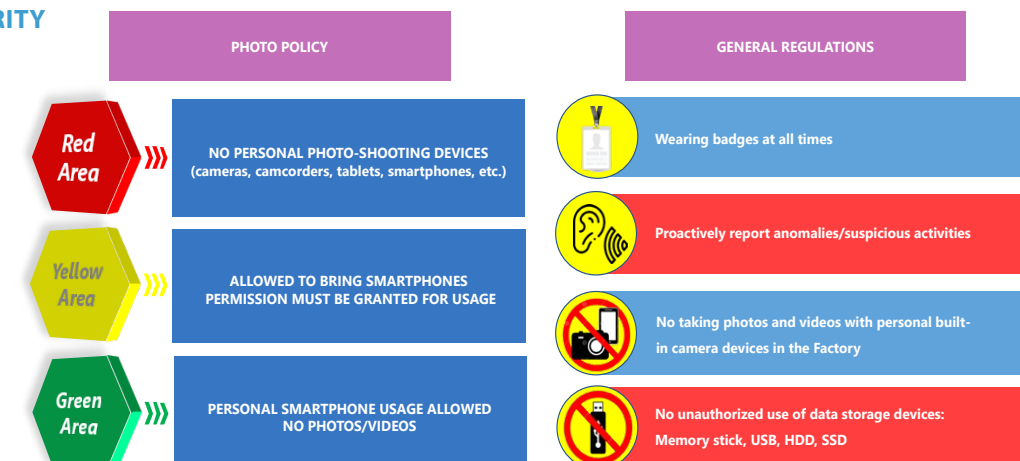
Product safety department

- Employees are required to sign a confidentiality commitment letter with the Company at the time of entry.
- Information management of customer design drawings: the customer provides the download path of design drawings, and the person in charge of development downloads accordingly. If it is necessary to provide the shoe drawing for the supplier's reference, it can only be provided after the procurement personnel process the drawing.

Product Security

The Group develops product security policies and implements them throughout the factories and development centers. From design to delivery, the Group makes the information, drawings and sample information of every link of the product strictly managed and protected. Product security covers a variety of work areas, including but not limited to awareness training, inventory management, scrapping control, access control, factory building inspection, sample inventory management, label control, camera policy, CCTV, incident investigation, etc.

PRODUCT SECURITY



Commercial Operation



Quality Management

Huali Group upholds the principle of customer orientation and establishes a potential risk warning mechanism in quality management. We adopt the Failure Mode and Effects Analysis (FMEA) as the evaluation method, to evaluate risks and make improvements from the development, production preparation and production stages of the model, so as to reduce or even eliminate the quality risks.

We have a perfect quality management system at the production site, and strengthen production quality control through five core concepts.

1 Strengthened foundation

We carry out processing operations in strict accordance with the confirmed processes and strengthen various quality management.

2 Precision production

We overhaul and maintain all kinds of machinery and equipment and molding tools regularly to ensure the accuracy of the equipment.

3 Efficient output

We strengthen the production management and planning ability of the schedulers, so that the optimal production efficiency can be realized on each production line within the standard time.

4 Strict monitoring

Through the production process audit units, the defective products are strictly controlled to prevent them from entering the next process.

5 Knowledge sharing

Through long-term and regular staff training and knowledge sharing, the quality concept is improved to achieve quality inspection for all employees.

Supported by the above five core concepts, we can ensure the normal operation of the Group's quality management system, and then enhance the Group's brand image, make the product quality proper for the customer's needs, and finally grow into the best strategic partner of the customer brand.

The following is the total annual output and percent of passes of the Group in the past three years.

In 2022, **220 million** pairs of shoes were produced with a percent of pass of **99.996%**.

| Years | Total output (100 million pairs) | Qualification rate |
|-------|----------------------------------|--------------------|
| 2020 | 1.6 | 99.996% |
| 2021 | 2.1 | 99.992% |
| 2022 | 2.2 | 99.996% |
| Total | 5.9 | 99.995% |

In 2022, we also carried out quality control and quality exchange meetings with factories to further improve the quality management system.

The following are the Group's quality management activities in 2022.

1. Hold quality exchange meetings

2. Perform quality audits

3. Launch the tripartite inspection mechanism

4. Implement inspector certification

5. Implement quality management system (QMS) audit

6. Hold quality Olympic activities

Case: Quality Olympic Competition

In order to promote the sense of being master in quality for all employees and put the sense into actual production while addressing customers' requirements and consumers' quality expectations, factory implement independent quality management. Factory carry out Olympic quality competition every year, so that all employees can participate in the production competition of perfect quality. In 2022, Aurora Vietnam and Annora Vietnam held Olympic competitions successively. The competitions were divided into individual exquisite craft competitions and team overall quality competitions. Representatives from the development center, chemical engineering, quality control and other departments served as referees to score the contestants' works from the aspects of cutting, stitching and assembly, and, from the perspective of consumers, offered the final comprehensive score of the works, to select the best individuals and teams with certain prizes. In the Olympic quality competition, employees played the spirit of in-station quality (ISQ) and implemented the "Three Noes" policy, which showed their sense of being masters in quality and enhanced employees' awareness of pursuing higher quality.

The following are photos of the quality Olympic activities



R&D Innovation

The Company has set up an independent development and design center for each brand to meet customer needs. Additionally, the headquarters set up a shoe material department and an automation department to carry out special research and development for woven uppers, advanced sole formulas, molds and automated production.

Introduction of Some Development Achievements and Innovation Cases in 2022:

- Development and production of a new generation of basketball shoes, innovative EVA technology with unique design, forefoot ZOOM AIR, comfortable and breathable covered uppers, provide consumers with responsive feet and enjoy the passion and happiness of basketball.



- The Group has developed the latest integrated sole molding technology, which is widely used in CLIFTON and BONDI series of HOKA, so that the soles can be designed with a large area of hollowed-out rubber while ensuring the tension and stability of the soles.



- Wool boots with waterproof function realize the technical breakthrough of combining wool with waterproof features, and remains the cold-resistant



function of wool. Further, the light-wing outsole breaks through the limitations of traditional waterproof and cold-resistant shoes.

- The development of basketball shoes adopts multi-window hollowed-out EVA injection midsole, which breaks through the traditional shoemaking process and brings outstanding visual effects and wearing comfort; The unique design of detachable tongue cover enhances different sports experiences.

- Continuously to promote the application of the non-stop infinite circulation system of computer stitching, and develop the professional technology of automatic multi-layer plywood turning, 3D sewing technology of front and rear tip binding, special plywood technology of rapid loading and unloading, and snap ring panel technology to ensure stable quality and improve efficiency.

- The automatic injection machine is introduced, and the automatic injection is used to replace the traditional production mode of molded outsoles of vulcanized shoes, which greatly improves the production capacity and reduces the labor cost, and effectively controls the quality of outsoles.

- The knit vamp is combined with that digital jet printing technology, and digital printing is jet-printed between the two layers of knit surfaces by using the weaving method and the manufacturing tool of the sleeve structure integrally formed by the knitting machine. In this way, the surface of the knitted shoe vamp can show the totem effect due to the transparent yarns or stitch, and strengthen the wear resistance, which plays a role in protecting the jet printing pattern. This can solve the problems that the direct weaving totem is not fine enough and the printing is too thick to lose the hand feeling of the knitted surface, and at the same time this can reduce the processing procedures of finished shoes and reduce the cost.

2020-2022 R&D Investment of the Group

| Years | Revenue (RMB10,000) | R&D Expenses (RMB10,000) | Ratio of expense to revenue |
|-------|---------------------|--------------------------|-----------------------------|
| 2020 | 1,393,113.80 | 20,911.17 | 1.50% |
| 2021 | 1,746,957.62 | 23,427.69 | 1.34% |
| 2022 | 2,056,926.73 | 29,085.57 | 1.41% |
| Total | 5,196,998.15 | 73,424.43 | 1.41% |

Customer Service

Huali Group always adheres to customer needs as the center, responds quickly and executes accurately, and is committed to providing customers with better service.

In order to standardize the management of customer return matters and clarify return responsibility and loss amount, the Group has uniformly made relevant after-sales service procedures, to ensure that each batch of products can be handled in a timely and proper manner.

The Group has customer complaint management systems to more quickly handle quality customer complaints.

The systems include customer quality complaint processing process, RCA (root cause analysis) production process management system, customer complaint sharing management system, customer complaint RCA escalation management system and customer complaint sharing system within the Group.



The average on-time shipment rate of the Group in recent three years is **99%**

Supply Chain Management

Resilient Supply Value Chain

The Company continues to use localized procurement strategy to promote local economic development and create jobs, while effectively saving energy and time consumption in transportation and reducing environmental pollution.

The Group is committed to cultivating sustainable partnerships. It always reflects customers' needs in the process of supply chain management, vigorously develops sustainable green supply chains, and promotes suppliers to implement sustainable development practices.

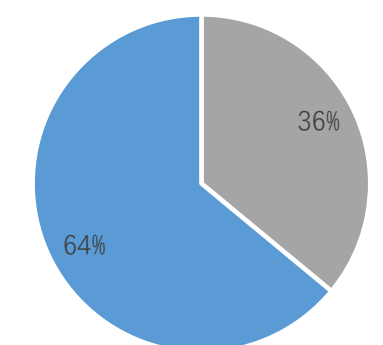
We establish a resilient supply value chain mainly through the following four aspects:

- 1 Establish supply chain planning and optimize production.
- 2 Establish a data-based supply chain management system, and accurately manage inventory and purchase plans through data analysis.
- 3 Establish a diversified team of suppliers and manufacturing partners
- 4 Implement capacity and inventory buffering

Localized procurement

The main production base of the Group is located in Vietnam. At present, there are 834 qualified material suppliers, 36% of which are located in Vietnam and the remaining 64% in other regions. In the future, the Company will continue to develop more localized suppliers with the expanding business.

Regional proportion of raw material manufacturers of the Group



■ Local ■ Other regions

Supplier Management

Supplier management system and classification

Huali Group has established a complete and comprehensive supplier management system to improve the quality of raw material procurement and the ability to manage suppliers. The supplier management system includes supplier selection, enrollment, comprehensive evaluation and exit. The Group's development, investigation, selection, use and management of suppliers are fundamental to secure the resources needed for production.

The Group classifies suppliers into the following five categories based on the demand characteristics of different brands, the needs of procurement management and the management model for different suppliers:

- 1 Strategic supplier**
- 2 Competitive supplier**
- 3 Ordinary supplier**
- 4 Technical supplier**
- 5 Designated supplier**

Supplier Code of Conduct

In order to standardize supplier management, the Group requires our suppliers to promise and abide by the following relevant codes of conduct:

- 1 No child labor in any form.**
- 2 No forced labor (including restricting personal freedom, detention of identity documents, etc.).**
- 3 No harassment, abuse and all kinds of discrimination.**
- 4 No wages below the local minimum wage standard.**
- 5 No illegal discharge of toxic and harmful pollutants, including waste water, air emission and wastes.**
- 6 Provide a safe and healthy workplace and take effective measures to prevent potential health and safety accidents.**

Supplier performance management

We comprehensively evaluate suppliers by referring to the delivery quality, delivery ability, technical ability and cooperative service ability, and implement a grading system, with a perfect score of 100 points with rating of grades A, B, C and D. For suppliers with low scores, we urge the improvement of suppliers' comprehensive ability through measures such as counseling, reduced purchases, suspended purchases and required rectifications.

The Group regularly provides guidance and training for suppliers, improves the supplier contact process and helps suppliers to control production.

Supplier auditing

Huali Group actively cooperates with brands' requirements and expectations for the sustainable development of the supply chain, and conducts joint supplier audit with customers to enhance the transparency of the supply chain. Every year, the Company conducts on-site audits and evaluations based on the environment and social responsibility performance of suppliers.

According to the audit standard, the Company divides the supplier's sustainable development performance into three grades: Green, Yellow and Red, and the supplier rated as green can be exempted from audit in the next year; suppliers rated as yellow shall complete improvements within half a year; and suppliers rated as red shall complete improvements and shall be subject to re-audit within one month. If the supplier is still rated as red, it will be temporarily added on the watch list.

For the suppliers whose annual rating results are red and yellow, the Group has also put in place improvement measures and developed a supplier upgrading training plan. In 2022, about 99.50% of the suppliers were rated as green.

Supplier environmental supervision

Zhongshan Zhijie Footwear Technology Service Co., Ltd., a subsidiary of the Group, registered its account with the Institute of Public and Environmental Affairs (IPE) in 2017, and added the main suppliers in China to the watch list. On a quarterly basis, we check the environmental quality, environmental emissions and pollution source supervision records of major suppliers and the environmental performance of mandatory or voluntary disclosure based on relevant laws and regulations and corporate social responsibility requirements through IPE website. If it is found that the supplier has a record of non-compliance or there is no mandatory disclosure, the responsible department of the Company will communicate with the supplier or restart the supplier audit process to ensure that its suppliers are environmentally compliant. Upon inquiry, no major suppliers of the Company were found to have committed environmental violations in 2022.

Occupational health and Safety

Occupational Safety and Environment

Huali Group follows the internal "Occupational Health, Safety and Environment Policy", with its leadership and employees making active engagement in the management of ESH (environment, safety and occupational health) and other activities, continuously improving the occupational health and safety management system, and striving to provide employees with a safe, healthy and comfortable workplace.

ESH Committee

ESH committees are set up in the development center of the Group headquarters and factories, mainly responsible for planning, coordinating and guiding the management of ESH. Each factory fulfills the primary responsibility of the enterprise, focusing on improved ESH awareness and management skills of the leaders of each factory. It continuously improves the rules and regulations, and makes the management system run effectively in the factory.

The factory organizes regular meetings of the ESH Committee every month to share the issues found in the management of ESH, discuss the suggestions and improvement solutions put forward by employees, and commend outstanding units and contributing employees. Each factory pays close attention to the capacity building of the ESH team. It provides special training for the members of ESH team to improve their abilities, adopts incentives to attract and retain professional talents, improves the professional ability of the ESH team, and ensures that hidden hazards are discovered early and issues can be solved in a timely manner.

ESH Committee meeting



Award prizes to outstanding employees and teams



ESH Investment

The Company continues to carry out various projects on employee's health, safety and environment, integrates environmental and occupational health and safety management into its strategy and business operation, secures its input in fire safety, machine safety, building safety, electrical safety management and occupational health management, and always takes environmental and occupational health and safety as the primary consideration when building, renovating and expanding factories, purchasing machinery equipment, and applying new materials, new processes and new technologies.

