



2023 Annual Environmental, Social and Governance Report of Huali Group

Table of Contents

1	About the Report	03
2	Review 2023	04
2.1	Company Honors	04
3	Letter from President	05

4	Corporate Governance	06
4.1	About Huali	07
4.1.1	Company Profile	07
4.1.2	Core Values of the Company	07
4.1.3	Industrial Scale	08
4.1.4	Corporate Governance Structure	10
4.2	Business Ethics	12
4.2.1	Anti-Corruption	12
4.2.2	Fair Competition	12
4.2.3	Internal Audit	12
4.3	Information and Product Security	13
4.3.1	Information Security	13
4.3.2	Product Security	15

5	Business Operations	16
5.1	Quality Management	17
5.2	R&D Innovation	18
5.3	Customer Service	20
5.4	Supply Chain Management	21
5.4.1	Resilient Supply Value Chain	21
5.4.2	Supplier Management	22
5.5	Occupational Health and Safety	24
5.5.1	Occupational Health Management	25
5.5.2	Safety Management	25

6	Environmental Protection	33
6.1	Energy Management and Greenhouse Gas Emissions	34
6.2	Circular Economy	41
6.3	Water Resource Management	46
6.4	Chemical Management	48
6.5	Environmental Management	51
6.5.1	Wastewater Treatment and Discharge	50
6.5.2	Waste Management	52
6.5.3	Air Emission Control	55
7	Talent Development	56
7.1	Employee Rights	57

7.2	Talent Structure	58
7.2.1	Human Resources Management - Equal Employment	58
7.2.2	Human Resources Management - Talent Development	60
7.2.3	Human Resources Management - Performance Promotion and Compensation Benefits	67
8	Social Contributions	68
8.1	Employee Care	69
8.1.1	Employee Care Project	69
8.1.2	Assistance for Families in Need	72
8.1.3	Enriching Employees' Extracurricular Cultural Life	74
8.2	Public Welfare Charity	76
●	Stakeholder Communication and Substantive Analysis	79
●	TUV Certification Statement	83
●	GRI Indicator Index	84

About the Report

This report is the third Environmental, Social and Governance (ESG) 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.

Reporting Period

This Report is an annual report covering a period from January 1, 2023, to December 31, 2023. The report of the previous year was released in April 2023.

Scope of Reporting

The contents covered in this Report are for companies and organizations within the scope of consolidated statements of Huali Group, which are consistent with the scope covered by the Annual Report of Huali Group.

Report Disclosure

This Report is disclosed simultaneously with the annual report of Huali Group in 2023. 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 an 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.

Company name: Huali Group

Company address: No. 2, Century 1 Road, Torch Development Zone, Zhongshan, Guangdong

Postal Code: 528437

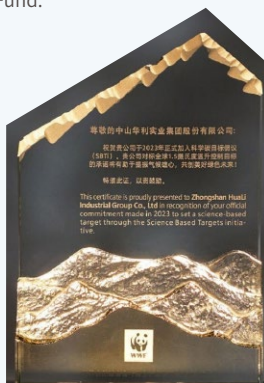
Tel.: 0760-28168889

Website: <http://www.huali-group.com>.

Review 2023

Company Honors

Huali Group officially joined the Science Based Targets Initiative in February 2023 and was awarded a certificate by the World Wildlife Fund.



Amara Vietnam Footwear Limited was awarded the Best ESC Performer by Deckers in 2023.



Continuance Vietnam Footwear Company Limited was awarded the Effective ESC Performer Award by Deckers in 2023.



Adiana Vietnam Footwear Company Limited was awarded the For Ongoing Contribution Award by New Balance in 2023.



Adiana Vietnam Footwear Company Limited was awarded the Certificate of Excellent Performance in the Clean by Design Energy and Water Efficiency Program.



Huali Group was awarded the Top 10 Tax Contribution Award in 2023.



Letter from the President

In 2023, after the epidemic, the impact of geopolitics and the weak recovery on the demand side did not bring the expected surprises to the manufacturing industry but rather posed unprecedented challenges. Against the backdrop of the macroeconomic downturn, thanks to our focus on customer service, efficiency improvement, and quality enhancement, and with the efforts of our nearly 160,000 employees, Huali Group achieved outstanding performance in 2023, with a total shipment of 190 million pairs and a revenue of RMB 20,113,741,000 throughout the year.

Employees are the most valuable asset of Huali Group. The more difficult the situation, the more we need to consider the interests of employees. In the face of declining customer orders, we adhered to people-oriented. From August to October, the Group provided special assistance to some employees in need, meeting their living needs and maintaining the stability of the workforce. In the past year, we have continued to collaborate with customers and third parties, regularly collected employee satisfaction data, promoted safety culture, and gender equality initiatives, and strived to increase the proportion of female leaders in management teams. From July to November, we have completed training on “eliminating workplace violence and harassment” for over 100,000 cadres and employees of the Group through cooperation with external organizations. We have also updated policies and relevant operational documents, achieving significant results.

In 2023, the Group made a historic breakthrough in solid waste management. Starting from September, the goal of “zero landfill and zero incineration” of solid waste has been achieved by all manufacturing factories of the Group. By the end of the year, the proportion of solid waste recycling and reuse has reached 56.8% (75.5% in the fourth quarter of 2023), achieving the first-stage goal set by the Group. We will continue to

integrate resources and cooperate with more partners to strive for the early realization of the second-stage goal of 100% recycling.

In 2023, extreme climate events occurred frequently worldwide, greatly impacting human production and life. According to the data released by the United Nations, global GHG emissions reached 57.4 billion tons in 2022. It will not only affect business operations but also human survival if human-being does not take climate change seriously. In February of this year, Huali Group officially submitted a commitment to establish science-based carbon targets to the SBTi. Our short-term targets support the achievement of the 1.5°C in the Paris Agreement, and our long-term goal is carbon neutrality by 2050. Currently, Group’s Compliance and Sustainability Department and PwC are conducting an inventory of greenhouse gas emissions and setting targets, which are expected to be verified by SBTi in 2024. All factories of Huali Group will continue to implement energy efficiency improvement projects, increase investment in renewable energy projects including rooftop solar PV, and gradually reduce greenhouse gas emissions in Scope 1 and Scope 2 by DPPA (Direct Power Purchase Agreement) and purchasing I-REC (International Renewable Energy Certificate), as well as work with upstream and downstream partners to reduce Scope 3 emissions throughout the supply chain.

By 2024, Huali will invest in building more manufacturing factories in Indonesia in addition to Vietnam. We will continue to work with supply chain partners to build a sustainable future. With a new starting point and a new journey, we will continue to forge ahead and strive for excellence. “Long as the journey is, we will surely reach our destination when we stay the course; difficult as the task is, we will get the job done if we keep working at it!”



Corporate Governance

About Huali
Business Ethics
Information and Product Security



About Huali

Company Profile

Zhongshan Huali Industrial Group Company Limited was listed in the GEM of the Shenzhen Stock Exchange on April 26, 2021, with the securities code '300979' and the securities abbreviation of 'Huali Group'. The parent company of Huali Group was established in 2004 with a registered capital of RMB 1.167 billion and a 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, HOKA, and UnderArmour. 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.

Core Values of the Company

Vision

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

Mission

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

Core Values

- | | |
|---|---|
| 1. Respect Our Past and Create the Future | 6. Be a Contributor |
| 2. Serve the Customer, Always | 7. Be Diligent |
| 3. Be Passionate and Proactive | 8. Take Responsibility and Be Accountable |
| 4. Innovate in All You Do | 9. Act with Integrity |
| 5. 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.

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

Brands



Global business layout



Business data

By the end of 2023, Huali Group had 157,545 employees, and the Company had established more than 20 shoe-making factories in Vietnam, Indonesia, Myanmar, and Dominican Republic. In 2023, the Company sold 190 million pairs of sports shoes, a year-on-year

decrease of 13.85%; the operating revenue was RMB 20.114 billion, decreasing by 2.21% year-on-year, and net profit attributable to shareholders of listed companies was RMB 3.2 billion, decreasing by 0.86% year-on-year.

ESG Key Data for 2023

**Number of
employees
157,545**

**Female employees
80.7%**

**Female
management
65%**

**Product pass rate
99.99%**

**Lost time injury
rate 0.05**

**Major
environmental
and safety accidents
0**

**Waste
landfill and
incineration
0**

**Waste
recycling and reuse
(Q4) 75.5%**

**Wastewater
recycling and
utilization 83.7%**

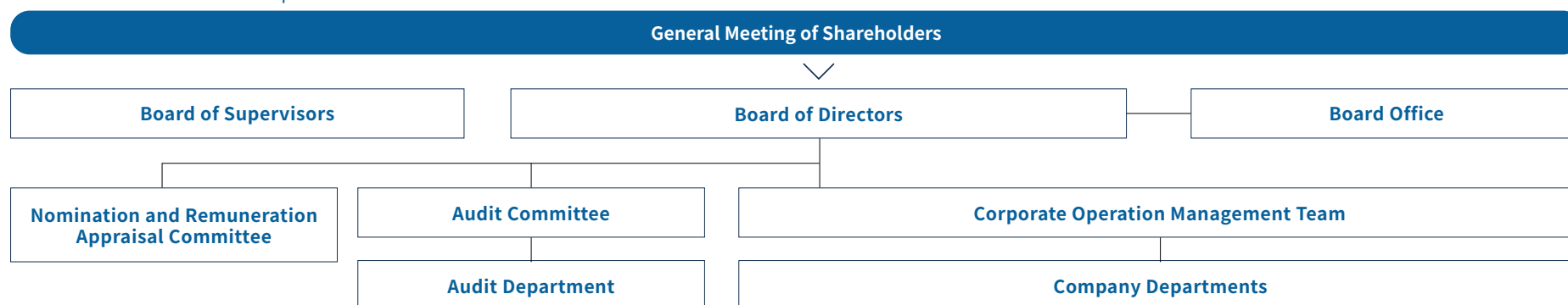
**Greenhouse gas
emissions
Scopes 1 and 2
347,575 tCO₂e**

**Renewable energy
28.1%**

**Sustainable
products
58.8%**

Corporate Governance Structure

In 2021, Huali Group was officially included in the sample stock list of the SZSE Component Index, the Growth Enterprise Index, and the SZSE 100 Index (collectively referred to as the SZSE “1+2” Core Index). The Company strictly adheres to the relevant provisions of the Company Law of the People's Republic of China, the Securities Law of the People's Republic of China, and the Articles of Association of the Company, and 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. In long-term corporate governance practice, 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, providing guarantees for the compliant and orderly production and operation activities of the Company, as well as sustainable development.



General Meeting of Shareholders

The General Meeting of Shareholders is the authoritative body of the Company and exercises the highest decision-making power on major matters of the Company. The Company ensures that all shareholders have equal rights 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 that the legitimate rights and interests of all shareholders, especially minority shareholders, are not infringed.

In 2023, the Company held one annual general meeting and one extraordinary general meeting.

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 4 female directors. The Board of Directors contains 5 independent directors, with professional backgrounds in accounting, law, etc. They are required to participate in professional training organized by relevant regulatory authorities, familiarize themselves with relevant laws and regulations, and fulfill their responsibilities objectively, fairly, and independently to safeguard the interests of the Company and shareholders, especially minority shareholders. 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 2023, the Company held 4 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.

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 three supervisors, including two shareholders' representatives and one employee representative.

In 2023, the Company held five supervisor meetings.

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, and relevant requirements of the 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. In 2023, the Company has continuously improved its corporate governance structure and governance systems to provide guarantees for its sustainable development.

¹ For details about the gender and age of directors, supervisors, and senior managers of the Company, please refer to the 2023 Annual Report of the Company.

Protection of Rights and Interests of Investors

Information Disclosure

The Company has fulfilled its obligation of information disclosure in accordance with the law, continuously strengthened the professionalism and accuracy of information disclosure, and enhanced transparency and communication efficiency. In 2023, the Company disclosed 100 documents to the public on the Shenzhen Stock Exchange website (www.szse.cn), www.cninfo.com.cn, and other information disclosure websites designated by regulatory authorities for GEM companies, including intermediary opinions, independent director opinions, and institutional documents, among which 62 were announcement documents.

The Company has received an A-level rating in the information disclosure assessment of GEM companies on the Shenzhen Stock Exchange for two consecutive years since its listing.

Investor Relations Management

Attaching great importance to investor relations management, the Company has established a normal and efficient two-way communication mechanism between the Company and investors.

The company actively communicates with investors through channels such as the investor interaction platform of Shenzhen Stock Exchange, the investor hotline, the “Investor Relations section” on the official website of the Company, email, online and offline investor surveys, strategy meetings organized by securities firms, shareholder meetings, and online collective reception events organized by relevant departments, aiming to enhance the understanding and familiarity of investors with the Company and improve market recognition of the Company.

In 2023, the Company conducted 121 surveys (strategy meetings, site visits, conference calls, etc.) and answered 87 investor questions through the online platform of the Shenzhen Stock Exchange, with a response rate of 100%.

Return to Investors

While strengthening its management and continuously improving operational efficiency, the Company values shareholder investment returns. Since going public, the Company has taken cash distribution as an important way to achieve shareholder returns and continuously and steadily distributed profits to investors, maintaining and ensuring the investment value of shareholders. In 2021, the total cash dividends for the full year accounted for 88.54% of net profit. In 2022, the cash dividends of the Company accounted for 43.38% of the net profit of that year.

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. There were no reported incidents of corruption in 2023.

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, 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 Company has established an Audit Department and assigned dedicated personnel to carry out internal audit work. Moreover, the Company has developed relevant systems such as the Internal Audit System and the Internal Control Evaluation System. The Audit Department strictly complies with relevant laws and regulations, as well as the internal audit related systems of the Company, to conduct 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.

Based on the specific circumstances of the Company, the Audit Department determines the focus of the audit work and prepares an annual audit plan, which shall be implemented after being approval by the Audit Committee. The Audit Department reports its work to the Audit Committee quarterly, including the implementation of the internal audit plan and the problems found in internal audits. 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 in deepening 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. In 2023, the Audit Department conducted key inspections and evaluations on matters such as external investments, asset purchases and sales, external guarantees, related-party transactions, use of raised funds, and information disclosure, with a focus on the annual audit plan approved by the Audit Committee. Moreover, based on regulatory policies and its actual situation, the Company revised the Internal Audit System, allowing internal audit to play a greater role in improving corporate governance, adding value, and achieving goals.

In terms of internal control evaluation, the Audit Department has implemented appropriate review procedures to assess the effectiveness of the internal control of the Company in accordance with relevant regulations. In 2023, the Company organized the internal control evaluation work for the year in accordance with the procedures specified in the internal control standardization system and the internal control evaluation method of the Company. According to the determination of internal control deficiencies within the Company, as of the base date of the internal control evaluation report, the Company has maintained effective internal control over financial and non-financial reporting in all significant aspects in accordance with the requirements of the internal control standardization system of the Company and relevant regulations.