The overall ESH investment of the Group in recent 3 years is shown in the table:

| Years | 2020 | 2021 | 2022 |
|-----------------------------|----------|-----------|----------|
| Vietnam factory (RMB10,000) | 4,321.64 | 11,792.12 | 7,824.11 |
| Chinese factory (RMB10,000) | 383.61 | 269.47 | 243.21 |
| Group total | 4,705.25 | 12,061.59 | 8,067.32 |

Machine safety

The Group has strengthened investment in improving machine safety. In 2022, the factory focused on improving the guardings of equipment such as outsole hot pressing machine, cutting machine, heel lasting machine and rubber mixing machine used in production. It strictly checks the safety performance of new machines before purchasing, and conducts risk assessment before putting it into use in the workshop to ensure that the machines used in production is safe and reliable. In the future, the Group will continue to improve the old machines used in production, introduce advanced machines, improve the management of the whole life cycle of machines, continue to work towards the intrinsic safety of machines, and commit itself to the goal of zero accidents.

Fire safety

The Group has made fire safety management as a key item in its annual audit, and the top managers of each factory took full responsibility for fire control. In key seasons and holidays, the factory arranges special personnel to inspect and prevent the fire control work in the factory, strengthens the publicity and training of daily fire control and safety, improves the fire control awareness of all employees, and implements the management system that leaders are responsible and everyone is accountable.

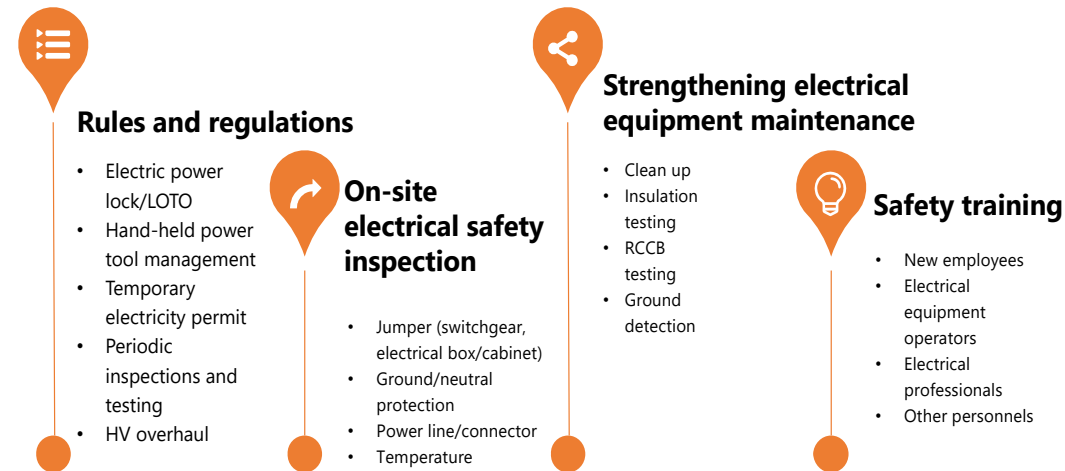
The factory develops comprehensive emergency plans, special emergency plans and emergency treatment plans for possible major events and emergencies. In the emergency rescue plan, it clarifies the rescue responsibilities of all units and personnel, regularly checks and maintains the rescue facilities, ensures that the emergency materials are fully equipped, and regularly carries out emergency supplies plan drills.

Fire drill



Electrical safety management

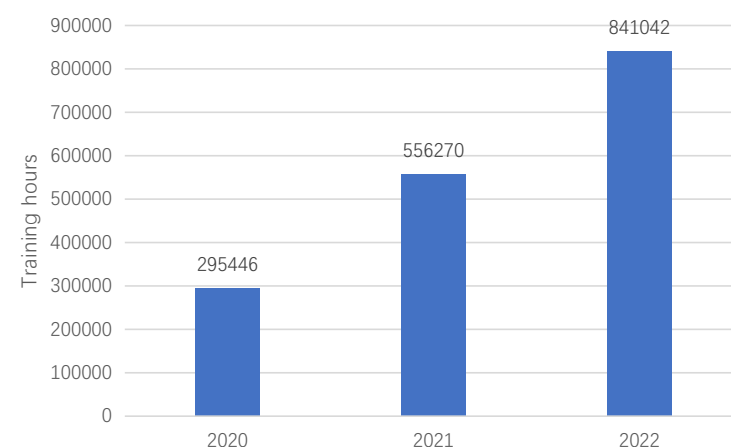
In order to ensure the safety of electricity consumption, each factory has established an electrical safety management procedure, and is provided with dedicated personnel for relevant work and regular checks to ensure the proper use, maintenance and repair of electrical protection devices. In addition, the electromechanical consulting department of the Group also regularly visits factories to conduct on-site inspections of electricity safety on a quarterly basis, inspect the grounding wires of power stations and electrical boxes, check the circuit diagrams of various factories and put forward suggestions for improvement. The department also scans electrical cabinets and boxes with infrared thermography to assist the factory in detecting hidden hazards in time, strengthens the maintenance of electrical equipment and ensures the safety of electricity consumption. During the year, 629 electricity safety issues were found, and by December 31, 2022, improvements for 622 issues had been improved.



Improve HS awareness and skills for accelerating the promotion of safety culture.

The Health and Safety (HS) Department under the SMP Head Office of the Group, based on the operation of each business group, the overall business strategy and sustainable development goals of the Company, makes annual training plans in combination with the post-professional competence and skills required by employees at all levels, to continuously optimize the internal training system, enhance employees' awareness and skills of health and safety, and promote the realization of health and safety goals. In addition to the implementation according to the annual training plan, the Health and Safety Department of the Group also regularly organizes summits, inviting factories to share excellent practices of ESH, exchange experiences in electrical safety management, machine safety improvement and fire safety management, and jointly discuss improvement schemes, so as to promote ESH capacity building and ESH performance improvement in all factories.

Statistics of training hours in recent three years:



Case: Workplace safety facilitator project

In December 2022, the Health and Safety Department under the SMP General Office of the Group organized a workshop for employees to promote workplace safety, with 2-3 representative participants from each factory. This training and sharing of best practices also enhanced the mutual communication among factories.

Workplace safety facilitator workshop



Case sharing: Culture of Safety maturity assessment of Annora Vietnam Factory

Culture of safety is one of the Company's core competencies and the internal driver for the Company's sustainable development. With the supports by the Group, Annora Vietnam carried out the baseline assessment of safety culture and developed a systematic safety culture implementation plan. It has gradually changed the attitude and behavior of management and employees to safety through diversified projects, realizing the change from "Passive" to "Active", so that safety as a core value can be integrated into the business decision-making and daily management activities of the factory.

With the support of brands, Annora Vietnam company completed the perception survey of safety culture in cooperation with third-party organizations, and successfully passed the quantitative assessment² in April 2022, making it the first factory in the Group to pass culture of safety maturity level 3 assessment.

²The assessed level for culture of safety maturity is divided into five levels, among which Level 3 needs to meet the following requirements: 1 The result of culture of safety maturity assessment tool is 51%-75%; 2 The perception survey of safety culture meets the requirements of Level 3; 3 All items of critical enablers must meet the Level 3 standards.



Occupational Health Management

Huali Group strictly abides by local laws, regulations and brand standards, highlights the health of all employees, and actively takes measures to ensure employees get better occupational health protection. Each factory continuously improves the management system, and assigns special personnel who are expected to regularly identify, evaluate and control occupational hazards in the workplace, thus strengthening the management of occupational health protection, and preventing and reducing the damage or influence of occupational hazards on employees' health. For different occupational hazards, corresponding protective measures such as dustproof, anti-toxic, heatstroke prevention and noise reduction, and shock absorption are also taken to protect the health of employees, in addition to controlling and eliminating them from the source.

Factories give priority to the adoption of new technologies, new processes, new equipment and new materials that are beneficial to the prevention of occupational diseases and protection of laborers, set warning signs in conspicuous positions of equipment that may cause occupational hazards, reject operations with occupational hazards but without protective equipment, and regularly carry out detection and evaluation of occupational hazards in workplaces. Factories check and maintain occupational health protection facilities to ensure that the management of environment, occupational health and safety conforms to local laws and regulations and brand standards. Additionally, factories pay more attention to the improvement of production workflow and ergonomics, thus reducing the fatigue of employees and providing them with a comfortable, healthy and safe workplace.

Based on the detection and evaluation of occupational hazard factors, factories actively improve occupational health protection facilities, provide targeted occupational health knowledge training for employees, distribute corresponding personal protective equipment(PPE) for employees according to job types and hazard categories, and evaluate the pre-wearing applicability assessment for the employees. Workshop cadres and SMP personnel check the PPE wearing conditions from time to time to help employees correctly wear and maintain PPEs. According to the local laws and regulations, regular occupational health examinations are arranged for employees and occupational health monitoring records are established for employees.

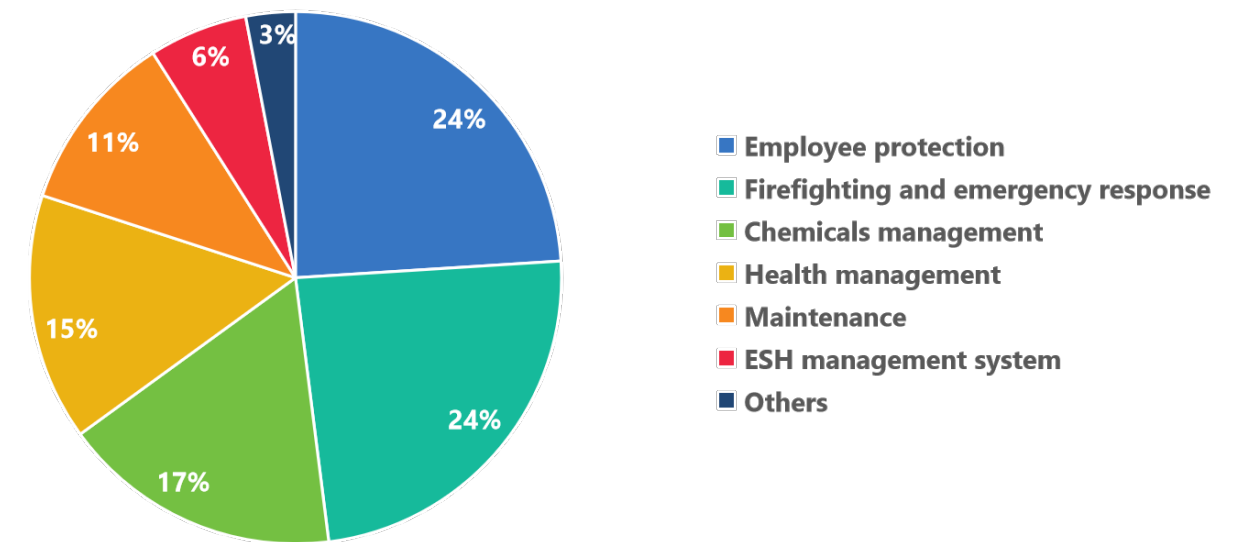
Continuous improvement

ESH Department regularly organizes inter-departmental working groups to carry out safety inspections, in which factory leaders also participate, classify hidden hazards found in inspections, analyze reasons, set up goals and improvement plans, and assist various departments to solve problems quickly.

In addition to the internal safety inspection of the factories, the Health and Safety Department of the Group conducts

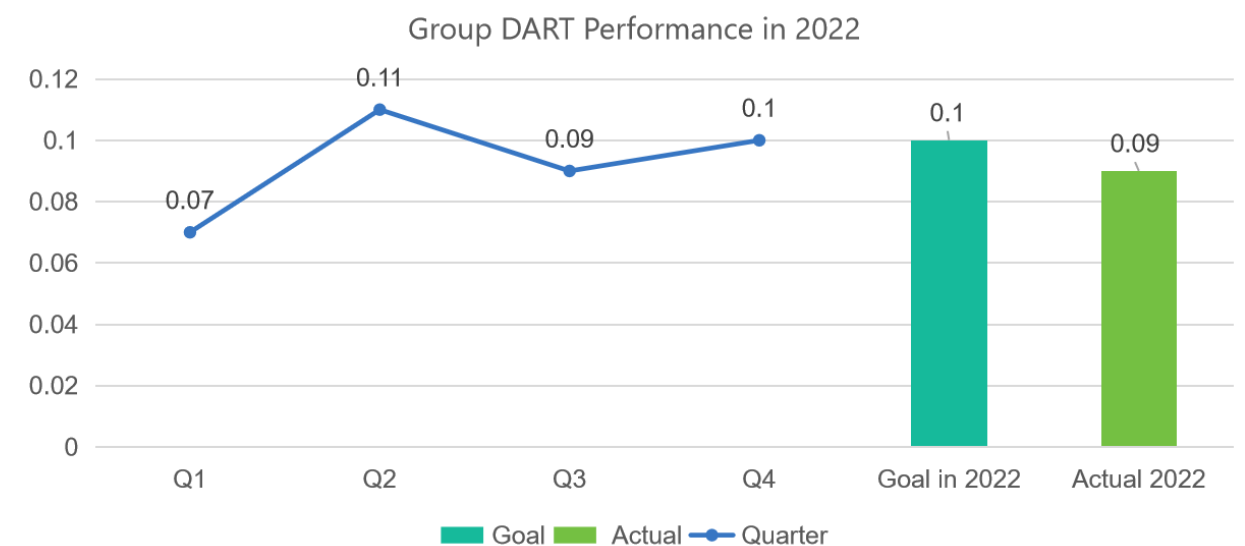
annual audit and appraisal of health and safety performance of each factory every year. In the 2022 internal audit, the Group focused on examining whether the factories implemented machine safety improvement projects and high-risk operations in accordance with the management guidelines issued by the Group. The Group found 257 issues in the annual internal audit conducted from November to December, 2022, and each factory has made specific plans for continuous improvement.

Statistics of Findings in Internal Audit 2022



Safety management is a priority for cadres at all levels. The management is responsible for safety and actively participates in problem solving. In daily work, if any unsafe behaviors are found to be committed by any employees, they shall be corrected promptly and the meetings will be convened timely to analyze the underlying causes, so as to provide feedback and suggestions for the Company's overall safety management planning and systematic rectification. The Group will continue to promote the culture of safety program and work towards the goal of zero accidents.

³Table of Work-Related Injury Rate of Lost Hours of the Group 2022:



³ Work-related injury rate of lost hours = number of work-related injuries of lost hours * 200,000/total working hours of the whole plant.

An aerial photograph of a vast, dense forest. The trees are mostly evergreens, showing various shades of green. The forest floor is visible in some areas, appearing as a mix of green and brown. The text "Environmental Protection" is overlaid in large, white, sans-serif font on the left side of the image.

Environmental Protection

Energy Management and Greenhouse Gas Emissions

Strategies and Goals

For human society and the earth, climate change is an urgent threat with potential irreversibility. Based on this understanding, most countries in the world adopted the Paris Agreement in December 2015 to strengthen the global response to the threat of climate change. At Huali Group, we are committed to contributing our part in the supply chain system to cope with the threat of climate change.