Information and Product Security

Information Security

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 7×24 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. The Group establishes an information security incident handling platform, and when an emergency or security-threatening incident occurs, the platform will timely inform relevant organizations for emergency response, 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 2023, there was no Level 4 incident (the most serious one), no data leakage incident, or related dispute litigation.



Information Security Training and Performance

To prevent cyber-attacks and continuously strengthen users' security awareness, the Group provides information security enhancement training to individuals who violate the internal network usage rules, including those who are infected with computer viruses and those who click on phishing links. In 2023, we conducted security awareness enhancement training for 175 individuals who violated information security rules through the DingTalk APP. The table below shows the data for 2023.

Annual (2023) Data Report on Cybersecurity Training Enhancement

Number of trainees	Promotion methods	Completion progress	
		Pass	
175	DingTalk Learning Map		155
		Not Participated	20

Figure Information Security Training and Performance

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 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:

- ◆ At the company level, the use of computer WeChat and mobile USB flash drives to send and receive files should comply with the customer's information/product security policy. The use in the case of exceptions requires submission of an application and approval from the responsible supervisor before the use is allowed to control and prevent internal data leakage.
- ◆ Maintain network security and give email reminders and education from time to time.
- ◆ Conduct information security education and training for all employees.

Product security department:

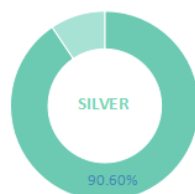
- ◆ Employees are required to sign a confidentiality commitment letter with the Company at the time of entry.
- ◆ Information management of customer design drawings: the customer provides the download path of design drawings, and the person in charge of development downloads accordingly. If it is necessary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

Product Security

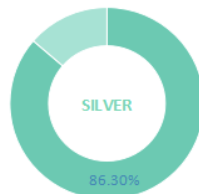
Product security covers a variety of work areas, including but not limited to awareness training, inventory management, scrapping control, access control, factory building inspection, sample inventory management, label control, camera policy, CCTV, incident investigation, etc. We are committed to protecting the ideas and innovations of each customer from design to delivery, while also protecting the interests of Huali Group. We comply with the Product Supply Chain Security Standards (PSCSS) and have established a set of product safety policies for Huali Group.

In 2023, Nike Development Center and Annora Factory in Vietnam were awarded gold and silver ratings by Nike after product safety assessment and verification. The Development Center scored **90.6%** and the Factory scored **86.3%** in July.

Overall Score&Rating
Development Center

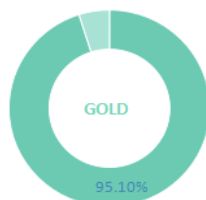


Overall Score&Rating
Factory

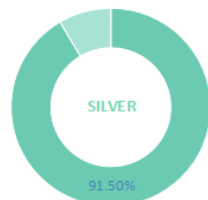


The Development Center scored **95.1%** and the factory scored **91.5%** after improvement in November.

Overall Score&Rating
Development Center



Overall Score&Rating
Factory



In 2023, the Product Security Department held the first Product Security Week activity at the factory, enhancing everyone's awareness of product security through interacting with employees, as shown in the figure below.



It is necessary to implement product security standards to protect the intellectual property rights of brands and assets of the Company. Nike publicly praised our efforts and team's dedication during the meeting and expects Huali to be the first group to achieve a perfect score. Team members will continue to improve product safety management measures in all factories.

Business Operations

Quality Management
R&D Innovation
Customer Service
Supply Chain Management
Occupational Health and Safety



Quality Management

Upholding the principle of customer orientation, Huali Group establishes and improves the quality management system at the factory, continuously pursuing customer satisfaction. Establishing a quality management system is a systematic and continuous process that involves collaboration and integration at multiple levels within the organization. Each factory of Huali Group has established quality management systems in accordance with the quality management system standards, with the participation and support of the leadership. The main steps include:

1. Clarify quality management principles and goals:

The quality management principles of Huali Group emphasize customer satisfaction, continuous improvement, and full participation of all employees; the overall goal is to ensure stable and reliable product quality and meet customer expectations.

2. Identify key processes:

Identify key processes within the organization, including product design, development, production, and shipping etc. We believe these processes are crucial to the quality management of the Group, and focus on them in our daily work and continuously optimize them.

3. Establish procedures and standards:

Each factory of the Group develops detailed procedures and standards for each key process, to ensure that employees have a clear understanding of how to perform their work and meet the expected quality standards. This includes operating procedures, inspection standards, record requirements, etc.

4. Establish organization structure:

The Group has established the organization structure of the quality management system, clarified the responsibilities and authorities of each department, and ensured that the quality management department has sufficient authority and resources to promote the effective operation of the quality management system.

5. Provide training and support:

Each factory of the Group provides necessary training and support to employees to enable them to understand and implement the requirements of the quality management system. This includes training in quality management knowledge, operational skills, communication skills, and other aspects.

6. Implement monitoring and evaluation:

We have established effective monitoring and evaluation mechanisms to monitor the operation of the quality management system in real-time and conduct regular evaluations, which helps to identify problems in time and take corrective actions to ensure continuous improvement of the quality management system.

7. Continuous improvement:

We encourage the participation of all employees in quality management and actively collect feedback from employees, customers, and other stakeholders to continuously improve the quality management system. Moreover, we pay attention to industry standards and best practices and constantly introduce new quality management methods and tools.



Each factory of Huali Group strictly implements the requirements of the standard operating procedures of the quality management system, to ensure excellent and stable product and service quality, and win market trust and competitive advantage. The following is the total annual output and percent of passes of the Group in the past three years. In 2023, 190 million pairs of shoes were produced, with a percent of pass of **99.985%**.

Year	Total output (100 million pairs)	Pass rate
2021	2.1	99.992%
2022	2.2	99.996%
2023	1.9	99.985%
Total	6.2	99.991%

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. The following are the details of the research and development resource investment in 2023:

1.2021-2023 R&D Investment of the Group

Year	Revenue (RMB 10,000)	R&D expense (RMB 10,000)	Ratio of expenses to revenue
2021	1,746,957.62	23,427.69	1.34%
2022	2,056,926.73	29,085.57	1.41%
2023	2,011,374.10	30,903.42	1.54%
Total	5,815,258.45	83,416.68	1.43%

2.2021-2023 Ratio of R&D Personnel of the Group:

Year	2021	2022	2023
Total number of employees in the Group	151,198	155,481	157,545
Number of R&D personnel	2,509	2,823	3,751
Ratio of R&D personnel to the total number of employees	1.7%	1.8%	2.4%

The following are examples of research and development cases:



Development of the new generation of important type All-star Cruise for Converse, which cleverly combines the classic canvas upper with skateboarding elements, with an integrated EVA midsole, providing consumers with outstanding style and a comfortable wearing experience.



Use of 3D printing mold technology, which improves mold design and development efficiency, and is more environmentally friendly.



Development of dual-color, different hardness sole integrated molding technology, which reduces production processes, improves mass production efficiency and quality and makes the product more beautiful.

» Cooperated in research and development and introduced multiple technologies such as vibration cutting, three-in-one rubber outsole roughing, and computerized rotating punching + sewing integration, which greatly improves product quality and production capacity, and effectively reduces labor costs.

» Development of the new generation of hidden Heel wedge height-increasing shoes, which breaks through structural and technological bottlenecks, innovates traditional vulcanization methods, reduces product costs, and fully retains the traditional elements of Converse, which are highly favored by consumers.

» Introduction of pneumatic reverse pressure foot technology, which overcomes the problem of closed-loop sewing, and use of detachable panels, which achieves 3D to 2D design conversion, promotes the use of computer-lathe shared platen design, enhances the flexibility of different machine models, and effectively improves efficiency and quality.

Performance of R&D innovation cases in 2023:

Project	PPH (production per unit time) before improvement	PPH (production per unit time) after improvement	Efficiency improvement rate
Automatic roughing machine	30	57	90%
Shoe tongue transfer printing origin label	175	420	140%
Netcut vibrating cutter	421	992	135%
Automatic ribbon cutting and folding machine	36	130	216%
Inkjet printer	255	500	96%

Customer Service

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

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 handle quality customer complaints more quickly, analyze the root causes of quality issues, propose quality improvement plans, share quality cases, and reduce the occurrence of similar quality problems.

The systems include a customer quality complaint handling 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 the past three years is

99%, and the production quality achievement rate is as high as **99.991%**.

Supply Chain Management

Resilient Supply Value Chain

The Company continues to use a 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.

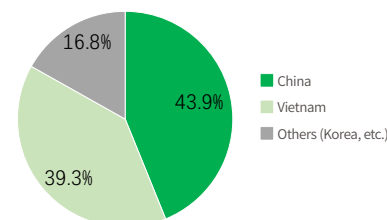
We establish a resilient supply value chain mainly through the following four aspects:

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.

Localize procurement data

The main production base of the Group is located in Vietnam. As of 2023, there are **937** qualified material suppliers, an increase of **103** compared to 2022, **39.3%** of which are located in Vietnam and the remaining **60.7%** 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



Distribution of raw material suppliers in 2023

Year	Total	China		Vietnam		Others	
		Number of suppliers	Percentage %	Number of suppliers	Percentage %	Number of suppliers	Percentage %
2022	834	353	42.3%	301	36.1%	180	21.60%
2023	937	411	43.9%	368	39.3%	158	16.80%
Difference	103	+58		+ 67		-22	

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 securing the resources needed for production.

The Group classifies suppliers in the same way as 2022 based on the demand characteristics of different brands, the needs of procurement management, and the management model for different suppliers.

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 ratings of grades A, B, C, and D, as follows:

- **Grade A:** Suppliers with a comprehensive score of 90 or above (including 90) are considered grade A strategic partners.
- **Grade B:** Suppliers with a comprehensive score between 80 and 90 (excluding 90) are considered grade B excellent suppliers and can be procured normally.
- **Grade C:** Suppliers with a comprehensive score between 70 and 80 (excluding 80) are considered Grade C general suppliers and should be procured with appropriate reduction.
- **Grade D:** Suppliers with a comprehensive score below 60 (excluding 60) are considered grade D suppliers and generally not procured. If a supplier receives a grade D evaluation two consecutive times, their access qualification will be canceled.

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.

Supplier auditing

Huali Group actively cooperates with brands' requirements and expectations for the sustainable development of the supply chain and conducts joint supplier audits 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.

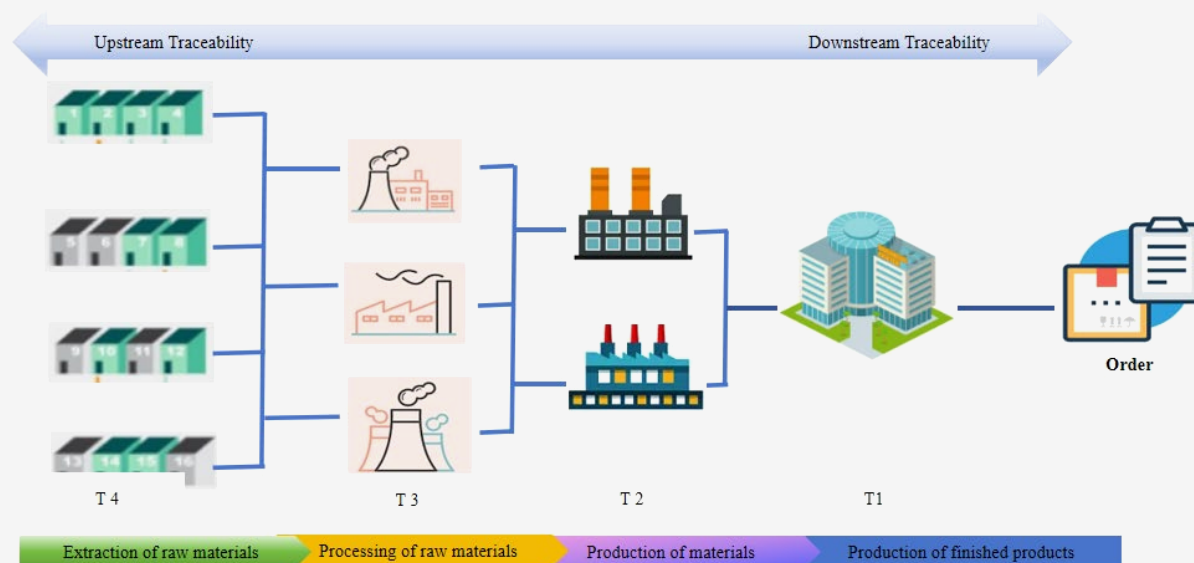
According to the audit standard, the Company divides the supplier's sustainable development performance into three grades: Green, Yellow, and Red, and the supplier rated as green can be exempted from audit in the next year; suppliers rated as yellow shall complete improvements within half a year; and 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 to the watch list.

For the suppliers whose annual rating results are red and yellow, the Group has also set up improvement measures and developed a supplier upgrading training plan. In 2023, 100% of suppliers passed the audit and were rated as green.

Traceability system pilot project

In recent years, an increasing number of customers have requested the establishment of a traceability system to meet the increasing customer and external regulatory requirements. In 2023, Huali Group completed the GRS environmental certification for three factories of the Group in cooperation with Converse, and by the end of 2023, we completed the third-party traceability audit for the first batch of pilot factories cooperated with Nike. In 2024, we will continue to cooperate with all customers to promote and optimize the factory traceability system.

Supply Chain Diagram



Occupational Health and Safety

environmental, health and safety (ESH) work of the Group. Each factory strictly complied with local laws, regulations and the standards required by customers, while actively promoting the implementation of environmental, occupational health, and safety management systems, as well as increasing the investment therein, thereby achieving a series of goals set by the Group, including:

1. Zero major accidents.

2. Lost time injury rate of 0.05.

3. Added two factories passed third-party assessment of safety culture maturity level three.

4. The rate of occupational health examination was 100%.

The investment in health and safety by the Group in 2023 is shown in the table below (excluding the Indonesian region):

Investment in health and safety (in RMB 10,000)	
Vietnam region	3150
China region	163
Total	3313

Note: The definition of zero major accidents is specified in 4.1.3 of the internal regulations *Operating Procedures for Accident Reporting and Investigation Standard*, which refers to accidents that result in disabling injuries with a loss of working days equal to 6000 days or accidents causing fatalities.

Occupational Health Management

Huali Group's factories strictly complied with local laws, regulations and brand standards, to strengthen the management of occupational health protection for employees. The factories regularly identified and evaluated potential health hazards in the workplace to take corresponding measures to protect the health of employees. The health of all employees had always been the top priority. In addition, a working environment and conditions that meet national occupational health standards and hygiene requirements was provided. In accordance with local laws and regulations, internal management systems were promptly updated and dedicated personnel were assigned to be responsible for occupational health-related matters of employees. The occupational health officer of the factory actively participated in occupational health training organized by local government or third-party organizations and obtained a training certificate. Moreover, regularly identification, assessment, prediction, and control were also conducted within the workplace for occupational hazards and their health damage.

The factories conducted regular monitoring of occupational hazards, checked and maintained occupational health protection facilities. Furthermore, factories actively took corresponding protective measures such as dust prevention, toxic hazards elimination, heat stress prevention, noise reduction, and shock absorption for different occupational hazards, in addition to controlling and eliminating them at the source. The factories provided targeted occupational health knowledge training for employees. In addition, corresponding personal protective equipment was distributed based on job types and hazard categories, assisting employees in evaluating the use of personal protective equipment before wearing them. Supervisors and health officers in the workshops periodically checked the wearing of personal protective equipment by employees to help them correctly wear and maintain the equipment. Furthermore, occupational health examinations were arranged regularly for employees in accordance with local laws and regulations, while establishing and improving employees' monitoring files for occupational health, to provide employees with advice related to health and diseases, so as to prevent and reduce the impact of occupational hazards on employee health.

Pictures of physical examination of employees:



Safety Management

Huali Group held ESH committee meetings every month in each factory, where detailed discussions were held on outstanding ESH practices, current safety management issues, and safety management suggestions raised by employees. Commendations were given to outstanding organizations and employees who had made outstanding contributions.

In 2023, safety remained the most important consideration in building, renovating, and expanding factories, purchasing machinery and equipment, and applying new materials, processes, and technologies. The Company continued to carry out various special projects for safety management, increasing investment in fire safety, machine safety, and electrical safety management.

Safety management of mechanical equipment

In 2023, Huali Group made ongoing efforts to enhance the existing machinery and equipment utilized in production, as well as introduce new machinery and equipment with better safety performance, to replace high-risk and outdated machinery and equipment, striving towards the goal of inherent safety of machines.

In addition, each factory strengthened total productive maintenance (TPM) management of machinery and equipment, and improved the management of the entire life cycle of machines. Furthermore, preventive maintenance was pragmatically carried out, thereby successfully reducing the occurrence rate of machine faults. Consequently, the risk of employees suffering injuries from faulty equipment had been effectively minimized.

A summit was held in order to facilitate better communication of best practices in machine safety improvement among the factories of the Group, inviting factory representatives to share safety improvement measures for cutting machines, buttoning machines, rubber slicing machines, etc., which enabled mutual learning and collective efforts towards creating a safer workplace. Here are some illustrative examples:

Improvement in cutting machine:

Before improvement

The back of the hand and fingers of the employee were prone to injury if they used their hands to adjust the material when the cutting machine presses down to cut the material.



After improvement

A travel sensing switch was installed in the cutting area. When the operator's hand touched the cutting board or was placed below the cutting board, the travel sensing switch was activated, and the cutting machine was immediately stop operating and the cutting board would move up.

In addition, a protective screening was installed behind the cutting machine to prevent employees from accidentally reaching into the cutting board area during operating.



Improvement in eyelet punching machine

Before improvement



The employee was required to position their hand within the fastening area of the fixed component. Despite the installation of a protective device, the risk of finger crushing during operation had not been completely eliminated.



After improvement

A travel sensing switch was installed. In the event that an employee's hand was positioned in the fastening area, the safety travel switch would be promptly activated, causing the fastening machine to instantaneously halt. This measure effectively prevent any axial movement and avoid the potential of crushing the employee's hand.



Improvement for rubber cutting machine

Before improvement



Guarding of rubber cutting machine was poorly protected, there was only a button to control the operation of the machine. when the rubber cutting machine was moved up and down, and the employee used one hand to press the button while pushing the material into the machine with the other hand, there is a risk of crushing the hand or arm.



After improvement

- » Install dual-hand operation buttons to prevent employees from pushing the material with one hand while pressing the button with the other hand.
- » Install inductive safety light curtains on both sides of the machine to prevent hand or arm injuries while the machine is operating.
- » Install protective screening in the cutting area.
- » Increase emergency stop buttons.



Fire safety

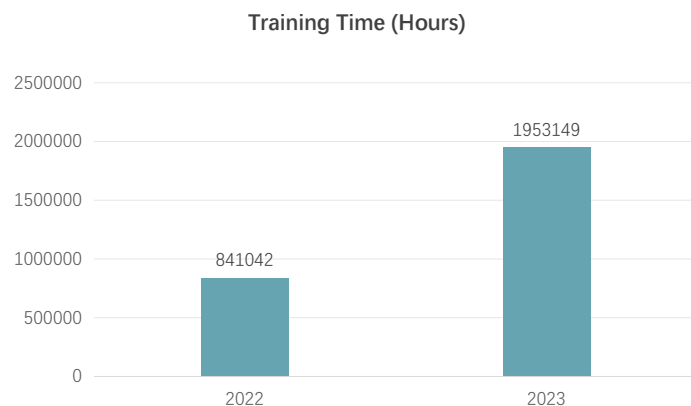
Based on the issues identified during the internal audit in November-December 2022, each factory conducted a comprehensive self-inspection and rectification of fire safety work in 2023. In addition, emphasis was placed on enhancing training on fire safety skills for employees. In addition, the factories enhanced employees' fire safety awareness and skills through posting fire safety knowledge posters, training, and various activities in daily work. The responsible personnel of production organizations and functional organizations carried out fire safety work in an orderly manner according to their respective job responsibilities, following the principle of "factory Supervisor taking charge, while everyone sharing responsibility". Each factory arranged dedicated personnel to conduct inspections during key seasons and holidays. In 2023, each factory continued to execute diverse tasks in accordance with the established comprehensive emergency plan, special emergency plans, and emergency response plans. The responsibilities pertaining to fire safety within each organization were unambiguously delineated. Dedicated personnel was tasked with conducting regular inspections and maintenance of fire facilities and equipment, ensuring the availability of emergency materials. Internal fire drills were conducted in both the dormitory and factory areas, and collaborative drills and summaries were held with local fire and public security departments, leading to the continued improvement of various emergency plans.

Pictures during fire drill



Safety training

ESH Training Time Statistics for 2022-2023



With the support of the group and factory supervisors, all departments in each factory actively participated in various trainings to gradually enhance the safety awareness and skills of all employees.

Based on the training objectives and plans set at the beginning of the year, each factory conducted trainings on safety awareness, use and maintenance of fire facilities and equipment, safe driving of forklifts, fire emergency rescue knowledge, and safety culture construction in 2023, in accordance with the goals and training requirements of each business group. In addition, the Group's Environmental, Health and Safety Department (ESH) also provided a series of thematic training courses for ESH professionals in each factory, including working at height, machinery and equipment safety management, hazard identification and risk assessment, lockout/tagout, electrical safety management, fire safety, and safety culture.



Safety culture construction

The leadership of the Group has consistently emphasized the health and safety of employees, advocated for, and implemented the establishment of standardized safety production. They were committed to providing a safe working environment for employees. At the same time, the factory actively participated in safety activities organized by the government or the community, making its own contribution to community safety construction. Safety culture is an element component of corporate culture. The core of Huali Group's safety culture construction is people-oriented, emphasizing the fulfillment of safety responsibilities, the organization of diverse safety culture activities, and the enhancement of safety awareness and skills among all employees, so that everyone can "understand safety, demand safety, know safety, be able to ensure safety". Huali Group integrated leadership commitment and engagement, process optimization, and active employee participation, complemented by a range of safety culture activities. The Company adhered to a comprehensive planning approach and orderly promotion, fostering a group-wide safety culture atmosphere. This continuously enhanced the safety cultivation and awareness of all employees, reducing unsafe behaviors and conditions. Furthermore, the Company facilitated the improvement and reinforcement of safety concept culture, safety system culture, safety behavior culture, and the safety culture system. Employees were transformed from passive execution of management systems to taking action according to safety requirements proactively, achieving a transition from "heteronomy" to "self-discipline". Meanwhile, safety issues were also important topics at every meeting. Factory supervisors frequently engaged in various activities and operations related to daily health and safety, gradually integrating safety culture into the overall operation of the enterprise.

Leadership participation in safety inspections



Leadership participation in activities of behavior based safety observation



Case study - practice of safety culture in factories :

In 2023, two factories of Huali Group successfully passed the qualitative and quantitative assessments conducted by third-party organizations and customers, achieving a Level 3 rating in terms of safety culture maturity. the assessment tools included five main contents: leadership engagement and accountability, safety management system and metrics, risk assessment and remediation, workforce planning(HSE organization). During the assessment of safety culture maturity, the customer acknowledged the following aspects of the factory:

- » Strict adherence to compliance requirements of safety management
- » Leadership commitment and proactive participation in safety activities
- » Integration of safety management into business operations
- » Cross-functional communication and collaboration
- » Available Risk Assessment process for evaluating major facility changes



The company has made some achievements for building up safety culture, but there is still opportunities for further improvement. In 2024, the group plans to add another two factories to apply for the level3 maturity assessment of safety culture.

Continuous improvement

The ESH team of group Compliance & Sustainability department conducts internal audits at least once a year to comprehensively evaluate the ESH management of the factory through document review, on-site inspections, and interviews with cadres and employees, in order to continuously improve ESH management performance, .From September to November 2023, a total of 223 issues were identified, with no major compliance issues. As of December 31, 2023, 50% of the improvements had been completed. After the internal audit, the Group ESH developed the training plan for 2024, continuously assisting the factory internal audit team in capacity building, improving their ability to identify and resolve safety issues, and preventing accidents.

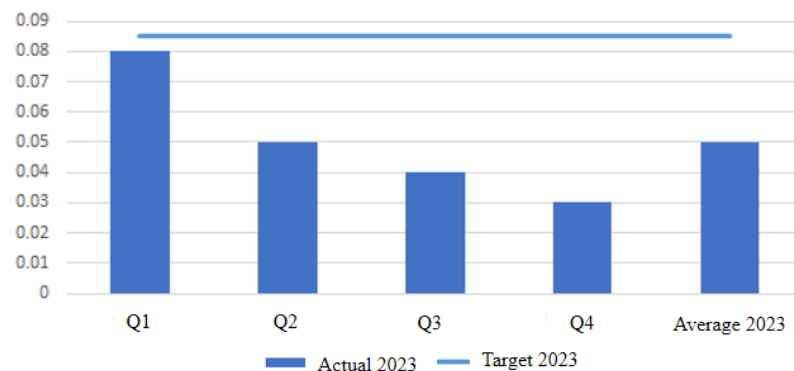


In 2023, the capacity of internal audit team of the factory had greatly improved, being able to identify safety hazards in the workshop and assist in resolving safety issues. Compared with 2022, there was a notable decrease in both the number and severity of accidents. The ESH Department analyzed the deficiencies in the accident causes and reduced unsafe behaviors and conditions by implementing engineering improvement measures and strengthening management.



Chart of Lost time injury rate in Four Quarters of 2023:

Lost Time Injury Rate (DART)



Note: Lost time injury rate = (number of lost time injuries x 200,000) / total hours worked by employees.

Looking ahead, we will continue to strengthen our management of environment, health, and safety, and strive for a higher level of safety culture within the Company. Specific plans include:

- ✓ Prioritize the consideration factor of ESH from the outset of machinery and equipment procurement;
- ✓ Enhance cooperation with cross-functional teams to fully identify and assess risks within the Company, and implement effective control measures to avoid or reduce the negative impacts of risks.
- ✓ Improve performance evaluation mechanisms, utilize internal reward and punishment systems, and encourage and empower employees to actively participate in resolving safety-related issues.
- ✓ Deepen cooperation with local governments and communities.

We believe that Huali Group will achieve sustainable development in the future, ensuring a healthy and safe working and living environment for all employees through the implementation of these measures, .

Environmental Protection

Energy Management and Greenhouse Gas Emissions

Water Resource Management

Chemical Management

Environmental Management



Energy Management and Greenhouse Gas Emissions

Organizational and Operational Boundary Adjustments

Recent years witnessed a steady growth of business scale in Huali Group, which has prompted us to continuously improve our energy and carbon emission data collection system. From 2021 to 2023, structural alterations such as asset acquisitions, divestments, and mergers had led to changes in the organizational and operational boundaries of the Company. To unify the data calculation standards, we will adjust the organizational and operational boundaries of Huali Group in 2023 as follows:

Expanded organizational and operational boundaries				● Not included	● Included	● Added
	2021	2022	2023			
Operational boundary	<ul style="list-style-type: none"> ● Headquarters ● Development Center ● Shoe Manufacturing Factory ● Upper and Equipment Factory 	<ul style="list-style-type: none"> ● Headquarters ● Development Center ● Shoe Manufacturing Factory ● Upper and Equipment Factory 	<ul style="list-style-type: none"> ● Headquarters ● Development Center ● Shoe Manufacturing Factory ● Upper and Equipment Factory 			
Scope 1	<ul style="list-style-type: none"> ● Stationary Combustion Emission ● Mobile Combustion Emission ● Fugitive Emission 	<ul style="list-style-type: none"> ● Stationary Combustion Emission ● Mobile Combustion Emission ● Fugitive Emission 	<ul style="list-style-type: none"> ● Stationary Combustion Emission ● Mobile Combustion Emission ● Fugitive Emission 			
Scope 2	<ul style="list-style-type: none"> ● Grid Power ● On-site Solar PV 	<ul style="list-style-type: none"> ● Grid Power ● On-site Solar PV 	<ul style="list-style-type: none"> ● Grid Power ● On-site Solar PV 			

Meanwhile, as Huali Group officially committed to joining the Science-Based Targets initiative (SBTi) in 2023, we also systematically reviewed the methodologies and emission factors used for greenhouse gas emissions in Scopes 1, 2, and 3. The reference was updated from the original reference to GHG Protocol Calculation Tool-2021 only 2006 IPCC Guidelines for National Greenhouse Gas Inventories, the GOV.UK, the Data. GOV and other relevant databases as consistent accounting methodologies.

In view of the above, in accordance with the GHG protocol *Corporate Accounting and Reporting Standards*, Huali Group re-accounted for the 2022 carbon emission data during the 2023 GHG inventory process, which would result in changes to the 2022 carbon emission data involved in the 2023 Sustainability Report.

Energy Performance Indicators

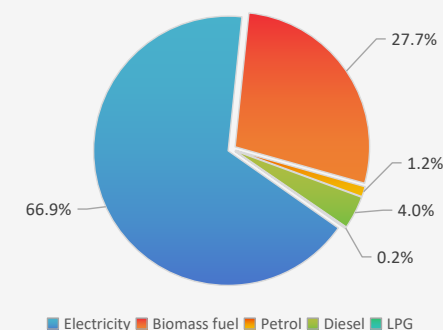
Huali Group's long-term goal in the energy sector is to achieve carbon neutrality in the shoe manufacturing process. Currently, the Company's energy sources include five categories, such as electricity, biomass fuel, petrol, diesel, and liquefied petroleum gas. In terms of energy proportion, electricity accounts for about 67%, while biomass fuel accounts for about 28%, which are the two main types of energy. Other types such as petrol, diesel, and liquefied petroleum gas account for about 5%, which are minor types of energy.