In our view, to achieve the goal of controlling global temperature rise at 1.5°C, Huali Group shall reduce greenhouse gas emissions rapidly and strengthen international cooperation in the next decade. To this end, the Group will set up a special committee to join the Science Based Targets initiative (SBTi) and promise to set emission reduction targets consistent with the 1.5°C temperature control target of the Paris Agreement.

In order to achieve the Science Based Target (SBT) of Huali Group, we have set short, medium and long-term targets to reduce greenhouse gas emissions. It is expected that the Group will accelerate the deployment and upgrade the use of renewable energy by 2030, achieve the Science Based Target (SBT) consistent with 1.5°C by 2035, and achieve carbon neutrality in its operations by 2050 as promised.

| Short-term goal | Medium-term goal | Long-term goal |
|--|---|--|
| 2030 | 2035 | 2050 |
| Rapid deployment and promotion of renewable energy use | Achieve the Science Based Target (SBT) consistent with 1.5 °C | Realize the carbon neutrality in Company's operation |

Energy Performance

The long-term and priority goal of Huali Group in the energy field is to realize carbon neutrality of its own and operating facilities in the footwear manufacturing process. In terms of energy structure, the Group's energy categories include electricity, biomass fuel, petrol, diesel and liquefied petroleum gas . In terms of energy proportion, electricity accounts for about 65% and biomass fuel accounts for about 31%, as the two main energy types. Others, such as petrol, diesel and liquefied petroleum gas, account for about 4% of the total, which is a secondary energy type.

In order to comprehensively evaluate the energy performance of the Group, the Company has set energy consumption index, carbon emission index and renewable energy ratio index respectively, so as to comprehensively and systematically evaluate, account and report the energy efficiency and greenhouse gas emission reduction effect of the Company.

Energy Use Statistics of Huali Group

| Year | Electricity (kWh) | Solar power generation (kWh) | Biomass fuel (tons) | Petrol (L) | Diesel (L) | Liquefied petroleum gas (kg) |
|------|-------------------|------------------------------|---------------------|------------|------------|------------------------------|
| 2021 | 423,485,802 | 0 | 44,803 | 483,962 | 1,864,690 | 71,530 |
| 2022 | 479,646,678 | 2,027,071 | 49,660 | 671,109 | 2,117,738 | 70,169 |

| Total energy consumption ^{*1} | Energy consumption per unit | Total carbon emissions ^{*2} | Total carbon emissions per unit | Total renewable energy ^{*3} | Proportion of renewable energy ^{*4} |
|--|-----------------------------|--------------------------------------|---------------------------------|--------------------------------------|--|
| (kWh) | (kWh/pair) | (tons) | (kg/pair) | (kWh) | (%) |
| 743,262,305 | 3.42 | 352,987 | 1.62 | 235,334,520 | 31.7% |



Note 1: Among the energy consumption indexes, the calorific value of electricity is 3.6 MJ/kWh, the calorific value of biomass fuel is acquired by the latest third-party test report provided by the supplier, and the calorific values of gasoline, diesel and liquefied petroleum gas are the values published in the greenhouse gas accounting system Emission Factors from Cross Sector Tools March 2017;

Note 2: Among the carbon emission indexes, the electricity emission coefficient in China region refers to the value published in the Accounting Method and Reporting Guide for Greenhouse Gas Emissions of Enterprises - Power Generation Facilities issued by the Ministry of Ecology and Environment of the People's Republic of China; the electricity emission coefficient in Vietnam refers to the value published by the Climate Change Bureau under the Ministry of Resources and Environment of Vietnam in the Publishing the Calculation Results of Emission Coefficient of Electricity of Vietnam 2021; the emission coefficients of other fuels refer to the values published in GHG Emissions Calculation Tool-2021 in the GHG accounting system;

Note 3: The renewable energy of Huali Group mainly comes from two sources: the biomass fuel used by the Company to operate boilers and the self-generated electricity of rooftop solar PV projects.

Note 4: Restatement of energy and carbon emission information in Huali Group's 2021 annual social responsibility report. First, the energy and carbon emission data disclosed in 2021 did not include some Tier 2 factories; second, the carbon emission coefficient of electricity does not adopt the latest values issued by the Ministry of Ecology and Environment of China and the Ministry of Resources and Environment of Vietnam; third, the proportion of renewable energy includes the proportion of renewable energy in the power grid, which may lead to double counting. The above data were updated and restated in the 2022 Report.

Science Based Targets initiative (SBTi)

With the full implementation of the Paris Agreement, carbon neutrality has increasingly become the focus of international attention. As a leading shoe manufacturer in the industry, Huali Group will join the Science Based Targets Initiative (SBTi) jointly sponsored by the Carbon Disclosure Project (CDP), the UN Global Compact (UNGC), the World Resources Institute (WRI) and the World Wide Fund for Nature (WWF) in 2023 in order to set science based target consistent with the Paris Agreement. By taking active emission reduction actions and solutions, the competitiveness of Huali Group in the supply chain and low-carbon economy transformation will be enhanced. The Company's specific science based target commitment will be publicly disclosed after obtaining the official certification of SBTi. According to the latest statistics, the total GHG emissions of Huali Group in Scope 1 and Scope 2 in 2022 were 352,987 tons, and the emissions of major suppliers in Scope 3 were 66,509 tons.

| Year | Item | Scope 1 | Scope 2 | Scope 3 |
|------|---------------------------------------|---------|---------|---------|
| 2022 | Emissions (tons of CO ₂ e) | 8,312 | 344,675 | 66,509 |
| | Emissions (percentage) | 1.9% | 82.2% | 15.9% |



A step-by-step process



COMMIT

Submit a letter establishing your intent to set a science-based target



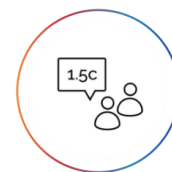
DEVELOP

Work on an emissions reduction target in line with the SBTi's criteria



SUBMIT

Present your target to the SBTi for official validation



COMMUNICATE

Announce your target and inform your stakeholders

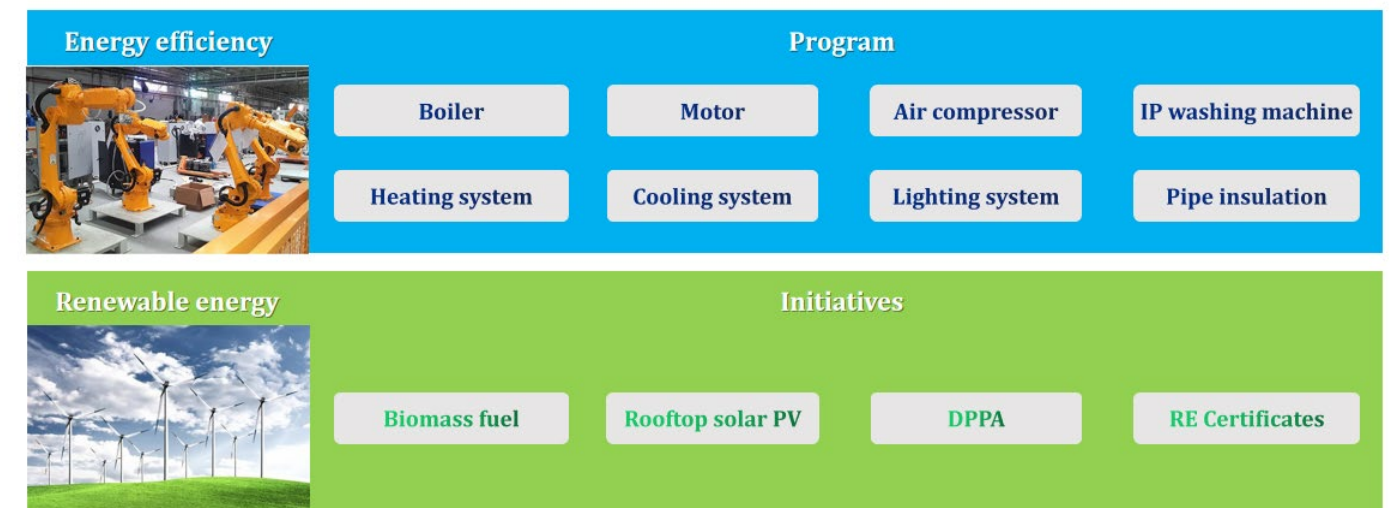


DISCLOSE

Report company-wide emissions and progress against targets on an annual basis

Improve Energy Efficiency

Improving energy efficiency is essential for carbon neutrality. According to the production characteristics of the industry and its own energy consumption, Huali Group has developed two major measures to continuously improve energy efficiency and increase the proportion of renewable energy.



Use high-efficiency motor

Motors are widely used in industrial production, and their electricity consumption accounts for a considerable proportion of the total energy consumption of the Company. According to the study of Energy-Efficiency Policy Opportunities for Electric Motor-Driven Systems published by the International Energy Agency (IEA), the electricity consumption of motor-drive system accounts for about 43%-46% of the global electricity consumption, resulting in about 6,040Mt of carbon dioxide emissions. This is by far the largest source of electricity consumption, far exceeding lighting (accounting for 19% of global electricity consumption). In recent years, improving motor energy efficiency has become the focus of energy conservation and environmental protection for the Company, in the face of the increasingly severe trend of energy conservation and emission reduction.

To address the challenges of energy efficiency, governments all over the world have issued relevant standards to improve the energy efficiency of motors. The motor energy efficiency standard issued by International Electrotechnical Committee (IEC) and the GB standard of China are the common ones. Among them, IEC 60034 sets the energy efficiency standard of motor as IE1, IE2, IE3, IE4 and IE5, while the standard Minimum Allowable Values of Energy Efficiency and Values of Efficiency Grades for Motors (GB18613) in China sets the energy efficiency grades of motors as energy efficiency grade I, energy efficiency grade II and energy efficiency grade III. The corresponding relationship between the both energy efficiency grade standards for motors is as follows:

| Energy efficiency grade in IEC 60034 | Energy efficiency grade in GB18613 | | |
|--------------------------------------|------------------------------------|---------------------------|---------------------------|
| | 2006 Edition | 2012 Edition | 2020 Edition |
| IE5 | | | Energy efficiency grade 1 |
| IE4 | | Energy efficiency grade 1 | Energy efficiency grade 2 |
| IE3 | Energy efficiency grade 1 | Energy efficiency grade 2 | Energy efficiency grade 3 |
| IE2 | Energy efficiency grade 2 | Energy efficiency grade 3 | |
| IE1 | Energy efficiency grade 3 | | |

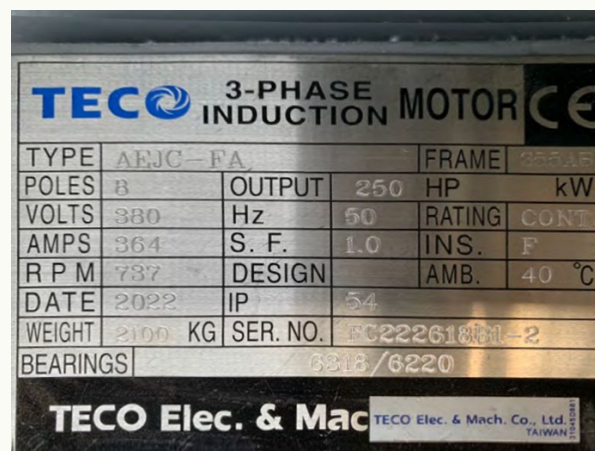
To meet the challenge of energy efficiency, Huali Group has listed energy conservation of electric motors as one of its key energy projects. With reference to the international IEC60034 and GB18613 motor energy efficiency standards in China, we made a comprehensive and systematic inventory of motors above 11kW in various factories. After determining their energy efficiency grades, we adopted a series of measures to promote the improvement of motor energy conservation:

- **Establish motor inventory:** collect motor nameplate information and measure motor operation data to identify energy-saving improvement opportunities.
- **Promulgate new procurement policies:** from 2018, it is required that the newly purchased or replaced motor must meet the IE3 energy efficiency rating specified in IEC60034 standard.
- **Promote motor energy conservation projects:** replace oversized motors (such as exhaust fans, water pumps, etc.) with energy-saving motors of appropriate size.

Through continuous improvement, phased results have been made in the motor energy conservation projects of Huali Group. The following is the statistics of the number and power of IE3 motors of the Group at the end of 2022.

| Item | China | Vietnam | Total |
|-----------------------------------|-------|---------|--------|
| IE3 Number of motors (units) | 17 | 355 | 372 |
| IE3 Number of motors (percentage) | 0.8% | 16.9% | 17.7% |
| IE3 Motor Power (units) | 430 | 17,070 | 17,500 |
| IE3 Motor power (percentage) | 0.5% | 17.8% | 18.3% |

In November, 2022, a rubber miller with rated power of 250HP was replaced at the outsole department of Adora Vietnam Factory. According to the Group's policies, the new equipment was provided with an IE3 energy-efficient motor with an operating efficiency of 95.3%. Under the same rated power, the measured energy consumption of the new equipment dropped from 83.21 kWh to 56.72 kWh, and the overall energy conservation rate of the equipment reached 31.8%, which is estimated to save 132,238 kWh of electric energy every year, equivalent to about 95 tons of greenhouse gas emission reduction.



Energy-saving lamps for lighting system

In Huali Group, the energy consumption of lighting system accounts for about 3% of the total energy consumption of the factory. Since 2016, the Group has encouraged its factories to give priority to LED energy-saving lamps when replacing the old ones with new ones. By 2022, the average utilization rate of the Group's LED lighting lamps has reached nearly 85%. In the future, we will continue to promote the use of LED energy-saving lamps, and our goal is to achieve 100% LED utilization rate of the Group by 2025.

| Item | China | Vietnam | Total |
|----------------------------|-------|---------|---------|
| Conventional lamps (piece) | 1,596 | 18,791 | 20,387 |
| LED lamps (piece) | 4,582 | 105,201 | 109,783 |
| LED lamps (percentage) | 74.2% | 84.8% | 84.3% |

Reduction of Greenhouse Gas Emissions

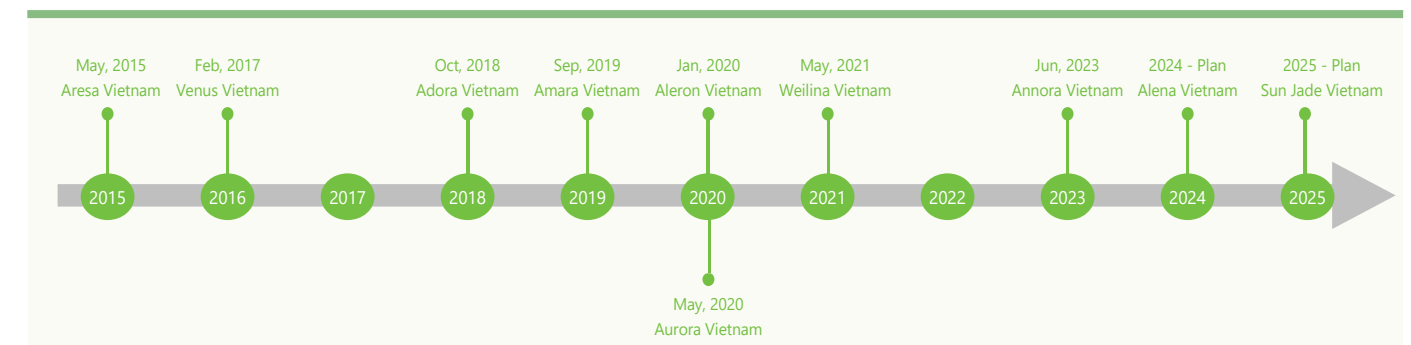
Many characteristics of climate change directly depend on the level of global warming. According to the Sixth Assessment Report of IPCC, the global temperature rise is expected to reach or exceed 1.5°C compared with the pre-industrial level, if analyzed from the average temperature change in the next 20 years. This is not just a matter of temperature. Climate change is bringing many different combined changes to different regions, and these changes will be intensified with further warming.