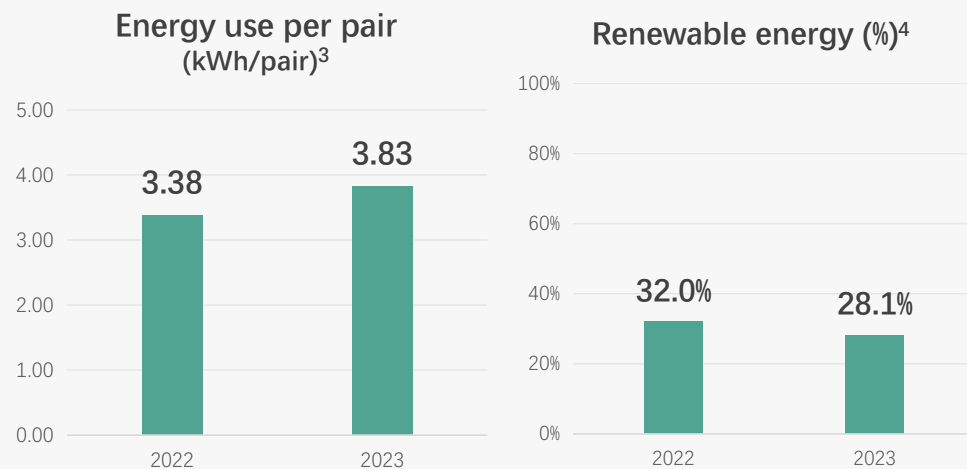
For the purpose of comprehensively evaluating the Group's energy performance, the Company has set energy consumption indicators, carbon emission indicators, and renewable energy proportion indicators to comprehensively and systematically evaluate, account for, and report the energy efficiency and greenhouse gas emission reduction achievements of the Company.

Year	Grid Power (kWh)	Solar power generation (kWh)	Biomass fuel (tons)	Petrol (liters)	Diesel (liters)	LPG (kg)
2022	493,173,059	2,132,993	49,939	694,830	2,276,019	82,566
2023	487,169,104	2,467,255	41,445	930,502	2,817,716	86,689

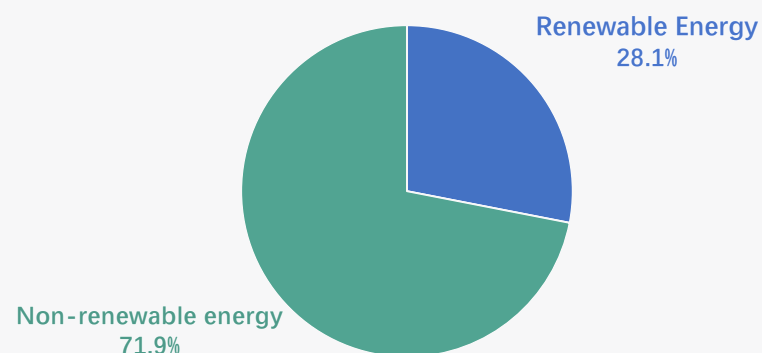
Total energy consumption ¹	Energy use per pair	Total renewable energy ²	Proportion of renewable energy
731,727,210	3.83	205,295,526	28.1%

Energy Structure of Huali Group -2023





Proportion of Renewable Energy of Huali Group-2023



Note 1: Regarding the energy consumption indicator, the power calorific value stands at 3.6 MJ/kWh. The calorific value of biomass fuel is determined based on the latest third-party testing report provided by the supplier. The calorific values of petrol, diesel, and liquefied petroleum gas are derived from the data published by the China Energy Statistical Yearbook and the International Energy Agency;

Note 2: Huali Group's renewable energy mainly comes from two sources. One is the biomass fuel used in the factory's boilers, and the other is the self-generated electricity from rooftop solar projects.

Note 3: In 2023, the inclusion of data from newly incorporated organizational boundaries, coupled with a reduction in production, led to an increase in unit energy consumption.

Note 4: Huali Group continues to promote the replacement of centralized boilers with decentralized boilers. In 2023, the biomass fuel consumption was reduced by 17%, resulting in a decrease in the proportion of renewable energy.

Science Based Targets

Preface/Goal

Climate change is a major global issue drawing widespread attention from the international community. Climate change is not only an environmental issue, but also a development issue, but ultimately it is a development issue. This awareness drives us toward a carbon-neutral future.

In February 2023, Huali Group officially joined the Science Based Targets initiative (SBTi).

Science Based Targets (SBT) is a global initiative launched in 2015 by the Carbon Disclosure Project (CDP), the United Nations Global Compact (UNGC), the World Resources Institute (WRI), and the World Wildlife Fund (WWF). It aims to promote more proactive emission reduction actions and solutions by companies, and set greenhouse gas reduction targets consistent with the Paris Agreement, that is, to limit the average global temperature rise to well below 2 °C above preindustrial levels and pursue efforts to limit this increase to 1.5 °C .

Huali Group's Science Based Target :

Near-term targets: Huali Group commits to reduce 50.4% absolute scope 1 and 2 GHG emissions by 2032, from a 2022 base year. Huali Group also commits to reduce 30% scope 3 GHG emissions from purchased goods and services within the same timeframe.

Net-zero target: Huali Group further commits to reducing 90% absolute greenhouse gas emissions from Scope 1, 2, and 3, including purchased goods and services, capital goods, upstream transportation and distribution, and employee commuting by 2050, from a 2022 baseline.



Website Link: <https://sciencebasedtargets.org/>

Note: It is still a draft submission, waiting for SBTi verification and approval.

Scope 1

Direct greenhouse gas emissions, which represent emissions from facilities and equipment owned or controlled by the Company.

This includes self-generated electricity, heat, or steam production (boilers and diesel generators); transportation of raw materials, products, waste, and employees (vehicle transportation); and fugitive emissions (refrigerants, fire extinguishers, and wastewater treatment, etc.).

Scope 1	2022 (tons)	2023 (tons)
1. Stationary combustion emissions	3,553	4,908
2. Mobile combustion emissions	6,465	6,983
3. Fugitive emissions	7,056	7,126
Subtotal	17,074	19,017

Scope 2

Indirect greenhouse gas emissions from purchased energy, including purchased electricity, steam, heat, etc.

Electricity used by Huali Group is from both purchased power and self-generated solar electricity. There is no purchase of steam, heat, etc.

Scope 2	2022 (tons)	2023 (tons)
1. Purchased electricity	354,535	328,558
2. Solar PV generation	0	0
Subtotal	354,535	328,558

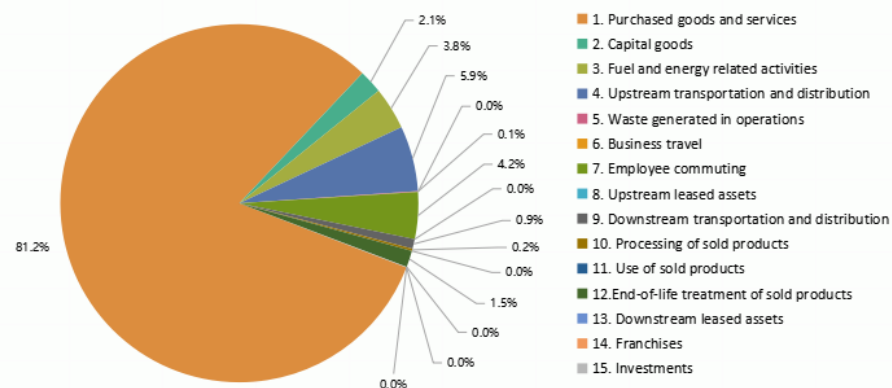
Scope 3

Scope 3 emissions refer to emissions related to the business activities of the Company. These greenhouse gases are mainly generated by upstream and downstream supply chain companies, constituting indirect emissions of Huali Group. In 2023, the Company conducted a comprehensive and systematic inventory of Scope 3 emissions. After evaluating all categories of Scope 3, the highest emissions were from purchased goods and services, accounting for 81.8% of the total emissions. The second highest was from upstream transportation and distribution, accounting for 6.0% of the emissions. Employee commuting is in the third place, accounting for 4.5% of the emissions. Meanwhile, emissions from upstream leased assets were accounted for in Scope 1 and 2, and are not calculated separately here. In addition, according to the inventory, Huali Group was not involved in emissions related to the use of sold products, downstream leased assets, and franchising.

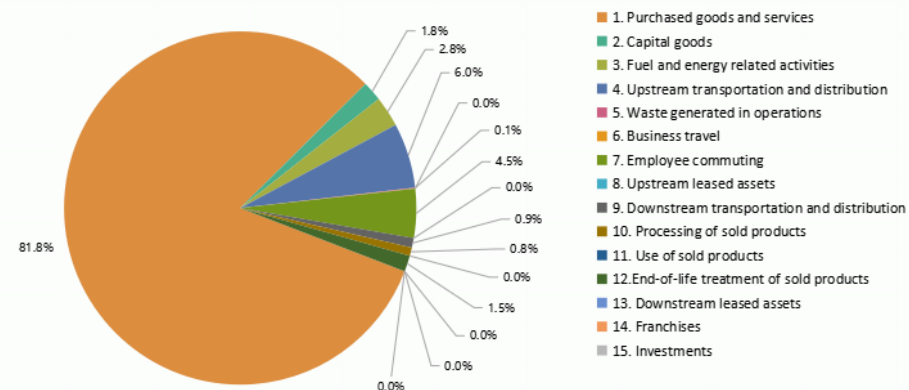
Scope 3	2022 (tons)	2023 (tons) ²
1. Purchased goods and services	1,889,709	1,749,313
2. Capital goods	49,327	38,812
3. Fuel and energy related activities	89,146	59,696
4. Upstream transportation and distribution	137,213	127,313
5. Waste generated in operations	1,575	1,457
6. Business travel	144	341
7. Employee commuting	98,296	96,012
8. Upstream leased assets	0	0
9. Downstream transportation and distribution	20,270	18,807
10. Processing of sold products	4833	16,393
11. Use of sold products	N/A	N/A
12. End-of-life treatment of sold products	34,726	31,335
13. Downstream leased assets	N/A	N/A
14. Franchises	N/A	N/A
15. Investments	1,015	39
Subtotal	2,326,289	2,139,518

Category	2022 (%)	2023 (%)
1. Purchased goods and services	81.2%	81.8%
2. Capital goods	2.1%	1.8%
3. Fuel and energy related activities	3.8%	2.8%
4. Upstream transportation and distribution	5.9%	6.0%
5. Waste generated in operations	0.07%	0.07%
6. Business travel	0.01%	0.02%
7. Employee Commuting	4.2%	4.5%
8. Upstream leased assets	0%	0%
9. Downstream transportation and distribution	0.9%	0.9%
10. Processing of sold products	0.2%	0.8%
11. Use of sold products	N/A	N/A
12. End-of-life treatment of sold products	1.5%	1.5%
13. Downstream leased assets	N/A	N/A
14. Franchises	N/A	N/A
15. Investments	0.045%	0.002%

Proportion of Scope 3 Emissions in 2022



Proportion of Scope 3 Emissions in 2023



Other Emissions: Emissions from Land-Use Change + Biomass Combustion

According to the GHG Protocol Corporate Accounting and Reporting Standard, Biogenic carbon dioxide emissions are excluded from Scope 1, Scope 2, and Scope 3. It must be accounted for separately from those of mineral carbon dioxide and be listed separately. Meanwhile, since the photosynthesis of organisms does not absorb methane and nitrous oxide, the methane and nitrous oxide generated from biomass combustion can be released into the atmosphere and have a negative impact on the climate. This should be included in Scope 1.

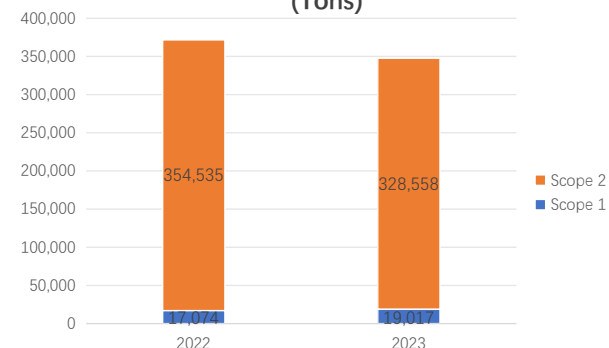
In addition, factors such as land-use change result in a carbon imbalance in the natural carbon cycle, where the amount of carbon absorbed is less than the amount released. This leads to an increase in the total amount of carbon dioxide in the atmosphere, which has a negative impact on climate change. This should be reported separately along with biogenic carbon dioxide emissions.

Report separately	2022 (tons)	2023 (tons)
Emissions from land-use change	10,821	12,702
Direct CO2 emissions from biomass combustion	98,541	81,780
Emissions from upstream activities of biomass fuels	2,969	2,464
Emissions from upstream transportation of biomass fuels	638,804	438,313

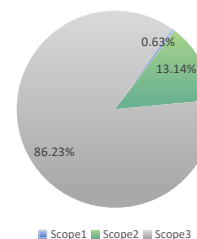
Summary Data

Scope	2022 (tons)	2023 (tons)
Scope 1	17,074	19,017
Scope 2	354,535	328,558
Scope 3	2,326,289	2,139,518
Report separately	751,135	535,259
Total (Scope 1, 2, and 3)	2,697,898	2,487,093

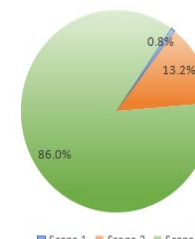
Scopes 1 and 2 Emissions of Huali Group (Tons)



Proportion of Scopes 1, 2 and 3 in 2022 (%)



Proportion of Scopes 1, 2 and 3 in 2023 (%)



In 2023, total carbon emission of Huali Group was **2,487,093** tons, marking a **7.8** % reduction from the emissions of **2,697,898** tons in 2022.

Note 1: Huali Group's science-based targets and greenhouse gas emissions data cover all subsidiary/branch companies within the organizational boundary, including the headquarters and development centers in the Chinese mainland, trading companies in Hong Kong and Taiwan, and manufacturing factories in Vietnam and Indonesia. In addition, data for two factories in Myanmar and Dominican Republic were not collected and accounted for due to non-operation.

Note 2: The emissions data for Scope 3 category 1 purchased goods and services, category 4 upstream transportation and distribution, and category 9 downstream transportation and distribution in 2023 were estimated based on the emissions in 2022. Accurate data will be disclosed separately after being calculated. In addition, the emissions data for category 15 investments are currently calculated based on the Company's investment amount and share, as the annual revenue data of the invested companies has not been obtained. Specific data will be disclosed separately when available.

Circular Economy

The design concept of a brand attracts consumers and drives productivity; conversely, consumers' shopping attitudes and reflections on the environment also affect the brand's product strategy. Confronted with identical challenges posed by: climate change and resource scarcity, whether it is a brand, a consumer, or a bridge connecting the two, a manufacturer, we are all concerned about the following questions: how to control the impact of production, life, and business activities on the environment, how to reduce the acquisition and destruction of natural resources, and ultimately achieve win-win results. The development of various industries relies on limited resources, thus rendering the theme of development beyond mere compliance with basic regulations. Instead, sustainability has emerged as the fundamental goal. Huali Group mainly focused on the following four aspects to develop and promote the sustainability of shoes in the development and production process:

Sustainable Research and Development

Use of recycled and low-carbon materials

Taking into account the necessary criteria of functionality, appearance and comfort, a diverse range of low-carbon and environmentally friendly materials were utilized for the shoes developed and produced by the Group in line with customer expectations, including recycled polyester fibers, recycled cotton, organic cotton, bio-based polymers, or materials from FSC-certified regenerative farms, such as cotton, leather, sheepskin, and rubber. With the maturity and advancement of technology, an increasing number of bio-based materials, such as bio-based TPU, bio-based EVA, are widely used in shoe production.

The following are examples of shoe models.

Model name: Tree Runner



Sustainable materials:

- FSC certified Lyocell fiber upper
- Bio-based EVA midsole
- Bio-based TPU eyelets
- Eco-friendly shoelaces
- ZQ Merino wool heel lining (wool from regenerative farm)

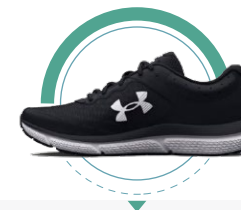
Model name: MTE ULTRARANGE VR3



Sustainable materials:

- The upper of the shoe is made of 64% recycled polyester yarn, 3% recycled expansion yarn, 24% recycled hot-melt yarn, and 9% recycled elastic yarn.
- Bio-based EVA midsole
- TGI certified regenerative rubber outsole
- Hybrid recycled foam insole

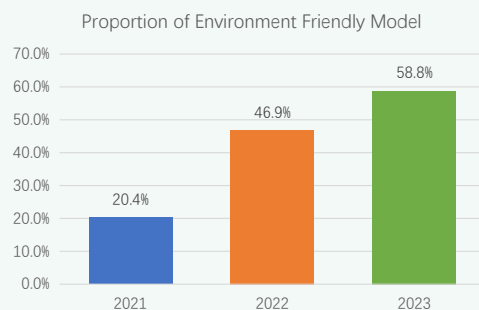
Model name: Charged Assert 10



Sustainable materials:

- The upper mesh, webbing, lining, and laces are all made of 100% recycled materials.
- The midsole contained 4% recycled EVA powder
- The outsole contained 5% recycled rubber powder
- Bio-based foam insole

In 2023, the Group successfully developed a total of 3162 shoe models in line with the brand's strategic development direction. Notably, recycled or low-carbon materials were utilized for 58.8% of these models, marking a gradual increase in the proportion of shoe models utilizing such materials from a single model to multiple models each year.



Note: The proportion of environmentally friendly shoe models in 2021 reported in 2022 has been revised to 20.4%.

Reducing Waste and Supporting Production Innovation

In the journey towards sustainable development, in addition to focusing on design and development process innovation, Huali Group also paid attention to and encouraged innovation during the production process. In the production process of shoes, employees are directly involved, whose innovative thinking is stimulated to encourage them to observe and summarize their daily work experiences. By 2023, each factory of the group had implemented an internal improvement proposal mechanism to encourage and reward employees for discovering improvement opportunities, reducing material waste, and saving costs.

Main activities included:

- Lean layout to maximize material utilization.
- Optimize processes
- Optimize tools to reduce process losses
- Extend the service life
- Optimize disposal methods

Mutual Benefit and Symbiosis, Supporting the Circular Economy

Huali Group had two main goals in general solid waste management:

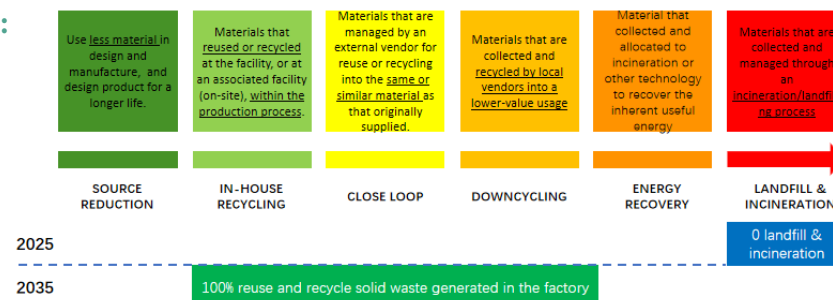


1. zero landfilling and zero incineration of waste;
2. promote 100% recycling and reuse of waste.

Note: The zero landfill and zero incineration of waste mentioned here refer to the fact that the Group's factories do not dispose of general solid waste by landfill or incineration. The subsequent statements are the same.

In 2023, the Group had established a priority focus on the administration of vendors handling general solid waste, implementing standardized management procedures. In June 2023, Huali Group conducted visits and evaluations of vendors, subsequently formulating and releasing the first version of its waste management plan. The plan reiterated that Huali Group's factories should continuously improve material utilization to reduce the generation of general solid waste. Furthermore, the Group's factories selected waste treatment methods based on the waste management hierarchy, avoiding landfilling or incineration of waste.

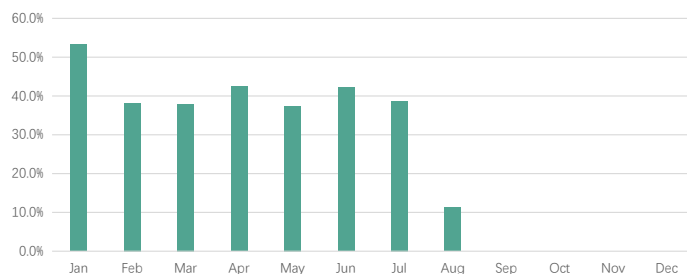
Waste management hierarchy:



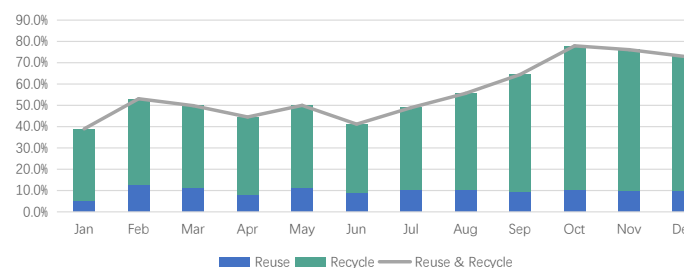
Note: 1 Reuse: Waste is reused through In-house recycling and closed-loop recycling manners.
2 Recycling: Waste is recycled through downcycling manner.

The factory determined the annual cooperative organizations based on the vendor list attached to the plan and carried out corresponding supervision and management of waste. In 2023, by adjusting the vendor structure, all main factories within the Group successfully achieved zero landfill and incineration of waste as of September 2023. Consequently, the overall waste recycling and reuse rate of the Group achieved a significant increase, rising from 41.2% in June to 64.5% in September.

Trend of landfill and incineration of general solid waste



Trend of recycling and reuse of general solid waste



Note: Currently, waste data only adopted from the Vietnam factories.

Compilation process for checklist of waste vendor management of Huali Group

1. Information collection: Collect waste treatment technology and institution information through multiple channels
2. Document screening: Evaluate the qualifications and relevant documents of waste treatment vendors
3. Vendor evaluation: Conduct by an Evaluation Team appointed by the Group. Evaluation is conducted by using a unified vendor evaluation form, evaluating the vendor's performance in modules, such as waste storage/transportation, data management, and environmental, health, and safety through document review, site visits, and staff interviews. A comprehensive score will be given based on these assessments.

Pass	Audit score is greater than or equal to 80 points with no unacceptable issues.
Re-evaluation after 6 months.	Audit score is greater than or equal to 65 points, less than 80 points, with no unacceptable issues.
Fail	Audit score is less than 65 points, with or without unacceptable issues.



4. Compilation and publication of checklist: The Group Waste Management Team compiles the vendor information submitted and confirmed by the factories at the end of each year. In addition, a checklist of general solid waste vendors for the next year will be formulated based on the evaluation results which will be released periodically. After the checklist is released, the Group's factories select suitable vendors for cooperation.
5. Process supervision and control: The Group's factories follow up on the disposal of waste by vendors according to the vendor supervision and management plan set at the beginning of the year, to verify and confirm the vendor's disposal methods and product information, while keeping all relevant records. All records of process supervision and control will be summarized at the headquarters and used as the basis for compiling the waste vendor checklist for the next year.

Green Packaging

In 2023, the group purchased a total of 72,915.1 tons of paper materials for product packaging and transportation, including inner boxes, outer boxes, labels, and hang tags, of which 80.8% came from packaging material suppliers certified by the FSC forest certification system.

A significant quantity of packaging materials was also utilized for the packaging and transfer of raw materials or production inputs in addition to product packaging and transportation. Huali Group mainly controlled its impact through three aspects:



1. Packaging and transportation by suppliers:

In 2023, the factories within the Group had maintained close communication with their suppliers, to reuse material packaging and minimize the utilization of disposable packaging during transportation.



2. In-house packaging and transportation:

Based on production needs, the Group purchased reusable transfer boxes. Following the strategy of reuse, packaging boxes and bags from suppliers were used for in-house activities. In addition, the Group ensured the maintenance of transfer boxes in good condition to prolong their service life.



3. Disposal:

Cartons that were no longer suitable for use or were no longer needed were centrally collected and stored by factories. Subsequently, these cartons were handed over to external institutions for extracting their residual value and recycling them into new products.

Water Resource Management

In 2023, according to the water risk data evaluation by the WRI (World Resources Institute), the water risk level in the areas where the Group's factories are located exhibited no significant changes compared with 2022, and most of the water risk levels remained in low-risk areas. Water is a limited natural resource. However, the development of industries, the emission of greenhouse gases, and the frequent occurrence of extreme weather events have led to an increase in global risks related to water resources. According to the "Global Risks Report 2023" released by the World Economic Forum on January 11, the ranking of natural resource crises (including water resources) has risen from the 9th position among the top 10 risks in the short term (0-2 years) to the 6th position among the top 10 risks in the long term (10 years). As a footwear manufacturing company, the majority of the Company's water usage is for sanitation and cleanliness of employees within the factory, with a small amount of water directly used in the production process. In order to increase the water resilience of the Company, the Group's factories are committed to water conservation and improving water efficiency, while strictly controlling the treatment and discharge of pollutants to reduce the impact of factory operations on the surrounding environment.

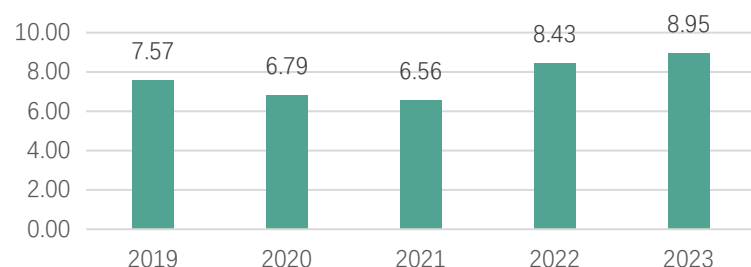
Huali Group's water mainly come from two sources: one is the tap water company, and the other is groundwater. The total water consumption in 2023 was 1.711 million cubic meters, with groundwater accounting for 8%. In 2023, in order to optimize the management of water resources, four factories of the Group successfully completed the sealing of their groundwater wells, thereby reducing the number of factories using groundwater from 10 in 2022 to 6. All factories had completed the supervision and reporting of groundwater extraction in accordance with local laws and regulations.

Huali Group's water is mainly used for the living needs within the factory area. In 2023, water conservation efforts mainly focused on:

1. Increase employees' awareness of water conservation through various activities or promotional work.
2. Install water-saving faucets or control water flow to reduce water waste. In 2023, the Adiana Vietnam Factory saved 7,124 cubic meters of water by regulating the water flow of faucets.
3. Wastewater that satisfied water quality standards was continuously utilized for flushing toilets and irrigating plants.

Meanwhile, for production water, Huali Group's factories controlled the use of fresh water by continuously utilizing circulating cooling water as well as monitoring and controlling the water consumption of key water-consuming units such as printing and outsole processing.

Water consumption per pair of shoes
(L) by the Group



Note: Currently, water only adopted from the Vietnam factories.

In 2023, due to adjustments in shoe structure and technology, as well as a decrease in orders, the water consumption per unit of product relatively increased.

By 2024, the Group will conduct water balance work in factories and, based on the results of water balance analysis, identify the main areas for improvement and develop plans to reduce the demand for fresh water in factory production and daily activities.

Chemical Management

Chemicals are the foundation of shoe materials and are also integrated into the shoe production process. We recognize the need for effective and responsible management of chemicals to maximize their value and minimize risks. Chemical management is reflected in the management of restricted substances in materials and finished products, as well as in the management of chemicals used in the production process.

At Huali Group, with regard to procurement, all suppliers were strictly required to send all raw materials to designated laboratories for testing according to the customer's RSL standards. Only suppliers who provided qualified test reports could proceed with procurement. After the materials were received, the quality management department sampled and tested the raw materials according to the customer's RSL standards and requirements.

In 2023, the Group's Compliance and Sustainable Development Headquarters established a Functional Team for Chemical Management, responsible for overall chemical management in the group, through fully study on the chemicals used in the factories, reducing the impact on the environment, personnel, and society during the production process, ensure that the use of chemicals in the Group's factories was legal, meeting the expectations of international customers, communities, and other stakeholders.

To this end, we have developed a chemical management system at the group level based on the ZDHC CMS (Chemical Management System) standards, and have promoted it to all factories, including chemical management policies, procedures, and related standard operating instructions;

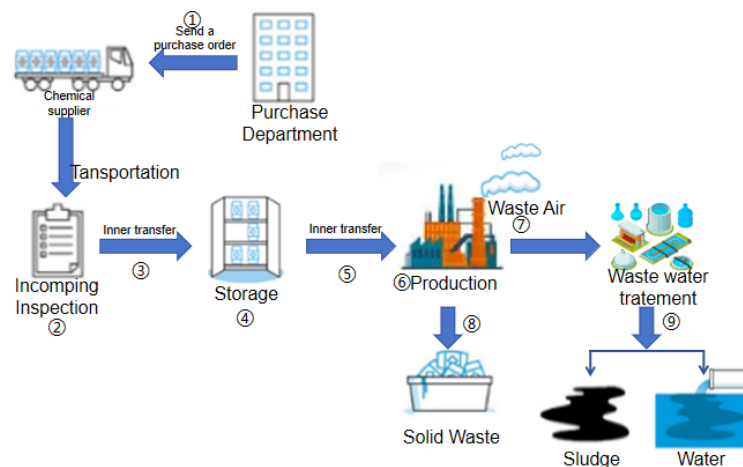
Successful chemical management practices rely on the commitment of the group management. The Group's chemical management policy included the following points:

- 1.1 Compliance with local laws, regulations, customer standards, and industry requirements.
- 1.2 Incorporation of management practices for sustainable chemical during the production process.
- 1.3 Continuous improvement of the effectiveness of the chemical management system.
- 1.4 Ensure the use of safe chemicals in the factory to protect the health and safety of workers and minimize impacts on environment.
- 1.5 Embed traceability and transparency in factory operational activities.