Therefore, accelerated and fair climate change mitigation and adaptation actions are essential for sustainable development. Huali Group will take coordinated actions throughout the value chain to promote all mitigation solutions, including demand management, energy efficiency and the utilization and promotion of renewable energy.

Renewable fuel

In 2010, the Vietnamese government enacted the Proposal for Biofuels Development 2015-2025, which not only determined the policy basis for the strategic development of biomass energy, but also created a favorable policy context for the development of biomass briquette industry. Following the policies, the Vietnam factory of Huali Group gradually realizes the substitution of boiler fuel from coal to biomass fuel. In recent years, the Vietnam factory of the Group has completed the optimization and replacement from centralized biomass boilers to decentralized biomass boilers in batches, in order to use biomass fuel more efficiently and reduce greenhouse gas emissions. In 2022, Huali Group used nearly 50,000 tons of biomass fuel, and the renewable energy accounts for the 37.1% of the total.

The following is the conversion schedule of the Vietnam factory of the Group from centralized boiler to decentralized boiler:



Renewable electricity

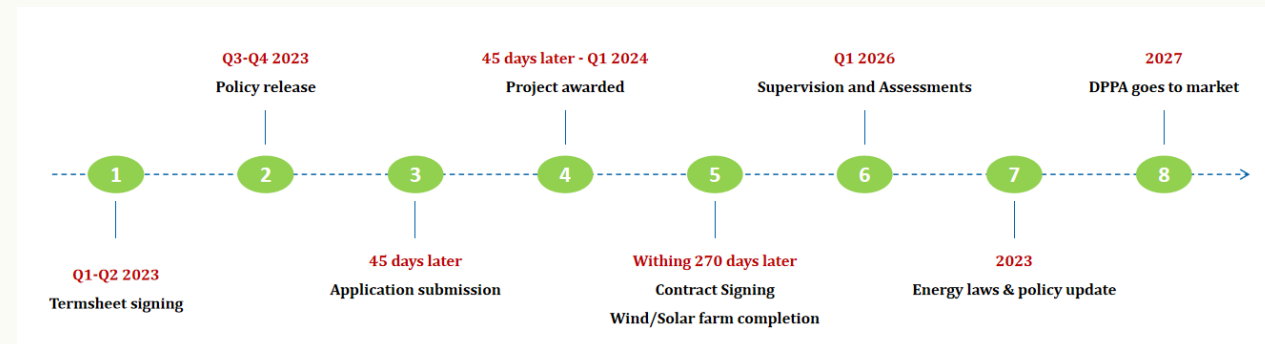
Rooftop solar PV project

At the end of 2021, the first phase of the rooftop solar PV project with a capacity of 1.71MWp, which was cooperated by Huali Group and Total Energies of France, was successfully put into commercial operation. By December 31, 2022, the cumulative power generation of the project reached 1.97 million kWh in 2022, equivalent to 1,423 tons of greenhouse gas emission reduction.

To continuously promote the Group's renewable energy use, Annora Vietnam started to cooperate with Total Energies for the second phase of rooftop solar PV project in October 2022. After preliminary assessment, the second phase of the project will cover the roofs of all production workshops in Annora, with an available area of 65,000 square meters, and its project capacity is about 6.2MWp. It is estimated that the annual solar power generation will be 7.35 million kWh, equivalent to 5,300 tons of greenhouse gas emission reduction, and the project is expected to be put into commercial operation in 2023. Further, Zhongshan facilities of the Group began to use solar power in September 2022. By December 31, 2022, the electricity consumption was 57,000 kWh, equivalent to 32.3 tons of greenhouse gas emission reduction.

Direct Power Purchase Agreement (DPPA)

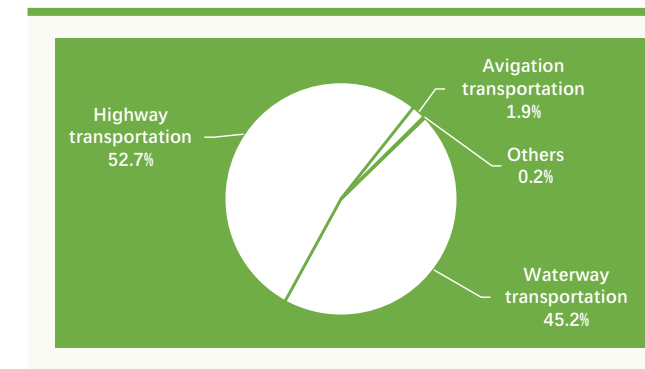
Direct Power Purchase Agreement (DPPA) mechanism has been implemented in the power market of developed countries for many years, which has played a catalytic role in the development of global new energy projects. However, the No.544 Proposal and the draft decision of direct power purchase agreement submitted by the Ministry of Industry and Trade of Vietnam have not been approved finally due to the changing economic situation and the complicated background of power system reform. Huali Group will continue to maintain close contact and interaction with the intended renewable energy project partners to follow up the latest progress of the DPPA project in Vietnam. At present, the latest information of the project partners shows that, if the DPPA pilot project is implemented in 2023, Huali Group is expected to obtain renewable electricity through this project in 2027 according to the relevant schedule.



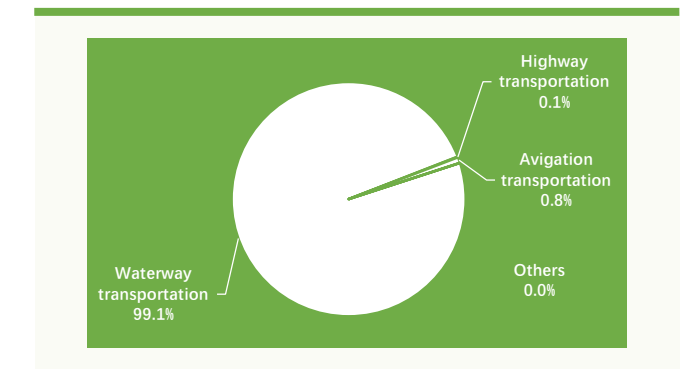
Green transportation

As one of the participants in international cargo transportation, Huali Group has always adhered to the policy of giving priority to sea transportation on the basis of securing the delivery efficiency of raw materials and finished products, with a view to reducing the carbon footprint of our products by choosing a transportation mode with lower carbon emissions. In 2022, apart from local suppliers, the raw material suppliers of Huali Group mainly came from the Pearl River Delta and Yangtze River Delta in China. Considering the transportation distance and delivery efficiency comprehensively, the raw materials were mainly transported by land and sea, of which the latter accounted for 45.2%. The seaborne shipment of finished products is close to 218 million pairs, accounting for 99.1%.

Transportation mode of raw materials purchased by Huali Group:



Transportation mode of finished product shipment of Huali Group:



Circular Economy

With the accelerated industrialization, the resource and environmental situation the company face is very severe, so it is imperative to vigorously develop circular economy. According to the principle of "reduction, reuse and recycling", Huali Group has taken various effective measures to achieve the maximum economic output with the least consumption of resources and the least environmental cost, realize the unity of economy, environment and benefit, and finally build a resource-saving and environment-friendly enterprise.

The Group has developed an environmental management strategy and set the following goals:

- 1 Zero landfill and zero incineration of waste by 2025.**
- 2 100% use of environmentally friendly materials by 2035.**
- 3 100% reuse and recycle of solid waste by 2035.**

In 2022, we made greater progress in sustainable product research and development, the use of environmentally-friendly materials, the upgrading of waste disposal methods, green packaging, and supply chain cooperation, through cooperation with brands and suppliers and independent exploration.

Research, Development and Production of Sustainable Products

With the improvement of public awareness of environmental protection, brands and consumers pay more and more attention to the environmental performance of products. In order to address the market and environmental protection demands, the Group began to research and develop sustainable products, covering all processes from shoe design, and development to production. In 2022, 3,122 shoe models were developed, of which 46.9% were made of environmentally-friendly materials (21% in 2021), and the proportion of recycled materials in individual models reached 82.8%.

The following are some cases of sustainable products.

Case 1: The waste produced by rubber outsole and rubber parts is one of the main wastes produced in the manufacturing process of Huali Group factory. In order to reduce the generation of rubber wastes in the manufacturing process, CONVERSE starts to use Cupsole soles from the design and development, and the Cupsole uses the integrated molding technology, which combines the original processes such as rubber foxing tape, toe cap and outsole, thus reducing the resource loss and waste generation in the processing of each single component.

Case 2: From the perspective of materials, environmental protection materials are more selected in the design of shoes while maintaining the functionality of products. For AUTHENTIC VR3 SF shoes, VANS integrates the concepts of "Regenerative, Renewable and Recycled" into the selection of upper, sockliners and sole materials, including organic cotton, recycled cotton, recycled polyester, natural rubber (from regenerative agricultural park certified by TGI in Thailand) and so on.



Case 3: In recent years, brands began to require factories to carry out GRS⁶/RCS⁵ certification for shoes. In 2022, the Group carried out RCS certification for some shoes, with corresponding orders totaling 376,000 pairs of shoes. Take PUMA product 195338 Better Foam Adore Shine Wns as an example, which is the first PUMA Running series developed by the Group to fully consider environmental protection. First of all, in terms of material selection, the uppers of this model contain recycled polyester or RPET in 54% by weight (see the shoe diagram). Secondly, after RCS certification, the materials used in this model contain 21% recycled contents by weight, including 20% recycled polyester after consumption and 1% recycled PET after consumption.



Use of Sustainable Materials

Huali Group manages the use of sustainable materials by continuously tracking the source of materials and focusing on the composition of materials. For example, the wool source of a certain UGG shoe model can be traced back to a farm in New Zealand, and the EVA outsole contains bio-based ingredients (sugar cane), etc. In 2022, the Company produced 2,371,400 pairs of UGG and HOKA sports and leisure shoes containing bio-substrate (sugar cane) soles. Huali Group promotes the use of regrind rubber in soles. In 2022, 40.4% of orders used regrind rubber in the production.

5RCS: RCS is an international, voluntary standard that sets requirements for third-party certification of Recycled input and chain of custody. The goal of the RCS is to increase the use of Recycled materials.
6GRS: The Global Recycled Standard (GRS) is an international, voluntary, full product standard that sets requirements for third-party certification of Recycled Content, chain of custody, social and environmental practices, and chemical restrictions. The goal of the GRS is to increase use of Recycled materials in products and reduce/eliminate the harm caused by its production.

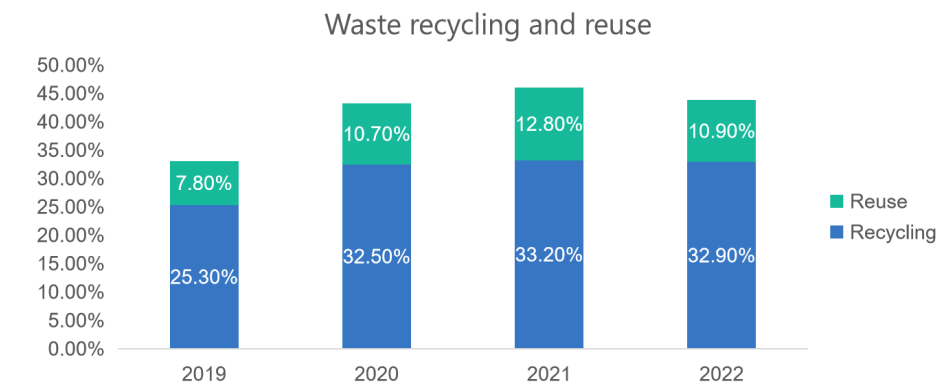
In 2022, among the materials purchased by the Group, such as fabrics, leather, synthetic leather and accessories, the proportion of sustainable materials is as follows:

| Purchase type | Ratio of sustainable material | |
|---|-------------------------------|----------------|
| Fabric (canvas, mesh, upper vamp, etc.) | 13.91% (pairs) | 13.49% (yard) |
| Leather (sheepskin, cowhide, pigskin leather, etc.) | 97.84% (square feet) | 100% (yard) |
| Synthetic leather (PU, TPU, etc.) | 37.18% (pairs) | 20.46% (yard) |
| Accessories (shoelaces, webbing, sewing thread, etc.) | 46.64%(m) | 33.59% (piece) |

Waste Ruse and Recycle

According to the environmental management strategy and objectives, the Group plans to achieve zero landfill and zero incineration of wastes by 2025, and divert more wastes from landfill and incineration into higher efficient disposal methods, including in-house recycling⁷, closed-loop recycling⁸, downcycling⁹ and energy recovery¹⁰; in 2035, the diversion of energy recovery projects will be completed, and all the generated solid wastes will be treated by recycling technology and used for the production of the Group's products or for the processing of goods of other industries. The Group is also continuing to discuss the future waste disposal plan with brands and related parties, striving to complete the waste disposal method as early as possible.

In 2022, about 3,650 tons of rubber waste, Phylon waste and EVA waste were in-house recycled in the factory of the Group, accounting for 10% of the total solid waste; the proportion of waste treated by downstream recycling is 32.9%. In order to achieve the Group's long-term goal of 100% recycling¹¹ and reuse of waste¹² by 2035, the Group focuses on waste disposal in downstream recycling. In the past three years (2020-2022), the proportion of the Group's waste recycling and reuse is as follows:



EVA sheet containing Phylon waste



Outsole containing regrind rubber



7 In-house recycling: Refers to the reuse or recycle of waste which are completed onsite within the production processes.

8 Closed-loop recycling: Refers to the reuse or recycle of waste which completed between factory and manufacture in a close-loop manner.