The practices of group chemical management were incorporated throughout the entire factory management process, starting from the procurement of raw materials, including the identification of chemical hazards and risk evaluation, followed by transportation, inspection, warehouse storage, internal packaging, production application, and the treatment, recycling, and final disposal of non-product outputs (emissions, wastewater, waste).

We are well aware that traceability and transparency of the chemicals used in all processes are crucial for successful chemical management. Each factory within the Group had established a comprehensive traceability management system and procedures for chemicals throughout the entire process, including procurement, storage, processing, finished product packaging, shipment, and delivery. The responsible personnel in each relevant step were obligated to maintain records in strict adherence to the established procedures. The Chemistry management personnel of the Compliance and Sustainability Department regularly checked and supervised the implementation of chemical traceability management in all relevant organizations to ensure that each pair of finished shoes can be traced back to the specific use of chemicals.

In 2023, Huali Group promoted the Chemical Visibility Management Project, initiating the utilization of the chemical management platform offered by ZDHC-accredited chemical solution providers in 11 factories. The factories inputted chemical inventory information into the platform to generate IN-Check reports, allowing us to quickly, easily, and accurately understand the usage and compliance of our chemical products. Meanwhile, we established a connection with customers on the platform, so that customers can directly view the chemical compliance status of the factories. Based on the current compliance ratio, we will set goals and plans and collaborate across departments to gradually improve the MRSL compliance ratio. We also plan to expand this project to all group factories in 2024 to improve the performance of chemical management in more factories.



The specific benefits of the Chemical Visibility Management Project are:

1. Lay a foundation for the compliance of materials, products, and wastewater in chemical management
2. Reduce RSL failures, enhancing market access for products to maintain competitive advantages
3. Comply with the ZDHC MRSL, which is a basic requirement for customers in chemical management
4. Provide traceability/transparency for the chemicals used in products
5. Reduce the use of hazardous chemicals in the input, processing, and output stages, strategically promote the adoption of safer alternatives throughout the industry, to demonstrate a commitment to sustainable development.

Reducing VOCs is another priority in chemical management. The main sources of VOCs include chemical products such as printing/ink/paint/solvent/cleaner used during industrial production. These chemicals release VOCs during use or in the manufacturing process, which react with nitrogen oxides in the atmosphere to form ozone and other harmful substances. This not only pollutes the environment but also poses a threat to human health.

Huali Group mainly took the following measures to reduce VOCs:

Eliminate or reduce the use of oily chemicals and increase the proportion of water-based chemicals used.

Successful case example:

Athena Factory of the Group successfully replaced 4 types of solvent-based chemicals with water-based chemicals in 2023.

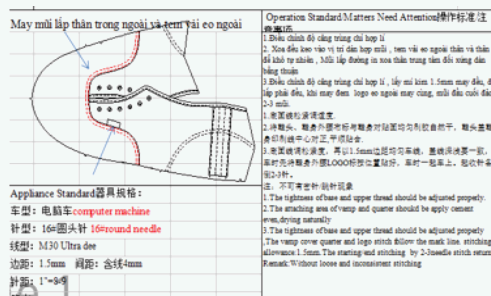
NO.	Solvent-based chemical name	VOC Content	(Substitution) Water-based chemical name	VOC Content
1	LOCTITE BONDACE 812TF	83%	LOCTITE AQUACE W-08	<1%
2	LOCTITE BONDACE 224-2	85%	LOCTITE AQUACE D-200	<1%
3	LOCTITE BONDACE 8009TF	96%	LOCTITE AQUACE D-200	<1%
4	LOCTITE BONDACE 120	71%	LOCTITE AQUACE ARF-40	18%

Reduce the use of chemicals through process improvement and optimization.

Successful case example:

The computer-controlled sewing machine was utilized by the Alena Factory. Subsequently, personnel were no longer required to apply glue manually. This reduction in manpower eliminated the need for glue, resulting in decreased generation and volatilization of VOCs.

Before

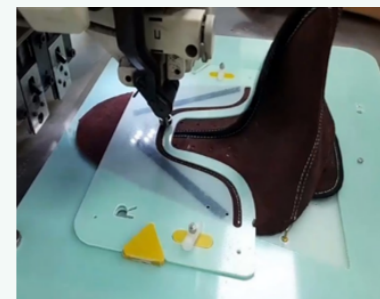


For Skate Authentic High/Skate Authentic MIC VCU, the shoes toecap need one person to cement while another person to sew it up, the efficiency is low,



After

Computer stitching is used to sew the toecap, cement is not needed anymore. It saves one person from the process while reducing VOCs generation from the process, with improved efficiency and stable quality,



Environmental Management

The factory had established internal management systems in accordance with ISO 14001, complying with local laws and regulations as well as the environmental requirements of the brand. In order to minimize the impact on the environment, the factory focused on the reduction of waste generation at its source. This goal was achieved through collaboration with suppliers, enhancing employees' environmental awareness and operational skill, and reduce the waste. Moreover, the factory boosted its investment in environmental protection and implemented diverse environmental activities, including organizing employees to participate in World Water Day and Earth Hour, etc. Furthermore, when there are changes in laws and regulations or changes in the scope, activities, services, or products of the factory, the environmental team would develop a working team to re-identify and reassess the environmental factors involved in the company's operations, products, and services. Subsequently, they would develop improvement objectives and management strategies used to address the significant environmental factors. For significant environmental factors that may lead to accidents, the factory established comprehensive emergency response plans and conducted regular drills.

Group's environmental investment in 2023 (excluding Indonesia and Myanmar):

	Environmental investment in 2023 (in RMB 10,000)
Vietnam region	3161
China region	238
Total	3399

Wastewater Treatment and Discharge

Wastewater treatment and discharge

Huali Group has always attached great importance to pollution prevention and control work. The factory implemented pollution control measures that are appropriate for the types of wastewaters generated, in accordance with relevant requirements such as environmental impact assessments. At present, except for a few factories that belong to the scope of wastewater management in industrial parks and need to connect to the park for treatment, most factories have complete pipe network systems and wastewater treatment facilities within the factory area to collect and treat the wastewater generated by the factory in a graded manner. Dedicated personnel were assigned to oversee the operation of the wastewater treatment system within the factory to ensure the stable operation of the wastewater system and to ensure that the water quality of the treated wastewater meets the standard values in the environmental impact assessment permit.

Wastewater testing:

1. According to legal requirements, the wastewater shall be tested for indicators on a quarterly or semi-annual basis.
2. According to legal requirements, a 24-hour online automatic monitoring system was installed in factories with a daily designed treatment capacity of greater than or equal to 1000 cubic meters to real-time control pH value, temperature, TSS (total suspended solids), COD (chemical oxygen demand), NH₄⁺ (ammonia nitrogen), and wastewater flow rate, and the data was automatically connected to the website of the environmental protection bureau.

Reuse and discharge of wastewater:

After being treated by a complete process, the wastewater was given priority for recycling in the factory. A storage tank was installed at the drainage end of the wastewater treatment pool in the factory. In addition, an independent pipeline was set up to transport the recycled water from the storage tank to the designated area for toilet flushing, plant irrigation, etc. Any remaining treated wastewater was discharged into the external environment through a wastewater pipe. In 2023, the Huali Group factory recycled a total of 83.71%⁵ of the treated wastewater, which greatly reduced the factory's demand for fresh water and improved water utilization efficiency.

Waste Management

Huali Group followed internal waste management regulations to manage the entire process of waste generation, collection, transportation, and disposal during factory operations, ensuring compliance with legal requirements and stakeholder expectations. In 2023, Huali Group generated a total of 34,824 tons of general solid waste and 3,320 tons of hazardous waste, all of which were disposed of in accordance with local laws and regulations.

As an extension of natural resources and raw materials, waste was managed by Huali Group in accordance with waste management levels (refer to the section on Circular Economy for details).

#1: Waste reduction, avoiding waste generation from the source. The main measures are:

- 1 Optimize the pattern efficiency to determine the range of material utilization during the development stage.
- 2 Strictly control the defect rate or usable rate of purchased materials: for fabric materials, Huali Group required that 100% of the purchased materials meet the quality requirements; for leather materials, Huali Group required that the usable rate be controlled between 85% and 95%.
- 3 Purchase pre-cut components.
- 4 Implement an improvement proposal mechanism and encourage employees to discover improvement directions and make improvement suggestions from daily operations.
 - a Utilize the remaining materials to reduce waste: Large pieces of scrap materials were often generated during the cutting process. If these scrap materials were not utilized, they would be disposed of as waste. The employees discovered that the remaining scraps could be used for processing other small components during operation. Consequently, they initiated and implemented improvements.



⁵Recycled water % = (treated wastewater - discharged wastewater) / treated wastewater %

b Process optimization: Decorative drawstrings were used on the heel of some styles during the production process of shoes. If the traditional operation method was used, the factory would process the sheet material with a cutting knife. Through daily observations, the employees proposed improvement suggestions to directly cut the rolled material into small rolls that meet the width of the drawstrings, simplifying the operation process and reducing waste generation.

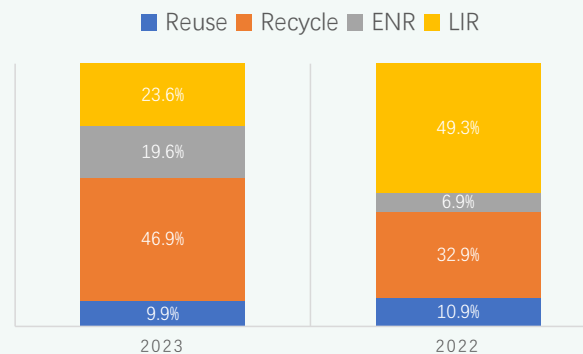
Process improvement	Process image	Production of 890,885 pairs of heel strips	
		Waste (Kg)	Waste (g/pr)
Before improvement (cutting sheets)		2299.68	2.58
After improvement (cutting coils)		459.94	0.52
Difference		1839.74	2.06

c Optimize the tooling to reduce process losses. By reprocessing the tools, the factory was able to better meet the needs of the employees' operation, thus reducing losses or scrapping caused by inconvenient operations.

#2: Reuse and recycling

In 2023, Huali Group integrated industry resources and expanded cooperation with local waste treatment companies to recycle waste fabric scraps, rubber waste, EVA waste, foam waste, etc. generated by the factory. In addition, energy recovery was adopted by the Group for other waste that could not be appropriately recycled with recycling technologies available. Since the project was officially implemented, the Group's proportion of general solid waste recycling and reuse had increased from 41.2% (June) to 64.5% (September). In September 2023, the Group achieved zero landfill and zero incineration of general solid waste. In 2023, the disposal of general solid waste in the Group's factories was as follows:

- 1 The proportion of landfill and incineration decreased from **49.3%** in 2022 to **23.6%**.
- 2 The proportion of recycling and reuse increased from **43.8%** in 2022 to **56.8%**.
- 3 The proportion of energy recovery increased from **6.9%** in 2022 to **19.6%**.



Note: Currently, waste data only adopted from the Vietnam factories.

The Group aimed to gradually enhance the recycling and reuse of general solid waste in its factories through collaboration and communication with stakeholders such as brands, supply chains, third parties, and users. This could be achieved by participating in sustainable product research and development, implementing sustainable material procurement and usage, and executing optimal waste disposal solutions, thereby ultimately achieving the goal of "100% recycling and reuse of waste" by 2035.

The foundation of recycling and reuse

1. Team and awareness: Establish a dedicated team to manage waste and provide relevant training to employees. Organize fun activities to enhance employee awareness and motivation.

"Waste Becomes Treasure."



2. Facilities and configurations: Set up a waste management center to centrally store waste generated by the factory, and equip it with facilities and equipment that meet other risk control requirements in the area.
3. Waste classification and inspection: Conduct inspections and confirm the implementation of waste classification at each stage to avoid waste pollution and mixing.
4. Data collection: Collect and summarize data on waste using precision weighing equipment, and monitor the dynamics of waste in real time.
5. Resource integration: Integrate resources and seek the optimal disposal solution for waste to achieve high-value utilization of waste.

Air Emission Control

The factories of the Group have always placed a high priority on air emission management. Each factory boasted comprehensive systems for air emission collection, treatment, and emission. Dedicated personnel were assigned the task for regular inspection and updating of the types, quantities, and concentrations of air emission in the factories. All collected air emission must be treated through pollution control facilities. Different air emission collection and treatment equipment were selected by the factories based on the type of air emission. For example, bag-type dust removal devices were provided for the dust generated during the grinding process of shoe soles and ingredients; top suction hoods were separately installed for the collection of air emissions generated during the production process of bonding equipment; biofilters and activated carbon adsorbers were installed for the organic air emissions generated in printing, bonding, and other workshops, and the saturated activated carbon was replaced and handed over to qualified organizations for hazardous waste disposal. In addition, some factories were equipped with online monitoring systems for air emissions, which can monitor the concentration of pollutants in real time to ensure that the air emission meets the emission standards.



Talent Development

Employee Rights
Talent Structure



Employee Rights

The Group's factories respected and effectively protected the legitimate rights and interests of employees. In terms of policies, the Group had established policies on prohibiting the use of child labor, protecting the rights and interests of female workers, preventing harassment and abuse, non-discrimination, to protect the rights and interests of employees and special group. In terms of execution, the Group conducted regular internal audits to ensure that all factories adhered to laws and regulations, customer codes of conduct, and internal rules and regulations to protect the rights and interests of employees. Each factory of the Group had established a grievance mechanism. In the event that employees encountered problems or questions during their work, they first reported to their immediate supervisors. In cases where a reasonable solution was not forthcoming, they escalated the complaint to the factory's Compliance and Sustainability Department (hereinafter referred to as C&S). If the issue was beyond the scope of the factory's handling, it could be escalated to the Group's C&S headquarters for assistance.

In order to better protect the legal rights and interests of group employees and build good labor relations, labor unions were established in Vietnam region and China region. The basic responsibility of the labor union is to represent and safeguard the legitimate rights and interests of employees. The management of each factory and the labor union promoted the establishment of a sound labor relations coordination mechanism, the protection of employees' labor rights and interests, and the construction of harmonious labor relations through equal consultation and collective contract systems. When the Company developed or updated rules and regulations, these rules and regulations would be announced and implemented after consultation and agreement with the labor union. The labor union promptly offered assistance and actively communicated and coordinated with factory management to protect the interests of the employees, in the cases that employees' labor rights and interests were damaged. In addition, the labor union regularly communicated with the management, providing suggestions or proposals.

Both the labor unions in Vietnam and China have established committees for female workers, labor dispute mediation, labor protection supervision, and labor law supervision, which were elected by employee representatives.