9 Downcycling: Refers to the recycling and reuse of waste by downstream recyclers.

10 Energy recovery: Refers to the energy recovery of waste as fuel for thermal power generation and other facilities.

11 Recycling: Waste is recycled through downcycling manner.

12 Reuse: Waste is reused through In-house recycling and closed-loop recycling manners.

Green Packaging

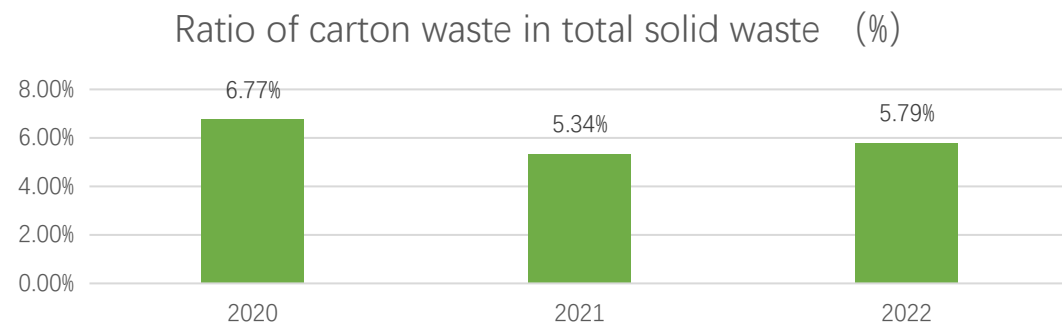
Packaging, as an important carrier in the delivery of materials and products, is also one of the key projects of Huali Group. The packaging management of Huali Group is mainly reflected in the following two aspects:

1.The sustainability of packaging materials

The packaging materials of the Group's products mainly include inner boxes, outer boxes, labels, tags, packing papers, etc. In 2022, the Group purchased a total of 73,226 tons of packaging materials, 99.4% of which were supplied by manufacturers certified by FSC forest certification system.

2.Turnover and utilization of packaging materials

In 2022, the Group's carton waste accounts for 5.79% of the total solid waste, mainly generated in the packaging and transportation of materials.



Material Packaging: Waste material packaging is the main type of waste in the Group factory, and also the object of reduction activities. In 2022, through the continuous promotion of brands and the active connection of factory teams, Roll Sport Vietnam and Annora Vietnam factories began to return the paper tubes to the supplier CRMTO in May and June 2022, respectively, and reused them for the packaging of materials. By December, 2022, Roll Sport Vietnam had collected and returned 21,780 paper tubes, equivalent to a reduction of 9,198.7 kg of paper waste, and Annora Vietnam had collected and returned 26,880 paper tubes, equivalent to a reduction of 11,407.6 kg of paper waste. In 2022, the factory also implemented other similar carton alternatives; for example, Komax and other suppliers use recyclable containers or boxes to transport materials to the factory.

Material Transfer: For the packaging or transfer of materials and components of the Group factory itself, the packaging boxes of materials from suppliers are preferred, and reusable plastic turnover boxes are used.

In the future, the factory of the Group will take the following activities to reduce the paper and plastic packaging wastes generated by material packaging or turnover:

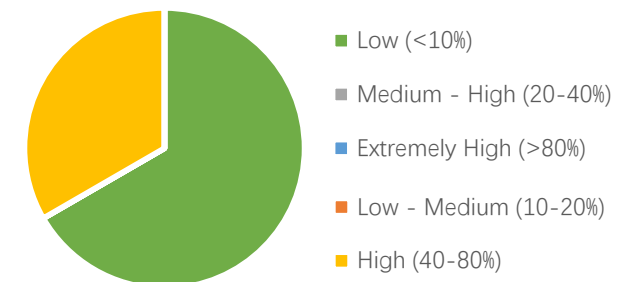
- Strengthen communication and contact with suppliers, minimize the use of disposable packaging materials and avoid over-packaging.**
- Reusable packaging materials are provided by suppliers and recycled for packaging and transferring of materials.**
- Reusable plastic boxes are used in the factory to recycle materials.**

Water Resources Management

Water risk

According to the global risk report released by the World Economic Forum, environmental risk is still the primary problem in terms of both short-term and long-term severity. According to the data extracted from World Resources Institute (WRI) Aqueduct data platform, 31% of the factories are in high risk (40-80%) regions for water baseline pressures, 6 of which are in Thanh Hoa, Vietnam and 3 of which are in Hai Duong, Vietnam. The other 69% are in low-risk (< 10%) regions. The overall risk is acceptable combined with the basic situation of the shoe industry.

Baseline Water Stress



Water management

In addition to serving the production process, the water used by the factories is mainly used for basic living needs. 89% of the water comes from the water supply companies and the other 11% is extracted from groundwater wells. For the exploitation of groundwater, the factory evaluates and applies for exploitation license based on the geological structure, groundwater yield, water quality and the distance of surrounding pollution sources in the area where the factory is located. In daily management, a flowmeter is installed to count and manage the exploitation of groundwater, so as to reduce the risks to groundwater, such as water pollution and water level drop.

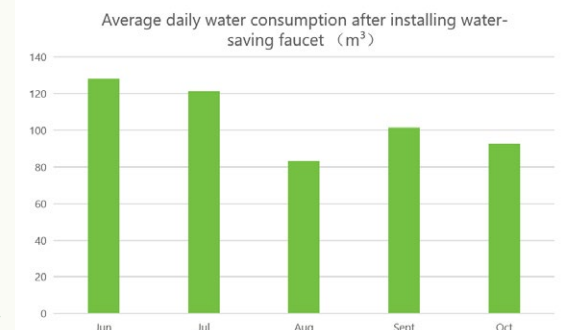
- Within the radius of 1m from the wellhead edge of groundwater well, waterproof materials shall be used for reinforcement and elevation, with a height of at least 50cm.**
- The protection area is delineated, and no polluting facilities shall be installed or activities shall be conducted within a radius of at least 30 meters near the wellhead.**
- The factory monitors the quality of groundwater every six months, and the results show compliance with the groundwater intake standards.**
- The cost of groundwater exploitation shall be paid and the annual exploitation data shall be submitted to the Statistics Bureau.**
- The automatic groundwater level monitoring instrument is installed to monitor the groundwater level in real time (according to WRI Aqueduct data platform, there is no insignificant trend of groundwater level decline in all areas where the factory is located).**

Water-saving activities

In 2022, the factories in Vietnam consumed a total of 1.833 million cubic meters of water resources, equivalent to an average water consumption of 8.43 liters per pair of shoes (compared with 2021, the factories added the configuration of washing process, and the data collection scope was also expanded, adding upper and sole processing facilities).

The Group continues to pay attention to the overall risks in the region, and continues to carry out water-saving activities in the factories, such as:

- Pay attention to the water consumption in key areas such as printing and washing, and continues to implement water-saving measures.**
- Circulating the cooling water for outsole machines.**
- The waste water that has been treated to meet the reuse standard and has been approved by the competent environmental protection authority is used for non-contact purposes such as toilet flushing and flower watering.**
- The knob switch of the faucet in the hand washing area is replaced with the push-button rebound switch. In July 2022, the average daily water consumption decreased obviously after the faucet in the hand washing area was refitted in Stateway Vietnam.**



Chemical Management

The management of chemicals lies in the chemicals themselves, as well as in the use and disposal of chemicals. Huali Group supervises and manages the whole process from the procurement, storage, transportation, use and disposal of chemicals.

Procurement of chemicals

When purchasing chemicals, the factories will give priority to screening on the brand certification list. If the brand does not have the chemical certification list, the supplier will be asked to provide the chemical material safety data sheet and the restricted substance inspection report before reporting to the brand for filing, and then make purchase after obtaining the consent. We require our suppliers to strictly follow the relevant specifications of countries and brands regarding the restriction or prohibition of the use of hazardous substances in chemicals (such as glue, ink, cleaning agent and release agent).

- 1 Chemicals used in the production process must be attached with a material safety data sheet and an inspection report of qualified restricted substances. SMP and chemical departments are required to ensure that the restricted substance inspection report is valid for one year; the purchasing department shall notify the supplier to provide a new inspection report one month before the expiration.
- 2 Purchasing and chemical departments are required to notify and require suppliers to comply with the latest specifications when different countries and brands update the restricted and prohibited substances list. Additionally, the supplier shall be checked for its compliance with the latest specifications when receiving the new inspection report of restricted substances.
- 3 Regular training on the list of restricted/prohibited substances and the use safety of chemicals.
- 4 Cooperate with brands to randomly check whether chemicals contain prohibited substances or restricted substances.

Chemical storage and transportation

- 1 Chemical storage areas: Chemicals are classified and stored according to their material safety data sheet, and with appropriate anti-leakage, anti-static and emergency measures.
- 2 The outer packaging of all chemicals has complete label contents, such as supplier name, product name, production batch number, production date, service life and other information.
- 3 First-in first-out management is implemented.
- 4 Vehicles transporting chemicals are equipped with secondary containment.

Use and disposal of chemicals

- 1 Employees should wear PPEs (such as masks, gloves, etc.) when coming into contact with or using chemicals.
- 2 When using solvent-based chemicals, in addition to personal protection of employees, it is also necessary to ensure that the production and operation areas are well ventilated.
Solvent-based chemicals contain volatile organic compounds(VOC), which have great impact on the whole environment. In 2022, we carried out the project of replacing solvent perfluoro release agent and replacing solvent rubber treatment agent (VOC content 100%) with environmentally friendly rubber treatment agent (VOC content 28%) in Annora Vietnam, Roll Sport Vietnam, Aurora Vietnam, and Adora Vietnam, and carried out the project of replacing solvent-based ink with water-based ink in Annora Vietnam and Roll Sport Vietnam to reduce the use of solvent-based chemicals, which will be extended to other factories in the Group in 2023. In addition, the chemical engineering department will give priority to testing the feasibility of water-based chemicals during the development stage of new shoes, so as to minimize the VOCs emission in the future mass production.
- 3 The Chemical and Manufacture Quality Assurance Department (MQA) shall review the chemical inventory and use process at least once a week to ensure that the requirements of brands and the Group for chemical management are met.
- 4 Wastes contaminated with chemicals or expired chemicals are managed as hazardous wastes and delivered to qualified waste treatment companies for treatment.

Chemical safety training

The chemical engineering department of the Group coordinates and organizes training on chemicals every year. In addition to the annual training of RSL list, application and operation safety of glue and ink organized by suppliers, the Group also held semi-annual training on operation safety of glue and ink, as well as training to new employees on chemical operation safety. And chemical accident response and leakage prevention drills are organized regularly.

Hours of chemical training in 2021 and 2022:



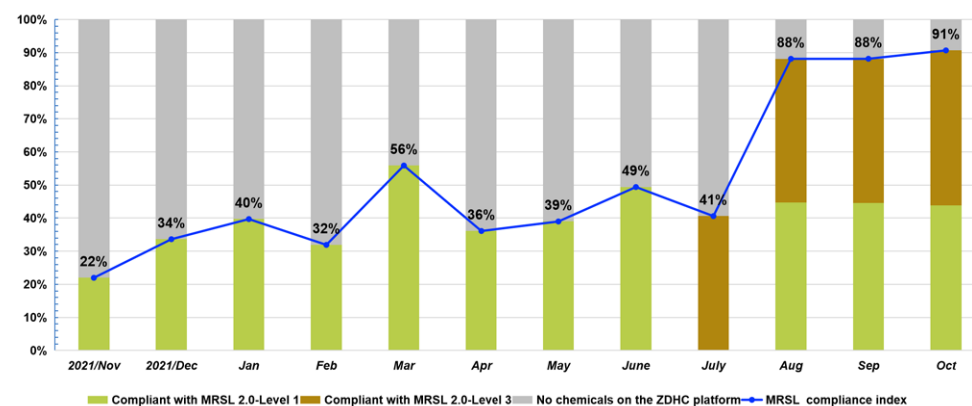


The picture above shows the Seminar on Nike Restricted Substance held in Annora on October 4, 2022.

ZDHC¹³ (Zero Discharge of Hazardous Chemicals) Projects:

ZDHC divides its chemical management to three steps: Input, Process and Output. At present, the factories mainly involved in the following projects:

1. Input: MRSL compliance tracking. By uploading the chemical list to the Implementation Hub platforms, the factory compares it with the data shown in the chemical database of ZDHC Gateway, generates a chemical In-check report for the factory, which showing the MRSL compliance ratio of the chemical uploaded. In 2022, our factory invited supplier partners to disclose or add more product data in ZDHC gateway, in order to actively promote the procurement and use of sustainable chemicals and improve the MRSL compliance. Through the efforts and cooperation of suppliers, the 2022 MRSL compliance of Aleron Vietnam under the Group reached 90% from 22% (see the figure).



2. Process: Complete the chemical foundational level self-assessment at Supplier to Zero platform and participate in the training of ZDHC Academy on the basic framework of chemical management. Through self-assessment and training, the factory has a better understanding of the management status of chemicals and a clearer understanding of the management methods of chemicals.

3. Output: According to ZDHC wastewater guideline, the wastewater from the factory is sampled, and the conventional wastewater parameters, heavy metal parameters, MRSL parameters and sludge parameters are tested and compared. The final results will be uploaded to the ZDHC gateway to generate a Clear-stream report, and brands or interested parties connected with the factory can check relevant data at any time. In the future, more ZDHC projects will be incorporated into the plan, such as wastewater operator qualification training, ZDHC air emission standard testing and so on.

¹³ ZDHC: ZDHC is an organization dedicated to promoting zero discharge of hazardous substances in textile, leather, shoe making and other industries. As parties thereunder, brands such as Nike, PUMA and NB joined in and promoted the development of ZDHC.

Pollutant Control

Wastewater Treatment and Discharge

Wastewater treatment:

The wastewater system in factories of Huali Group is mainly divided into two categories: one is industrial wastewater treatment system, which pre-treats the wastewater produced by printing, washing and other processes. The other is a comprehensive wastewater treatment system, which mainly treats domestic wastewater and pretreated industrial wastewater. After the complete treatment process, the wastewater will be collected into the reservoir, which will be used for flushing toilet and greening first, and the remaining water will be discharged; additionally, the sludge produced in the process will be stored as required after dehydration, and will be finally disposed of regularly in the way required by local laws and regulations.

Wastewater discharge:

Most of the wastewater discharged from the factories of Huali Group is subject to direct discharge, and a few are subject to indirect discharge. For factories with direct discharge, the wastewater can be directly discharged to the external environment such as rivers after being treated and meeting the discharge standards. For factories with indirect discharge, the pretreated industrial wastewater and the domestic wastewater not pretreated are flew to the wastewater treatment plant in the industrial park through an independent pipe network. In terms of discharge standards, Vietnam factories are mainly subject to Grade A and Grade B of QCVN 40:2011/BTNMT for technical standards of industrial wastewater discharge and Grade A and Grade B of QCVN 14:2008/BTNMT for technical standards of domestic wastewater discharge.