In Vietnam, employee representative meetings were held monthly, while in China, the employee representative meetings were held once every quarter to listen to the opinions and suggestions of employee representatives as well as negotiate and resolve practical issues for employees.

The labor union represented employees in negotiating and signing collective contracts with the Group on issues such as working conditions, benefits, human rights, training, and development. The collective contract covered all employees and is signed every three years.

Under the organization of the labor union, various factories of the Group carried out a variety of activities to enrich the lives of employees and increase their cohesion. In addition, the labor union arranged visits to employees in need during festive occasions. The following picture shows a visit organized by the labor union.



Talent Structure

Human Resources Management - Equal Employment

Huali Group established an international talent team by recruiting overseas talents, dispatching talents, and conducting independent training. Huali Group strictly complied with laws and regulations, including the Labor Law and the Labor Contract Law to carry out its recruitment activities, while also abiding by the policies and regulations of the overseas operating countries/regions. It upheld the principle of people-orientedness and equal employment opportunities, firmly opposing any form of discrimination. The Group does not discriminate or treat unequally based on age, physical or mental disabilities, sexual orientation, pregnancy status, marital status, nationality, political affiliation, union membership, social background, or other protected status under national laws. The Company's interview and recruitment process was clear and rigorous, with strict audits conducted to prevent any incidents of child labor or forced labor. In addition, objective evaluation of skills and abilities would be given during the recruitment process, and candidates' integrity and adherence to the Company's core values would be emphasized.

The profile of employees is shown in the following figure:

Project		2021		2022		2023	
		Number of people	Percentage	Number of people	Percentage	Number of people	Percentage
Total number of employees		151,198		155,481		157,545	
Gender	Male	31,979	21.15%	32,593	20.96%	30,329	19.25%
	Female	119,219	78.85%	122,888	79.04%	127,216	80.75%
Age	<30	48,799	32.27%	42,719	27.48%	36,322	23.06%
	30~50	97,780	64.67%	106,022	68.19%	111,133	70.54%
	>50	4,619	3.05%	6,740	4.33%	10,090	6.40%
Positions	Senior management	123	0.08%	112	0.07%	124	0.08%
	General management	8,159	5.40%	8,617	5.54%	9,102	5.78%
	Non-management	142,916	94.52%	146,752	94.39%	148,319	94.14%
Education	Below junior college	141,590	93.65%	146,479	94.21%	147,669	93.73%
	College and undergraduate	9,555	6.32%	8,941	5.75%	9,812	6.23%
	Master or doctor	53	0.04%	61	0.04%	64	0.04%
Region	Vietnam region	148,887	98.47%	153,171	98.51%	154,308	97.95%
	China region	2,227	1.47%	2,214	1.42%	2,165	1.37%
	Other regions (such as Taiwan, Hong Kong, Indonesia, Dominican Republic, etc.)	84	0.06%	96	0.06%	1,072	0.68%

By the end of 2023, the total number of employees in the Group stood at 157,545, marking a 1.3% increase compared with 2022. Among them, the total number of female employees amounted to 127,216, accounting for 80.75%.

The age distribution primarily fell within the range of 30 to 50 years old, with a total of 111,133 individuals, accounting for 70.54%. Compared with 2022, the proportion of employees over 50 years old had slightly increased by 2.07%.

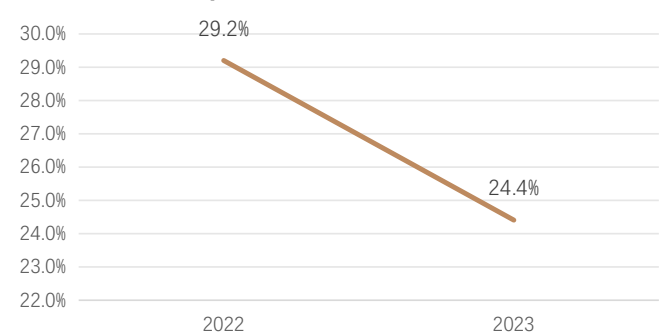
The distribution of employees was primarily concentrated in the Vietnam region, with a total of 154,308 people, accounting for 97.95% of the total. The second is the China region with 2,165 employees, accounting for 1.37%. The proportion of other regions had increased slightly by 0.62% compared with 2022.

The number of female senior supervisors(vice managers and above) was 36, and the number of female managers (team leaders and above, below vice managers) was 5,962.

Year	Gender	Job level						
		Senior supervisors		Management position		Non-management position		Total
		Number of people	Proportion	Number of people	Proportion	Number of people	Proportion	
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
2023	Male	88	0.06%	3,140	1.99%	27,101	17.20%	30,329
	female	36	0.02%	5,962	3.78%	121,218	76.94%	127,216
	Subtotal	124	0.08%	9,102	5.78%	148,319	94.14%	157,545

The employee turnover rate of Company in 2023 was 24.4%, marking a decrease of 4.8% compared with 2022.

Comparison of turnover rate



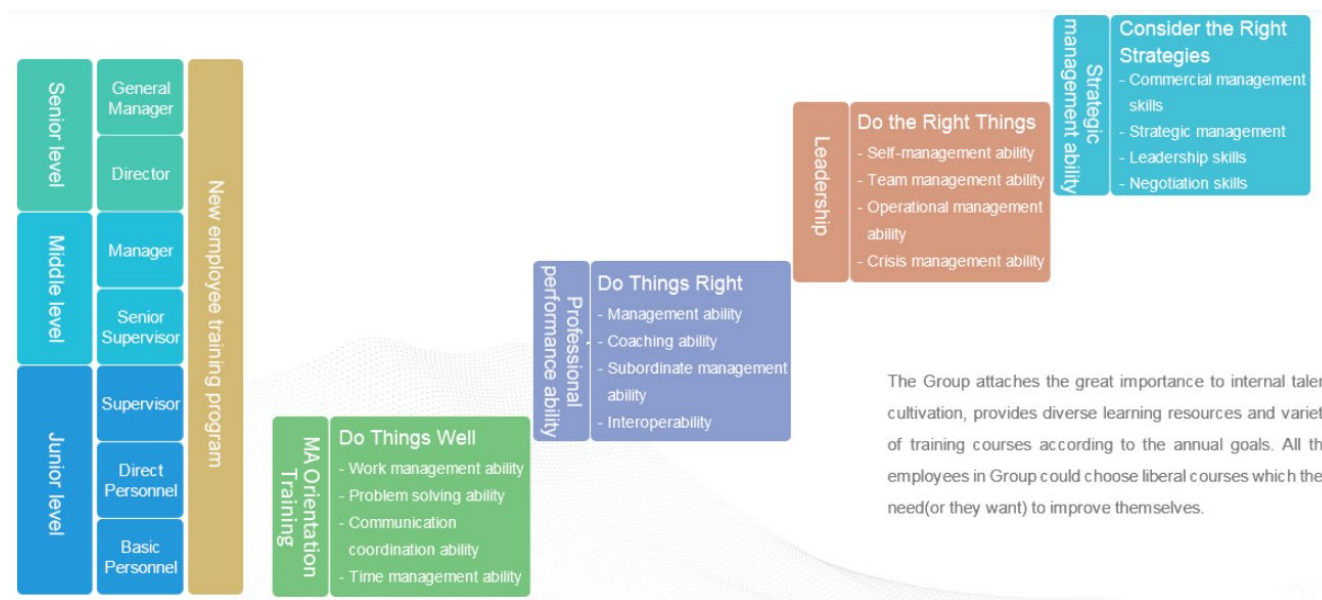
Year	Beginning of the Year	End of the Year	Turnover rate
2022	151,198	155,481	29.2%
2023	155,481	157,545	24.4%

Note: The calculation formula is the total number of employees who left / (total number of employees at the beginning of the year + total number of new hires in the year).

Human Resources Management_Talent Development

Improving talent cultivation and development

Based on the Group's vision and mission, we continuously enhanced the quality and work skills of the Group's workforce through a systematic framework and approach. We valued the career development needs of talents with different attributes and established a dual-track development mechanism for professional and managerial positions. Through scientific and data-driven analysis, we developed curricula that were aligned with the organizational development strategies and medium-term to long-term goals. Meanwhile, we designed optimal learning journeys for different positions and drew talent development blueprints. For example, we consistently strengthened cross-border communication, international management, and cross-cultural training for fostering and developing international talents in line with the Group's international layout strategy. We provided efficient courses, online forums, and other resources for new employees, professional talent, and management at all levels. Through courses, knowledge sharing, and on-the-job learning, employees were able to accumulate professional skills and enhanced capabilities in a structured manner. In addition, regular interviews and feedback sessions were conducted on employees' career development. Based on employees' functions, cross-functional rotations and experiences were planned, allowing talents to continuously improve and jointly create excellent goals with the Company.



Cultivate talents according to the business vision and meeting the needs of Huali's goals.

We actively constructed and improved the talent capital mechanism. In addition to regularly providing professional training courses, management development training, overseas project-based training, and soft skills training, we also provided moderate support and assistance for employees' career growth. Regular reviews were conducted on talent development/empowerment plans, providing cross-institution and cross-organization job rotations, project assignments. In addition, internal senior coaching and external consulting services were provided for consultation to accelerate the process of talent development. Furthermore, the Group conducted regular performance appraisals and career consultations for overseas employees in order to guarantee the sustained growth of employees within the Group. Based on their individual characteristics and ability development, suitable job assignments and promotions were offered accordingly.

● Key employee development projects

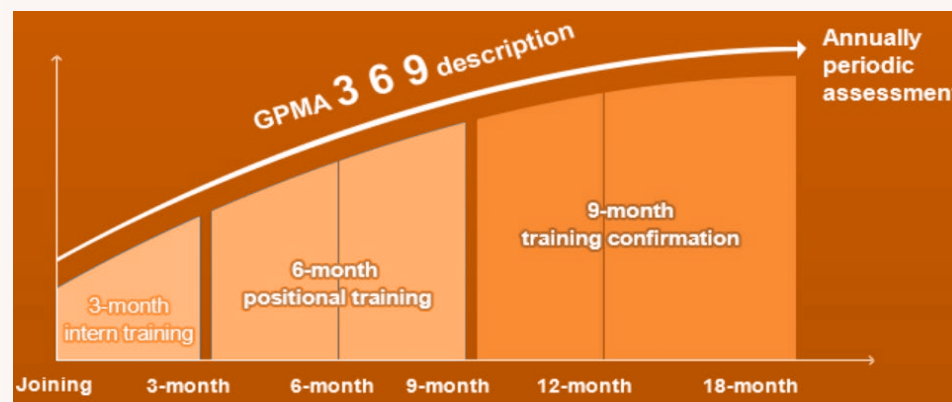
In line with the Group's medium and long-term strategic plans, we established a function-oriented talent strategy to regularly review and enhance the reserve of the competent talents.

The Group developed annual talent development and training plans to continuously improve the quality of the leadership team and enrich the leadership team at all levels. Based on the Group's strategic focus, the annual training plan was designed according to the ADDIE (analysis, design, development, implementation, evaluation) instructional model, which included training for supervisors at all levels and training for reserve cadres. It also established a platform for cross-unit communication, fostering cohesion among leadership teams and fostering a unified cultural value, so as to strengthen managerial capabilities, and enhance the overall talent ability of the organization.

The management training at various levels included the inheritance of Huali spirit and culture, deepening of management and professional capabilities. Through designated mentor guidance, decision-making and critical thinking abilities of managers were cultivated, to prepares for the rapidly changing future of business operations. Meanwhile, a talent management enhancement plan was implemented, leveraging on-the-job training, project assignments, and cross-country, cross-business, and cross-functional job rotations and growth opportunities to deepen supervisors' international perspective and foster innovative thinking.

● Training for reserve cadres

The Group continues to implement the reserve cadres plan (hereinafter referred to as "reserve cadres") and establishes a unique job rotation with 3, 6, 9 appraisal mechanism in order to accelerate the reserve of key talents and foster individuals with management ability and in line with the overseas development needs of the Group.



Training for new reserve cadres

In the first three months of joining the Company, reserve cadres will participate in common training courses and sequentially be arranged to professional training in various departments (The general training in departments such as upper, outsole, laboratory, quotation, procurement, business, etc.).

Training courses for reserve cadres

After the reserve cadres complete the first stage of training, they will be arranged by the business units for advanced training, including over 1,000 hours of professional course in business modules, planning, development, etc., to strengthen planning abilities and development, business coordination, and analytical abilities.

Topic-specific appraisal for reserve cadres

After the training completed, reserve cadres will be scheduled for periodic topic-specific report appraisals to assess their planning abilities and professional development outcomes. In addition, their organizational behavior will be regularly reviewed to ensure that they possess the necessary functions and behavioral traits to serve as the core management personnel.

● Training for professional sample designer

Training for new sample designers

In the first three months of joining the Company, new sample designers will participate in common training courses and sequentially be arranged for general training in various organization so that pattern designers can have a detailed understanding of the shoe manufacturing process and specific software for pattern designers (RSPG/Dimensions).

Topic-specific appraisal for sample designers

After the general training completed, further training will be arranged by the business units with over 1,000 hours of professional typesetting, plate extraction, and layout training to enhance them sample-making and cross-department coordination abilities.



Statement of Zero Tolerance for Workplace Violence and Harassment

Huali Group fully recognizes the importance of eliminating violence and harassment in the workplace, to create a respectful, safe and healthy work environment and to protect employees from violence and harassment, Huali Group promises that,

1 Strictly comply with laws and regulations, customer standards and relevant international guidelines on the elimination of workplace violence and harassment

2 Zero tolerance for any violence and harassment in the workplace

To fulfill our commitments, we will

1. Establish and implement anti-violence and harassment policies within the group, and coordinate with the trade union or other employee representative organizations to monitor the implementation
2. Conduct regular campaign and training for management and employees on the prevention of workplace violence and harassment
3. Require all management personnel to sign a commitment letter of no violence and harassment
4. Establish open and effective channels to receive reports and appeals related to workplace violence and harassment
5. Set up a professional investigation and disposal team, which is responsible for accepting reports and appeals, and resolutely deal with them according to the group's rules once the evidence is proven, and show no favoritism
6. Fully protect the victim's privacy to prevent retaliation, and take measures to avoid secondary harm
7. Urge and require supply chain partners to work together to eliminate workplace violence and harassment
8. Provide aid and support, if necessary, to employees experiencing family violence or abuse

Huali Group prohibits the following activities in the workplace (including but not limited to):

- (1) Abuse of power, bullying, threatening and abusing employees
- (2) Using unwelcome, offensive language or making inappropriate jokes, telling dirty jokes in a public place
- (3) Intentionally touching, bumping, kissing sensitive parts of others, doing sexual gestures, unnecessary physical contact
- (4) Sending or directly displaying text, pictures, voice, video, etc. of a provocative and pornographic nature
- (5) Using the power to make sexual demands on employees in exchange for benefits at work, forcing employees to make choices
- (6) Other behaviors that create a hostile work environment
- (7) Other sexual harassment behaviors

Chief Executive Officer

Date:

2023 Aug. 16

Zero Tolerance for Violence and Harassment in the Workplace was the key program for the Group in 2023.