Wastewater testing:

The factories test the wastewater every quarter. The main parameters tested are pH (power of hydrogen), BOD⁵ (five-day biochemical oxygen demand), COD (chemical oxygen demand), TSS (total suspended solids), TDS (total dissolved solid), sulfide, NH₄⁺ (ammonia nitrogen), NO₃⁻ (nitrite), total nitrogen, total phosphorus, Escherichia coli, etc. Some factories also test parameters of heavy metals such as arsenic, cadmium, plumbum, mercury, copper, residual chlorine, etc.

In addition, six factories conducted wastewater tests in 2022 in accordance with the ZDHC wastewater guidelines, and some of the results were uploaded to the ZDHC gateway to generate a Clearstream report.

For factories with daily wastewater treatment capacity of 1,000m³ or more, they shall be installed with automatic monitoring devices to monitor wastewater indicators in real time according to the regulations of local government in Vietnam. At present, three factories have been equipped with automatic monitoring systems, which test and record data every five minutes, and display real-time indicators such as pH (power of hydrogen), temperature, TSS (total suspended solids), COD (chemical oxygen demand), NH₄⁺ (ammonia nitrogen) and wastewater flow rate. Factories can also retrieve data through the computer to check the data and the dynamics.

Real-time display

| Annora | | | | Root 22-02-2023 11:04 | |
|------------------|---------------------|-----------------|---------------------|---------------------------|---------------------|
| TSS | mg/L | pH | | Temp | °C |
| 5.50 | | 7.68 | | 26.80 | |
| Flow in 1 | m ³ /h | Flow in 2 | m ³ /h | Flow in 3 | m ³ /h |
| 0.00 | | 0.00 | | 29.31 | |
| NH4 ⁺ | mg/L | Total flow in 1 | m ³ /day | Total flow in 2 | m ³ /day |
| 1.30 | | 136.28 | | 165.24 | |
| Total flow out | m ³ /day | Total flow in 3 | | | |
| 397.47 | | 242.74 | | | |

Waste Management

The waste management in the factories is mainly carried out in the following aspects:

1. Team building and awareness raising

The factory under Huali Group has a full-time waste management team to classify and identify the factory waste, guide the on-site classification activities, collect and analyze data, manage the waste center (RMCC), track the final destination of waste, audit the waste treatment vendors, and communicate and report the waste management performance.

The waste management team carries out various publicity activities in the factory, so as to achieve enjoyment and knowledge acquisition simultaneously and improve the participation of employees.

"Waste" Fashion Show and Quiz Held in Aurora Vietnam



2. Facilities and equipment

The factory shall set up RMCC at a location far away from the workshop and living areas. RMCC area is mainly divided into two areas, namely, general solid waste area and hazardous waste area. Each is further divided into several separate rooms with label for central storage of waste, with principle of one label, one waste type.



RMCC

RMCC area is equipped with basic firefighting and safety protection facilities and equipment, and provided with smart scales. Through the smart scale system, the factory can automatically complete data transmission and facilitate subsequent data analysis.

3. Waste classification and inspection

According to the type of materials, waste can be divided into upper scraps, leather scraps, foam scraps, plastic scraps, rubber scraps, EVA scraps, paper scraps, etc. The waste management team regularly visits the workshop to check the classification of waste, observe the generation of waste, early-find and early-adjust. Detailed waste classification and data collection are the basis of waste reduction and disposal.

4. Data system

By the end of 2022, a total of 14 factories in the Group had used the Smart-Scale System platform self-developed by the Group to quickly import data through the smart scale real-time link system. In 2022, the Group produced more than 37,000 tons of general solid waste and 3,300 tons of hazardous waste. 100% of the waste is disposed of through legal channels; 43.8% of the general solid waste is recycled and reused, and 6.9% of the waste is used for waste-to-energy power generation or cement processing. The Group plans to complete the diversion of this type of waste by 2035 and transfer to a higher-level disposal method.

5. Major waste tracking and project management

According to the data statistics and project requirements, the factory determines the annual or monthly priority waste projects, considers the reduction in a targeted manner, and determines the improvement plan. In 2022, for the reduction of rubber waste, the factory carried out the following activities to reduce scrap and defects: regular maintenance of molds; engraving the weight scales of standard ingredients on the mold; equipping more accurate weighing instruments; the machine and equipment were reformed (the original three-axis machine were changed to four-axis ones) to reduce the thickness difference of rubber sheet.

| Kaizen on Machines | Machine | Rubber Sheet | Rubber Sheet Thickness | | |
|---------------------|---|---|---|---|---|
| Before (3 Axial) |  |  |  5.41mm |  4.83mm |  4.54mm |
| After (4 Axial) |  |  |  4.41mm |  4.53mm |  4.54mm |

6. Resource integration

Huali Group recognizes that it cannot achieve the goal of waste management by itself. In the future, the Group will achieve its environmental vision of "Zero Waste & Less Impact" through cooperation and communication with relevant stakeholders such as brands, supply chains, third parties and users, participation in research and development of sustainable products, implementation of procurement and use of sustainable materials, and implementation of optimal waste disposal solutions. We will further seek technical resources for those area having barriers with the existing technology, and strive for an early breakthrough.

7. Waste disposal tracking

The factory of the Group will review the qualification documents of the vendor for waste treatment to ensure that they have the corresponding treatment qualifications; the factory will also send representatives to the vendor's treatment base for on-the-spot investigation and evaluation to verify its comprehensive qualifications and promote its compliance management. Further, the factory will contact the manufacturer to provide the route of transport vehicles, and supervise and control the transport route of waste, in order to ensure that the waste is finally treated in an agreed legal way. The Group establishes a list of qualified treatment vendors and will update it regularly. Its factories can only select treatment vendors from the list provided.

Air Emission and Ozone-Depleting Substances

The factories have always attached importance to air emission management and are equipped with a complete air emission collection, treatment and discharge system. The types, quantities and concentrations of air emission in the factories are regularly checked and updated. All collected air emission must be treated through pollution treatment facilities and discharged up to standard.

Factories will choose different air emission collection and treatment equipment depending on the type of pollutants. For the dust generated by the grinding process of soles and ingredients, a bag-type dust removal device is equipped. The laminating equipment is separately provided with a top-suction gas collecting hood to collect the air emission generated in the production process. Biological filters and activated carbon absorbers are installed for organic air emission generated in printing and laminating workshops, and spray towers and activated carbon absorbers are used in painting workshops. After the activated carbon adsorbed and saturated is replaced, it will be handed over to a qualified unit for hazardous waste treatment.

Biological filter and activated carbon adsorption box device



Online air emission monitoring system:

Factories regularly monitor air emissions in accordance with the laws and regulations, and some factories are equipped with online monitoring systems for real-time information about the air emission.

Case: Online monitoring system of air emission in Amara Factory in Vietnam

In Amara Vietnam, an online monitoring system was installed in the boiler chimney, which can monitor pollutants such as sulfur dioxide, nitrogen oxides, carbon monoxide and total suspended particles in real time. The value of pollutants can be viewed through the display of online system and mobile APP, and the measurement results of pollutants are directly transmitted to the website of the Environmental Protection Agency (Vietnam).



Limiting ozone-depleting substances (ODS)

The ozone-depleting substances involved in the shoe manufacturing process mainly come from the use of refrigerants. The impact indexes of refrigerants on the global environment mainly include ozone depletion potential (ODP) and global warming potential (GWP). The types of refrigerants used by Huali Group at present include hydrochlorofluorocarbons (HCFCs) and hydrofluorocarbons (HFCs). Among them, HCFCs are mainly R-22, while HFCs are R-32, R-134a, R-407c, R-410a and R-404a. According to the Montreal Protocol and brands' standards, Huali Group encourages all its factories to give priority to refrigerants with low global warming potential (GWP₁₀₀) from 2021, and prohibits all its factories from using refrigerants containing hydrochlorofluorocarbon (HCFC) from 2030.

| Item | R-22 | R-32 | R-134a | R-407c | R-410a | R-404c |
|--|---------|-------|--------|--------|--------|--------|
| Ozone depletion potential (ODP) | 0.034 | 0 | 0 | 0 | 0 | 0 |
| Global warming potential (GWP ₁₀₀) | 1,760 | 677 | 1,300 | 1,620 | 1,920 | 3,940 |
| Refrigerant charge in 2022 (kg) | 6,016.4 | 228.8 | 177.4 | 217.6 | 370 | 575.9 |



Talent Cultivation

Rights and Interests of Employee

The Group's factories respect and effectively protect the legitimate rights and interests of employees. In terms of policies, the Group has developed policies on prohibiting the use of child labor, safeguarding the rights and interests of female workers, no harassment and abuse, no discrimination, and special employee protection to protect the rights and interests of employees and special groups. In terms of implementation, the Group conducts internal audits regularly, to ensure that all factories comply with laws and regulations, brand's code of conduct and internal rules and regulations, and to protect employees' rights and interests.

Each factory of the Group has established a grievance mechanism. If employees have any problems or questions at work, they can first report their concerns to their superiors, and may turn to the factory SMP for grievance handling in case of no reasonable solutions. If the matter is beyond the scope of the factory's handling capacity, employees may seek help from the Group's SMP Department.

In order to better safeguard the legitimate rights and interests of employees of the Group and build good labor relations, there are trade unions in factories in Vietnam and China. The basic duty of a trade union is to represent and safeguard the legitimate rights and interests of employees. Through equal consultation and collective contract system, the management of each factory and the trade union promote and improve the coordination mechanism of labor relations, safeguard the labor rights and interests of employees, and build harmonious labor relations. When the Company develops or updates rules and regulations, it shall announce and implement the same after reaching an agreement with the trade union. When employees' labor rights and interests are damaged, the trade union provides timely help and actively communicates and coordinates with factory management to protect employees' interests; trade unions regularly communicate with the management and put forward suggestions or proposals to it.

Trade unions in Vietnam and China have set up women worker committees, labor dispute mediation committees, labor protection supervision committees, labor law supervision committees and audit committees, which are elected by employee representatives.

The employee representative meeting is held every month in Vietnam, and once every quarter in the trade union in China, to listen to the opinions and suggestions of employee representatives and solve the practical issues of employees through consultation.

On behalf of employees, the trade union negotiates with the Group to sign collective contracts on working conditions, treatment, human rights, training and development, which cover all employees and are signed once every three years.

With the support of the trade union, various activities were carried out in each factory of group to enrich employees' lives and strengthen their cohesion. Every festival, the trade union will also organize to visit to employees in difficulty. The following picture shows the family visit activities organized by the trade union.



Talent Structure

Equal employment

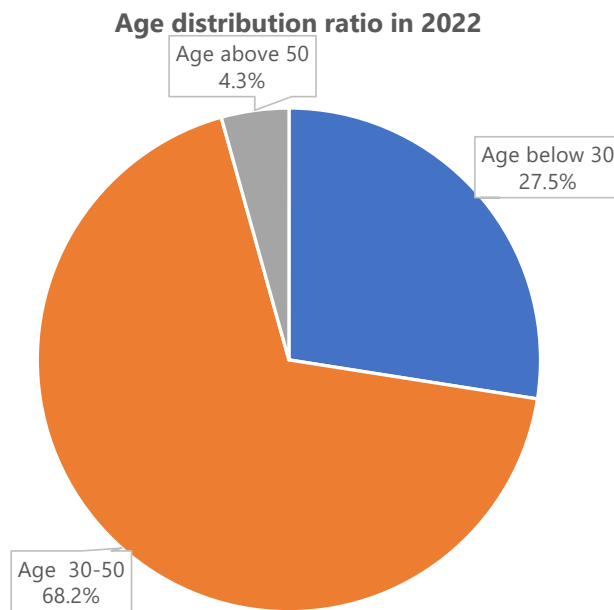
Huali Group builds an international talent team by recruiting overseas talents, sending them abroad and cultivating them independently. In the recruitments, Huali Group strictly abides by the Labor Law, the Labor Contract Law and other laws and regulations, as well as the policies and regulations of overseas countries/regions where it operates. It adheres to the people-oriented principle and equal employment and anti-discrimination. No one shall be subject to discrimination and unfair treatment in employment based on age, physical or mental status, sexual orientation, pregnancy, marital status, nationality, political opinion, trade union membership, social background or other status protected by national laws. The Company's interview recruitment process is defined and rigorous, and it is strictly audited to avoid the occurrence of child labor, forced labor and exploitation of subcontractors. In addition, the skills and abilities of candidates will be objectively evaluated, emphasizing the integrity of candidates' words and deeds, which is in line with the Company's core values.

The employee profile is shown in the following figure:

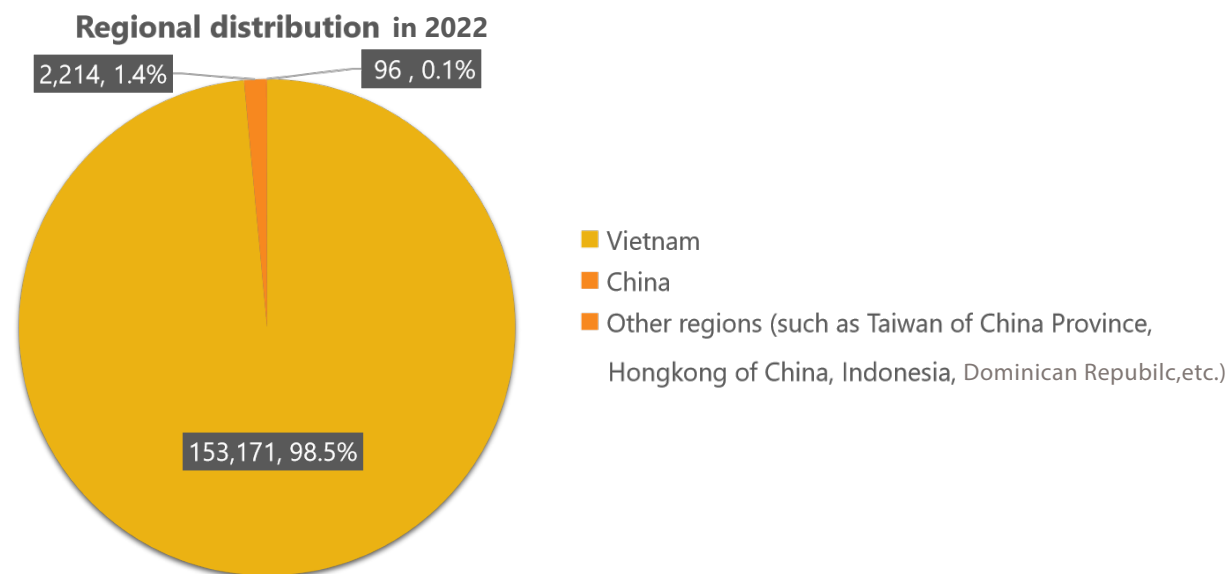
| Item | | 2021 | | 2022 | |
|---------------------------|-----------------------------------|------------------|------------|------------------|------------|
| | | Number of people | Percentage | Number of people | Percentage |
| Total number of employees | | 151,198 | | 155,481 | |
| Gender | Male | 31,979 | 21.15% | 32,593 | 20.96% |
| | Female | 119,219 | 78.85% | 122,888 | 79.04% |
| Age | <30 | 48,799 | 32.27% | 42,719 | 27.48% |
| | 30~50 | 97,780 | 64.67% | 106,022 | 68.19% |
| | >50 | 4,619 | 3.06% | 6,740 | 4.33% |
| Position | Senior management | 123 | 0.08% | 112 | 0.07% |
| | General management | 8,159 | 5.40% | 8,617 | 5.54% |
| | Non-management | 142,916 | 94.52% | 146,752 | 94.39% |
| Educational background | College degree or below | 141,590 | 93.65% | 146,479 | 94.21% |
| | College degree or bachelor degree | 9,555 | 6.32% | 8,941 | 5.75% |
| | Master or doctor | 53 | 0.03% | 61 | 0.04% |
| Region | Vietnam | 148,887 | 98.47% | 153,171 | 98.51% |
| | China | 2,227 | 1.47% | 2,214 | 1.42% |
| | Other regions | 84 | 0.06% | 96 | 0.06% |

By the end of 2022, the Group has a total of 155,481 employees, up 2.8% year to year, of which there were a total of 122,888 female employees, accounting for 79%.

In the age distribution, ages from 30 to 50 are majority, with 106,022 employees, accounting for 68.2%. Compared with 2021, the number of employees aged over 50 increased slightly by 1.2%.



The employees are mainly distributed in Vietnam, with 153,171 employees, accounting for 98.5% of the total, followed by 2,214 employees in China, accounting for 1.4%, and employees in other regions accounting for 0.1%.



In 2022, the number of senior managers (deputy managers and above) was 35, accounting for 31.25%, and the number of management positions (monitor and above, deputy managers and below) was 5,685, accounting for 65.97%.

| Year | Gerder | Position | | | | | | |
|------|----------|------------------|------------|------------------|------------|------------------|------------|---------|
| | | Senior manager | | Management | | Non-management | | Total |
| | | Number of people | Percentage | Number of people | Percentage | Number of people | Percentage | |
| 2021 | Male | 85 | 0.06% | 2,697 | 1.78% | 29,197 | 19.31% | 31,979 |
| | Female | 38 | 0.03% | 5,462 | 3.61% | 113,719 | 75.21% | 119,219 |
| | Subtotal | 123 | 0.08% | 8,159 | 5.40% | 142,916 | 94.52% | 151,198 |
| 2022 | Male | 77 | 0.05% | 2,932 | 1.89% | 29,584 | 19.03% | 32,593 |
| | Female | 35 | 0.02% | 5,685 | 3.66% | 117,168 | 75.36% | 122,888 |
| | Subtotal | 112 | 0.07% | 8,617 | 5.54% | 146,752 | 94.39% | 155,481 |

In 2022, the employee turnover rate of the Group was 29.2%, and the monthly average turnover rate was 2.43%. The turnover rate for the year is higher than that in 2021, mainly due to the increase in the number of resignations due to the fluctuation of economic situation, which affects the willingness to take office; secondly, the Company made adjustments in its human resources policy in the second half of 2022 and decided not to make up for any shortfall due to the fluctuation of orders.

Note: Annual Turnover Rate = Total Number of Resignations / (total number of employees at the beginning of the year + total number of new employees of the year)

Salary and Welfare

Performance, promotion, salary and welfare

The Group continuously optimizes the performance management system to facilitate resource allocation and cost planning. The results of employee performance appraisal will serve as an important reference for promotion, salary adjustment, reward and incentive, job rotation and training.

The promotion system is standardized to reduce abnormal reporting. Based on the approved organizational structure and manpower establishment, corresponding human resource needs or group development and management needs are required.

With respect to salary adjustments, the HR Department will prepare salary adjustment budgets in consideration of the previous year's operating performance, industry salary level, legal minimum wage and price index increase, etc., and report the budgets to the management for approval before proceeding accordingly. During the reporting period, salaries for Vietnamese workers were adjusted in the first quarter and the third quarter respectively.

Since 2022, considering the difficult environment in overseas areas such as Vietnam and Indonesia, the Company has provided extra allowances for cadres who have worked overseas for a long time, in order to encourage colleagues to take up their posts.

In addition to the statutory entitlements under local labor laws, such as labor insurance, health insurance, pension plans, social insurance, medical insurance, unemployment insurance, etc., staff benefits are also entitled to other welfare such as group insurance, holiday grants, various welfare grants/solatium, etc.

In 2022, there were 11,751 employees enjoying parental leave in the Company, including 1,894 male employees and 9,857 female employees. The return rates of both male and female employees were 95.5% and 78.6% respectively, and the proportion of male and female employees who had returned to work for more than one year was 69% and 74% respectively.

Note: Return rate = number of employees who have returned to work after taking parental leave in 2021/number of employees taking parental leave in 2021.
Retention rate = number of employees who have returned to work for 12 months after taking parental leave in 2021/number of employees who have returned to work after taking parental leave in 2021.

Career Development

Talent Development

Huali Group is committed to being a world-class footwear manufacturer, rewards excellence, and encourages value creation. Firmly upholding the people-orientation concept, it regards talents as the asset of sustainable development, and aims to enable employees to achieve optimal value, balance work and life, and be respected and loved. We provide clear career planning and perfect professional training, with a hope that employees can give full play to their strengths during their working in Huali Group and join hands with the Group to meet various changeable challenges.

Improve the cultivation and development of talents

Following the Group's vision and mission, we continuously improve the Group's human quality and work skills by systematic structure and methods, attach importance to the professional development needs of talents of all attributes, and build a dual-track development mechanism accommodating professional functions and management positions. We closely follow the organizational development strategy and goals through scientific and data-oriented analysis, and plan the best learning path for employees of different positions while drawing a blueprint for talent development. In the cultivation and development of international talents, we will continue to strengthen cross-border communication, international management and cross-cultural module training in line with the Group's international layout strategy. All new employees, full-time talents and managers at all levels are continuously provided with resources such as efficient courses and online forums, and their professional skills and management capabilities are gradually improved through course learning, knowledge sharing and work practice; regular interviews and feedback are conducted on the

employee career, employee function planning and cross-domain rotation experience are conducted, so that their skills can be continuously refined and excellent goals are created with the Company.

The Group actively builds and perfects the talent capital mechanism, and regularly provides professional training courses, management development training, overseas project-based training, Soft Skill training, etc. It offers appropriate support and assistance for employees' career growth, regularly reviews the talent charging/empowerment plan, and is assisted by internal high-level counseling and external consultants to accelerate talent cultivation. In addition, the Group regularly conducts performance appraisal and consultation assistance for overseas employees, in order to ensure the continuous growth of employees, and then gives appropriate job arrangements and promotions according to the characteristics and ability growth of employees.

Key employee development projects

In order to meet the medium-and long-term strategic plan of the Group, we have established a function-oriented talent strategy, regularly reviewed and optimized the development and training plan of competent talents, continuously improved the quality of leading teams, and enriched leading teams at all levels. Every year, annual training is planned based on the ADDIE (analysis, design, development, implementation, evaluation) teaching model according to the Group's major strategy, which includes management development training for all levels of supervisors and reserve cadre training, etc. It also builds a cross-unit communication platform, gathers the cohesiveness of the leadership team, and forms a unified cultural value.

1. Reserve cadres

In order to accelerate the reserve of key talents and cultivate talents with management ability and in line with the overseas development needs of the Group, the Group continues to implement the reserve cadre plan (hereinafter referred to as the "reserve cadre").

Evaluation mechanism of reserve cadre training

| | |
|--------------------|--|
| Newcomer training | In the first three months of joining the Company, the reserve cadres will participate in the common training courses and arrange the professional training of each unit in turn (such as the outsole department, laboratory, procurement department and other units). |
| Advanced training | After the first stage of reserve cadre training, advanced training will be arranged by business units, and more than 1,000 hours of professional courses in planning and development of public institutions will be arranged to strengthen the business planning ability, development and business coordination and analysis ability. |
| Special evaluation | After the training completed, the Group arranges periodical special reports for the reserve cadres, evaluates those reserve cadres, review their planning ability and professional development effect, and regularly check their organizing ability to ensure that the reserve cadres are properly competent for management functions. |

2. Professional sample designer training

| | |
|--------------------|---|
| Newcomer training | In the first three months of joining the Company, new sample designers will take part in common training courses, and will be arranged for general training for all units in turn, so that sample designers can have a thorough understanding of the shoe manufacturing process and the special software for printmakers (RSPG/Dimensions). |
| Special evaluation | After the general training of sample designers, advanced training will be arranged by business units, and professional courses such as plate making, plate taking and grading will be arranged for more than 1,000 hours continuously, so as to strengthen the coordination ability between plate making and inter-departmental business. |

The Company continues to carry out education and training on the "Prevention of Sexual Harassment " and gender equality, covering 2 to 3 factories in Vietnam in 2022, with a completion rate of 100%. In 2023, the Company will carry out "unconscious bias, non-discrimination and harassment" training for foreigners one after another; In order to create a better working environment, the Group arranged for Vietnamese factories to join Better Work Vietnam organization successively, and completed corresponding consulting, training and evaluation projects successively, so as to create a workplace environment in line with the sustainable development strategy.

Learning platform

The Group is committed to providing employees with easily accessible learning resources and platforms, so that employees can strengthen their professional and management capabilities anytime and anywhere. Learning resources include:

| | |
|----------------------------------|--|
| Self-development course | The Group adopts the combined learning mode of online and offline courses to continuously improve work skills and motivate employees' work passion. The Group provides special courses in order to meet the needs of employees for self-study and cross-disciplinary knowledge while supporting the business goals of the unit. In 2022, a total of 55 learning maps were added (continuous review is increasing). |
| Management training of the Group | <p>Our management training is conducted according to the supervisor ability of each level. In order to achieve the goal of "integration of training and application", trainees are required to submit after-school homework, and the overall homework submission rate for the whole year is 99%, with a course satisfaction rate of 97.1%;</p> <p>Each factory in Vietnam: In 2022, there were 6 courses of upward communication training, with a total of 120 person-times, with a course satisfaction rate of 95.1%.</p> <p>Management articles: In order to keep up with the management trend and gain an in-depth understanding of the management trend, the Group continues to provide management articles for the management regarding the corporate benchmarking, management issues and current affairs highlights. In 2022, the Group published a total of 51 articles and compiled a total of 47 articles in the top 10 pieces of important news of global enterprises each week, in order to continuously strengthen the management function and enhance the sensitivity to current affairs.</p> |
| Language learning | <p>English learning: Broadcast one English sentence a day on the employee Portal and Ding Talk-empowered platform, to improve their language ability. In order to increase employees' understanding of professional terms in the shoe industry, English expressions in the shoe industry are updated every week to increase employees' understanding of professional terms in the industry.</p> <p>Vietnamese learning: Offer primary and advanced Vietnamese courses to meet the daily communication and work communicating of foreign employees working in Vietnam.</p> |

Education and training statistics

In 2022, Blending Learning was adopted in teaching, which combines offline teaching, online courses and distance teaching. A total of 2,348 offline courses and 1,454,908 training sessions were held throughout the year, with a total of 31,483 person-times and 3,244.48 hours of training for online courses.

Human development assessment

In order to improve the professional ability of personnel and promote the growth of the Company, the Group defines the development direction of training every year, so as to launch various courses, and examines the effectiveness of training programs through Kirkpatrick Model. In addition, referring to Jack Phillips' ROI training evaluation model the return rate of training investment is calculated through quantifying the training effect, to verify the specific economic benefits of training to the Company.

Digital Transformation - Continuous Promotion of Lifelong Learning

With the rapid changes of the times, technology and regulations, talent cultivation should also accelerate its pace of digital transformation. Huali actively improves employees' digital awareness and ability, and develops multimedia methods through upgrading the learning platform, so that employees can apply what they have learned to their work practice in real time. In order to meet the learning needs of employees and encourage uninterrupted learning, Huali has accelerated the research and development of online and digital learning methods. By taking stock of the current implementation of various courses (existing courses and newly developed courses), we developed a feasible curriculum implementation model, including the use of multiple tools such as video communication, real-time live broadcast and community platform; secondly, we designed the online course teaching mode. Through the course design analysis, the most suitable application platform of software and hardware, and the evaluation of the compliance norms of each group's operation location, we found the most suitable contingency mode for development and course operation.

Investing in the Future - Building Human Capital in the Digital Age

With the theme of "Investing in the Future-Building Human Capital in the Digital Age", Huali will launch the plan of cultivating digital sample designer talents and cultivating key posts in succession in 2023, hoping to actively assist employees to cultivate the job skills needed in the digital age through digital skills learning, so as to reserve key talents for Huali and lay a foundation for the sustainable development of the Group.



Social Contribution

Employee Well-Being

Employees are an important part of the Company, and "people-oriented", one of the core management concepts of the Group, requires the factory to attach importance to employees and treat them as family members. After entry of new employees, the factory carries out a series of trainings to explore potential talents and improve the comprehensive ability of the employees. Every year, the factory cooperates with the brand to carry out various projects to enhance employees' well-being and their sense of belonging. Out of working life, the factory and the trade union carry out various cultural and sports activities to enrich employees' lives and balance their work and life. For employees or special groups in need, and representatives of factory management and trade unions regularly visit needy families and provide financial support. The Group will initiate a charity donation when any employee has a major illness or accident, and the senior management will take the lead in donation.

Employee Well-Being Projects

In 2022, The Group has carried out the following projects in employee care:

1.VISION SPRING

In November 2022, Continuance Vietnam and Amara Vietnam cooperating with VISION SPRING, a non-profit organization, invited local ophthalmologist to provide free vision tests for employees. During the activity, more than 2,100 employees were given free vision tests, including 1,400 employees from Continuance Vietnam and more than 700 employees from Amara Vietnam, and glasses were provided to the visually impaired employees after the inspection was completed. This project helped employees with vision impairment in time.



2.HAPPY SCHOOL

The Group not only cares about employees, but also cares about their families. Some employees are financially difficult, they cannot provide good conditions for their children for study, and some children have to walk to schools that are far away from home. In 2022, Sun Jade Vietnam cooperated with VF to launch the HAPPY SCHOOL Project.

In this activity, Sun Jade Vietnam bought more than 80 gifts and 12 bicycles as gifts for the children of poor families. In addition, factory donated money to build a Book Corner, and employees' children can borrow books for free.



Photo of Happy School activities



Book Corner

3. Employee Engagement and Well-being Survey (EWB)

Annora Vietnam, Aurora Vietnam and Adora Vietnam entrust third-party companies to conduct Employee Engagement and Well-being (EWB) surveys on employees in factories every year. The surveys are mainly conducted from six aspects: communication, compensation, health and safety, skill building, social connection, and stress, so that employees can answer according to actual conditions. The survey company obtains scores based on the answers chosen by the employees and identifies the three areas with the highest and lowest scores, and factory will make improvements based on the results.

Through analysis and summary, the factory identifies the issues with low satisfaction score, and then makes corresponding measures for continuous improvement to gradually improve the satisfaction of the employees. In 2022, the EWB survey scores of each factory increased by 2.3% on average.



4. Gender Equality

The Group encourages diversity, respects employees with different cultural backgrounds, pays equal pay for equal work, and encourages employees to increase their value. For female employees, the Group factory carries out a series of gender equality projects, such as Health Enable Return (HER) project, workplace harassment and abuse prevention training, gender self-diagnostic tool assessment, and women leadership accelerator program, so as to improve female working ability and increase the proportion of female management.

Women Leadership Accelerator Program

Annora Vietnam cooperated with the International Finance Corporation (IFC) to organize this project. The factory selected potential female employees, and through a series of training (the first batch of training lasted for 6 months from March to August, 2022, with training time of 50-70 hours, and the training modules were mainly divided into problem solving, capacity building and skill training), these employees could learn different management skills and problem-solving abilities, which would not only enhance their self-worth, but also make them the future preferred candidates for the factory's promotion and selection of management.



Feedback from the participants of women leadership accelerator program.

Feedback 1: Thanks a lot for leaders for creating conditions and providing useful courses. We will apply the knowledge and skills we have learned to our work, improve production efficiency, and develop our team. We hope that we can contribute to the development of our company.

Feedback 2: I learned time management skills in the training program for female leaders, which can help me improve my work efficiency and relieve my stress. Restricting bad habits and avoiding wasting time, effective time management can help me finish more work.

This course has helped the female employees who participated in the training to learn various useful skills from different aspects, with remarkable results, and enabled them to apply what they have learned in their lives and work. In 2023, training will continue for subsequent batches of trainees.

5. HER Project

Continuance Vietnam and Amara Vietnam took the lead in developing HER project in the Group. The project was carried out by the Centre for Promotion of Quality of LIFE in the factory, with the factory and brands sharing the expenses. In 2022, the Group continued to promote the project to other factories. Stateway Vietnam and Venus Vietnam successively launched the HER project, and respectively launched a series of training on female issues, so that more female employees learned useful health knowledge and protected themselves.

In 2022, a total of 3,208 female employees from two factories participated in the HER project (Stateway Vietnam: 3,043, Venus Vietnam: 165).



Helping Families of Needy Employees

Each factory of the Group regularly visits needy families every year, cares about the living conditions of needy employees' families, and presents caring materials to make employees feel the Company's cares for their families.



Alena Vietnam presented 100 gifts to employees whose children went to college.



Adora Vietnam visits children with severe illness.



Annora Vietnam sends holiday gifts to needy students in Nigh Son community.



Enrich the Amateur Cultural Life of Employees

Carry forward corporate culture and enrich employees' amateur cultural life. Each factory of the Group organizes various activities under the guidance of factory leaders and the cooperation of trade unions. They can be adjusted and relieved after busy work, which is conducive to promoting the enthusiasm of employees for work and enhancing their cohesion and loyalty.

China

The First Happy Run of Huali Group.



The fifth basketball competition organized by the trade union in 2022.



Vietnam

Annora Vietnam and Roll Sport Vietnam held group building activities.



"Ring the golden bell" program.



Roll Sport Vietnam held Men's and Women's Football Competition.



Adora Vietnam held Tug-of-War for Employees.



Aleron Vietnam held the Football Match.



Singing competition.

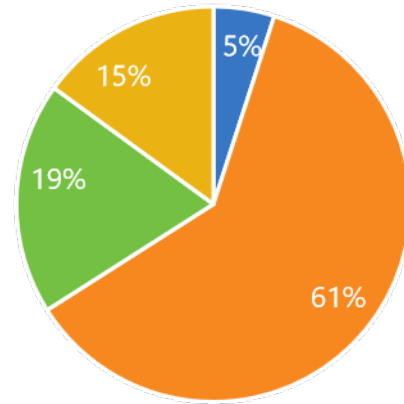


Sports Dance Competition.



Public Charity

As goes the Chinese saying “Roses given, fragrance in hand”. The Group enthusiastically participates in various social charity activities and actively contributes to the society. In 2022, the Group donated a total of RMB3,050,200, including RMB145,500 (5%) for education, RMB1,858,200 (61%) for assistance, RMB580,100 (19%) for assistance to the disabled and RMB466,400 (15%) for others.



■ Education ■ Assistance ■ Assistance to the disabled ■ Others

1. Donation

Huali Group donated 700 pairs of sports shoes for needy students and families in remote areas of Guanghe County, Gansu Province, with a value of RMB174,000.



Alena Vietnam and Sun Jade Vietnam send gifts to school with customers.



In August 2022, Aurora Vietnam donated VND100 million to Thien Huong Kindergarten at the opening ceremony of the new school year in 2022.



In August 2022, the factory leaders donated computers and other gifts worth about VND50 million to Thien Huong primary school at the opening ceremony of the 2022 new school year.



The senior management of the Group and the management of Akalia Vietnam joined hands with UA customers to donate computers and outdoor activities tools for primary school students to a local primary school, amounting to about VDN150 million.



2.Environmental Protection

Plants in Alena Vietnam, Sun Jade Vietnam, Amara Vietnam, Continuance Vietnam and Venus Vietnam launched tree planting activities, calling on everyone to protect the environment and the earth.

A total of 1,381 trees were planted, accounting for about VDN105 million.



Thank certificate issued by Gaia nature conservation organization (above).

Zhongsan Development Center and Vietnam Factory cooperated with customers DECKERS to carry out shoreline garbage cleaning activities.



Marine garbage cleaning.



Zhuhai ocean line cleaning.

Stakeholder Communication and Substantive Analysis

Communication with interested parties

Communication with stakeholders is the focus of Huali Group's long-term development. Adopting diversified communication methods, we actively communicate with stakeholders, and timely understand and respond to the expectations and requirements of all parties.

Our stakeholders include supply chain partners, communities, etc. in addition to our employees, customers, shareholders and investors, government regulators. Additionally, the issues of concern to stakeholders are collected through daily communication, working meetings, exchange visits and other channels, and integrated into the relevant strategy formulation of the Group, to continuously improve and perfect the practical management of the Company and realize the sustainable development of the Company.

In 2022, we made the following response to the main concerns of key stakeholders:

| Key stakeholder participation | Communication | Concerns | Response |
|--|---|--|---|
| Shareholders and investors | Tel Face-to-face meeting Company visit Corporate annual report and financial statements/ announcements | Return of investment Risk management Corporate compliance operations Information disclosure | 1. Timely disclose important corporate information to investors through regular and irregular announcements. 2. Interact with investors through investor surveys, interactive telephone calls, etc. 3. Operate legally |
| Clients | Mail Communication meeting Customer satisfaction survey | Climate change and carbon neutrality Product quality Customer information security Circular economy | 1. The Company sets medium-term and long-term carbon emission reduction targets and carbon neutrality paths according to the Science-based Targets. 2. The Company provides product information and pre-sale and after-sale management. 3. The Company sets up a team responsible for customer information security, develops strategies to protect customer information and product security, and establishes an information security management system. 4. The Company takes various measures to energetically develop circular economy. |
| Employees | Mail Communication meeting Training activities and complaint mechanism | Health and safety at work Salary and welfare Learning and promotion Employee relationship | 1. Establish the occupational health and safety management system. 2. Adhere to safety first and provide employees with a safe and suitable working environment. 3. Conduct regular training and assessment and provide employees with dual channels of management and technical career development to realize their personal value. 4. Safeguard the legitimate rights and build interests of employees and establish a grievance mechanism. |
| Suppliers and partners | Training Technical exchange | Fair and just management Drive the development of suppliers | 1. Adhere to anti-bribery and anti-corruption superior to interest first. 2. Abide by fair and transparent procurement principles and processes, develop standardized supplier management standards, and implement responsible procurement. |
| Community | Visit and survey Suggestion feedback Participate in community charity projects | Public welfare donations Reduce the negative impact of the community | 1. Hold public charity activities. 2. Provide material and financial contributions. |
| Governments and regulatory authorities | Daily government affairs communication Symposium | Climate change response/carbon neutrality Economic Development and Employment Legal and compliant | 1. Actively respond to climate and environmental challenges, reduce carbon emissions, increase the use of renewable energy, and promote the development of circular economy. 2. Hire local employees, localize procurement, and promote local development and employment. 3. Operate legally. |

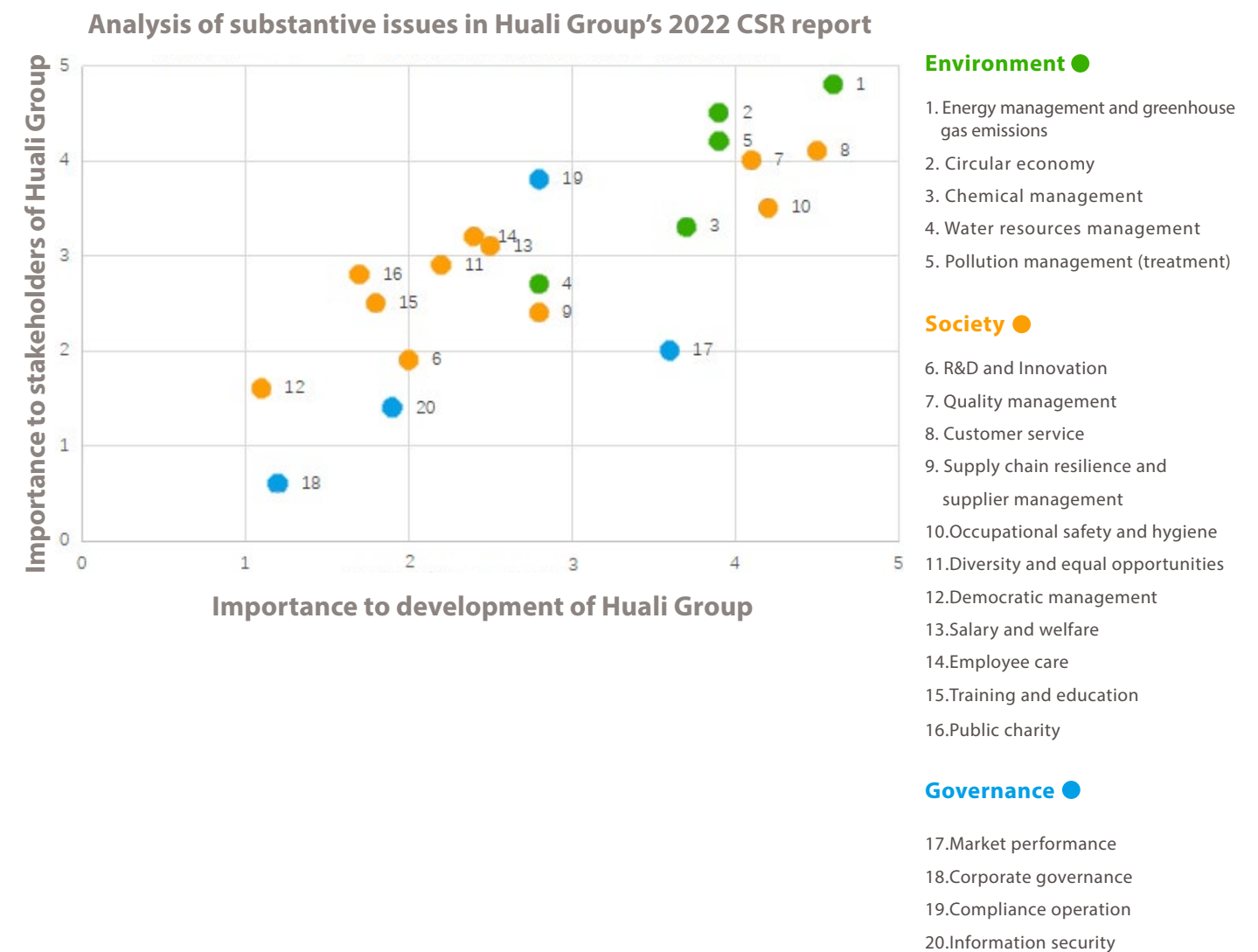
Stakeholder communication and participation process

In order to gain a deeper understanding of the views and needs of internal and external stakeholders, we organized a series of communication and investigation meetings internally, and also communicated with external stakeholders through visits and investigation meetings. We identified the most important issues of our Group in the environment, social and governance aspects.











Analysis of substantive issues




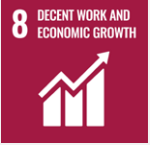





We invited SGS for guidance. Through benchmarking analysis and stakeholder participation, we finally identified 20 strategic issues that are most helpful for us to achieve ESG goals. We gave scores and prioritized them to form a matrix of substantive issues through the evaluation and analysis of the "importance to Huali Group" and "importance to stakeholders of Huali Group" for each substantive issue. For each dimension of each issue, the score ranges from 0-5, where 0 means extremely unimportant and 5 means extremely important.

The importance analysis of the Group's substantive issues is shown in the following figure:



GRI Indicator Index

| Reporting Framework | GRI Standard | SDGs |
|--|---|--|
| Governance | | |
| About the Company | 102-1, 102-2, 102-3, 102-6, 102-9, 102-10, 201-1 |   |
| Business Ethics | 205-2 | |
| Information and Product Security | 418-1 | |
| Commercial Operation | | |
| Quality Management | |    |
| R&D and Innovation | | |
| Customer Service | | |
| Supply Chain Management | 308-1, 414-1 | |
| Occupational Health and Safety | 403-1-403-10 | |
| Environmental Protection | | |
| Energy Management and Greenhouse Gas Emissions | 302-1, 302-2, 302-3, 302-4, 305-1, 305-2, 305-3, 305-4, 305-5, 305-6, 305-7 |      |
| Circular Economy | 301-1, 301-2, 301-3 | |
| Water Resources Management | 303-1, 303-2, 303-3, 303-4, 303-5 | |
| Chemical Management | | |
| Pollutant Control | 306-1, 306-2, 306-3, 306-4, 306-5 | |

| Reporting Framework | GRI Standard | SDGs |
|--|----------------------------|--|
| Talent Cultivation | | |
| Rights and Interests of Employee | 102-30 |       |
| Talent Structure | 102-7, 401-1, 401-2, 401-3 | |
| Salary and Welfare | 405-1, 405-2 | |
| Career Development | 404-1, 404-2, 404-3 | |
| Social Contribution | | |
| Employee Well-Being | |    |
| Public Charity | | |
| Appendix | | |
| Stakeholder Communication and Substantive Analysis | 102-29 | |
| GRI Indicator Index | | |