The Group strongly prohibited any form of discrimination, violence, or infringement in the workplace. Other than the strict implementation of the no harassment and abuse policy and regular training, the Group is continuously promoting more projects and training on relevant topics. In 2023, the Group conducted comprehensive training to eliminate workplace violence and harassment and officially released the statement on Zero Tolerance for Workplace Violence and Harassment.

In the second half of 2023, the Group invited external professional training institutions to provide training and sharing sessions for senior management, specialized teams (such as HR, Compliance and Sustainability Development, etc.), and cadres in various factories. Through this training, the management and cadres gained a deep understanding of the boundaries that may trigger workplace violence and harassment, and learned how to effectively prevent such situations from occurring. Simultaneously, the factory's specialized teams also learned the skills to handle such cases properly. Various forms were taken for the training including small seminars, online and offline classrooms, covering systematic understanding of violence and harassment, ideas for policy improvement, analysis of relevant trends, and how to prevent and eliminate violence and harassment in daily management. In addition, all factories also arranged additional training for all employees.

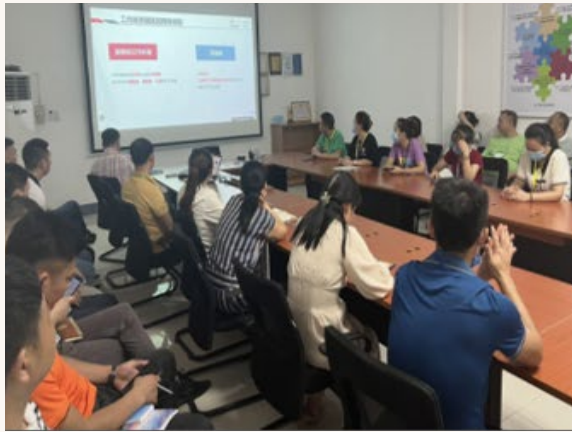
With that, the training covered all employees from top management to grass-root staff in the Group. The Group also purchased short videos on relevant content to be played to employees in different occasions for the purpose of further enhancing employees' awareness, thus popularizing the definition and response methods of workplace violence and harassment in a vivid and interesting way.

The Group specifically established a task force after the completion of training projects and set up a dedicated channel for reporting non-violence and non-harassment. Distinct from other complaint avenues, this particular channel was charged by dedicated personnel specializing in workplace violence and harassment cases, ensuring that the cases were promptly and thoroughly addressed and investigated by the task force at the Group's headquarters. This measure aimed to allow employees to report freely, without fear of retaliation. The Group is committed to prioritizing the protection of employee rights in all reports.

On August 16, 2023, the Group CEO signed a four-language version (Chinese, English, Vietnamese, Indonesian) of the Statement on Zero Tolerance for Workplace Violence and Harassment and distributed it to all factories in the Group for public posting, demonstrating the Group's firm stance on zero tolerance for workplace violence and harassment.

Training plan and implement

- » "Preventing harassment and violence training" is one of subject in the periodic training plan of HQ C&S.
- » On July 27, Timeline trained to all factory management.



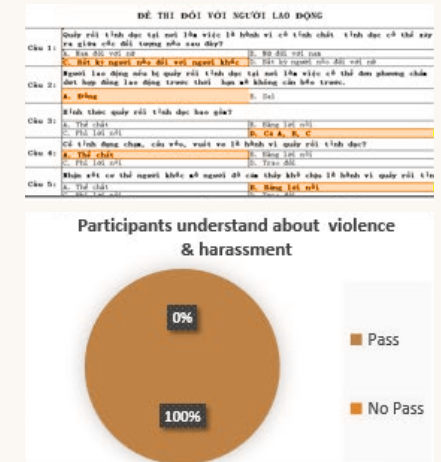
Training record

- » All employees participated training will be recorded

STT	编号	工厂	姓名	部门	职务	签名
1	810063	SJV	洪育东	材料仓库	主任	洪育东
2	810112	SJV	李俊峰	G1线 / 帮 G1-Xuong vu	副经理	李俊峰
3	810123	SJV	杜世	生产/工厂	副经理	杜世
4	810140	SJV	阮小群	安南/生产/工厂	副经理	阮小群
5	810171	SJV	李德信	越南 / 帮 G1-gia công - Xuong	主任	李德信
6	810043	SJV	李俊峰	材料仓库	副经理	李俊峰
7	810091	SJV	李俊峰	G1线 / 帮 G1-Hieu cam	主任	李俊峰
8	810093	SJV	李俊峰	材料仓库	主任	李俊峰
9	810332	SJV	李俊峰	生产/工厂	副经理	李俊峰
10	810338	SJV	李俊峰	生产/工厂	副经理	李俊峰
11	810091	SJV	李俊峰	生产/工厂	副经理	李俊峰
12	810093	SJV	李俊峰	生产/工厂	副经理	李俊峰
13	810374	SJV	李俊峰	生产/工厂	副经理	李俊峰
14	810129	SJV	李俊峰	生产/工厂	副经理	李俊峰
15	810379	SJV	李俊峰	生产/工厂	副经理	李俊峰
16	810524	SJV	李俊峰	生产/工厂	副经理	李俊峰
17	810525	SJV	李俊峰	生产/工厂	副经理	李俊峰
18	810526	SJV	李俊峰	生产/工厂	副经理	李俊峰
19	810391	SJV	李俊峰	生产/工厂	副经理	李俊峰
20	810408	SJV	李俊峰	生产/工厂	副经理	李俊峰
21	810423	SJV	李俊峰	生产/工厂	副经理	李俊峰
22	810444	SJV	李俊峰	生产/工厂	副经理	李俊峰
23	810462	SJV	李俊峰	生产/工厂	副经理	李俊峰
24	810497	SJV	李俊峰	生产/工厂	副经理	李俊峰
25	810499	SJV	李俊峰	生产/工厂	副经理	李俊峰
26	810507	SJV	李俊峰	生产/工厂	副经理	李俊峰
27	810514	SJV	李俊峰	生产/工厂	副经理	李俊峰
28	810531	SJV	李俊峰	生产/工厂	副经理	李俊峰
29	810532	SJV	李俊峰	生产/工厂	副经理	李俊峰
30	810533	SJV	李俊峰	生产/工厂	副经理	李俊峰
31	810535	SJV	李俊峰	生产/工厂	副经理	李俊峰
32	810536	SJV	李俊峰	生产/工厂	副经理	李俊峰
33	810537	SJV	李俊峰	生产/工厂	副经理	李俊峰
34	810537	SJV	李俊峰	生产/工厂	副经理	李俊峰
35	810537	SJV	李俊峰	生产/工厂	副经理	李俊峰
36	810537	SJV	李俊峰	生产/工厂	副经理	李俊峰
37	810537	SJV	李俊峰	生产/工厂	副经理	李俊峰
38	810537	SJV	李俊峰	生产/工厂	副经理	李俊峰
39	810537	SJV	李俊峰	生产/工厂	副经理	李俊峰

Training Evaluation

- » Use test or questionnaire to evaluate training



● Learning platform

We were committed to providing employees with convenient learning resources and platforms to strengthen their professional and management capabilities anytime, anywhere. Learning resources include:

Self-development courses.

A blended learning approach combining online and offline courses was adopted by the Group to continuously enhance work skills and stimulate employee motivation. In 2023, a total of 61 learning courses were set up throughout the year (subject to continuous review and increase).

Training for group management

Group management training was conducted based on the managerial capabilities at different levels, and participants were required to submit post-course assignments. The satisfaction rating for mid-level supervisor courses was 4.94 (out of 5).

Management articles: The Group continuously provided management articles on enterprise benchmarking, management issues, and current affairs for management to read in order to keep up with management trends and gain a deeper understanding of management. In 2023, a total of 51 articles were published, and 52 summaries of the top 10 news stories from global companies were compiled weekly. These efforts aimed to continuously enhance management knowledge and skills, as well as strengthen sensitivity to current affairs).

Training for enhanced information security

The continuous enhancement of information security awareness of the Group has remained a consistent priority in recent years. In 2023, 155 personnel were trained to enhance their awareness, and measures were taken to consistently reinforce the awareness of personnel regarding virus-infected emails and information security violations. In addition, an internal information security firewall was established to ensure comprehensive information security protection for all employees.

Language learning

English learning: English Sentence of the Day is broadcast on the Group's employee platform of Portal and Nail Empowerment to enhance employees' language skills; in order to increase communication with footwear professionals, footwear industry English was broadcast weekly to enhance the understanding of the English language in the footwear industry.

Vietnamese language learning: For foreign employees residing in Vietnam who require communication with Vietnamese colleagues, we provided both introductory and advanced Vietnamese language courses to meet the needs of daily communication and life.

In 2023, the Group conducted a total of 11 language tests internally, assisting 1,677 colleagues in assessing their language proficiency. Among them, 550 colleagues passed the Chinese test and 217 colleagues passed the English test. Furthermore, the Group made ongoing efforts to refine the standards for Chinese and English proficiency, thereby effectively retaining outstanding linguistic talents of the Group supporting for its international development.

Education and training statistics

In 2023, as the epidemic subsides, Huali continued to adjust its training approach to a blended learning model that combined online and physical training. By integrating physical, online courses, and distance teaching, learning was not interrupted by the epidemic. In 2023, a total of 2,302 physical courses were held, training a total of attendance of 2,066,719 people; The attendance of employees for online courses achieved 24,899 times.

Human development evaluation

We set the annual training and development direction each year to enhance the professional capabilities of personnel and drive the growth of the Company, and implement various curricula based on the Kirkpatrick Model to evaluate the effectiveness of the training projects. In addition, we also refer to Jack Phillips' ROI training appraisal model to quantitatively measure the training effectiveness and calculate the return on investment of the training to validate the specific economic benefits brought to the Company.

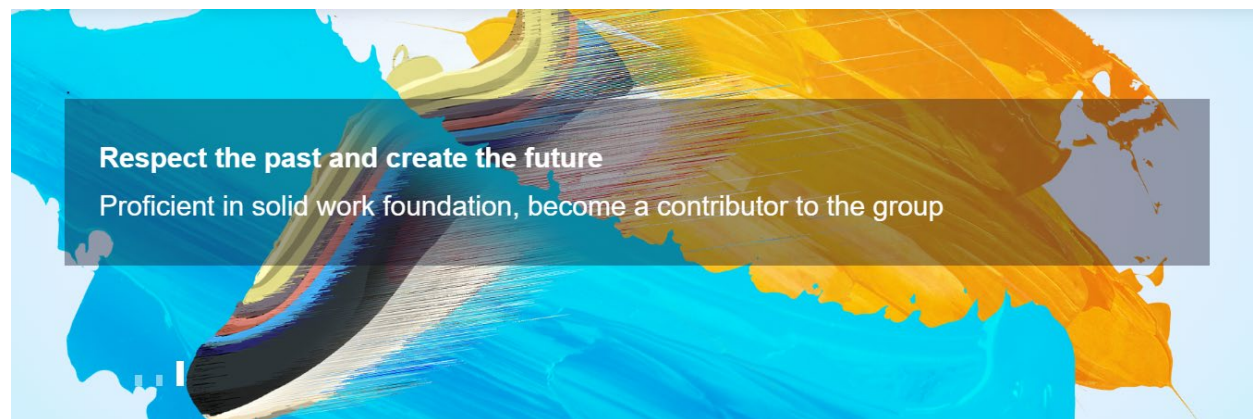


Talent development is continuously promoting lifelong learning in response to digital transformation.

With the popularization of intelligent technologies such as ChatGPT and Copilot, it became imperative for talents to expedite their transformation. In response, Huali actively enhances employees' digital awareness and capabilities. By facilitating job transformation, the Company assisted employees in grasping and experiencing the operational transformation crisis. Furthermore, it explored ways to use AI or various automation tools to decompose or transform inappropriate work types, achieving skill upgrades, and upgrading operation environments. More automated and intelligent new professional skills were used in work, supplemented by multi-skilled training, effectively improving employees' shoe-making skills. At the same time, through the upgrade of the learning platform, multimedia methods were applied to digital learning, allowing employees to apply what they have learned in real-time to work practices. For the purpose of encouraging uninterrupted learning, Huali accelerated the development of various online and digital learning methods by assessing the current execution of various courses, including both existing and newly developed ones. The Company developed feasible course execution models, including video conferencing, real-time broadcasting, and community platforms. Additionally, Huali rapidly designed online course teaching models by analyzing course design, identifying the most suitable software and hardware platforms, and evaluating compliance regulations in various operating locations, thereby assisting Huali employees in maintaining continuous learning and growth. without interruption.

Investing for the future: building human capital in the digital age

Digital learning continues to transform existing learning activities. Therefore, under the theme of 'Investing for the future: building human capital in the digital age,' Huali has been implementing training for digital pattern designer and key position succession development programs in a digital format since 2023. With the development of digital intelligent technology, Huali has received recognition for its innovative experiences that respond to customer needs. Since 2022, Huali has been focusing on the development of digital functional training to prepare for the future, reserve key talents, help employees cultivate new digital skills for the digital age, and actively build a reserve of digital human capital to comprehensively promote digital capabilities and ensure the sustainable development of the group.



Human Resources Management - Performance Promotion and Compensation Benefits

The Group was committed to enhancing its performance management system. In the annual assessment, the forced distribution approach was adopted to streamline resource allocation and cost planning. The performance assessment results served as important reference for promotion, salary adjustment, rewards and incentives, job rotation, and training.

The promotion system was standardized to reduce abnormal submissions. Based on the approved organizational structure and staffing allocation, corresponding human resource vacancy needs or plans for group development and management needs were determined.

Salary adjustments were determined by the HR Department based on the previous year's operating performance, market salary levels, statutory minimum wages, and the rate of inflation. A salary adjustment budget was proposed and implemented after being submitted to the leadership for approval. In 2023, promotion salary adjustments were given to some promoted employees.

In addition to the statutory benefits provided by labor laws and regulations, such as labor insurance, health insurance, retirement plans, social insurance, medical insurance, unemployment insurance, etc., employee benefits also include group insurance, holiday bonuses, and various welfare subsidies/condolence payments, etc.

In 2023, the total number of employees who enjoyed parental leave was **12,399**, including **2,230** male employees who enjoyed paternity leave and **10,169** female employees who enjoyed maternity leave. The return-to-work rates for male and female employees were **99.16%** and **77.02%**, respectively. The proportion of male and female employees who returned to their positions for more than one year was **60.81%** and **71.64%**, respectively.

Note: Return-to-work rate = Number of employees who have returned to work in 2022 / Number of employees on parental leave in 2022

Retention rate = Number of employees who have returned to work for at least 12 months after taking parental leave in 2022 / Number of employees who have returned to work on parental leave in 2022



Social Contributions

Employee Care
Public Welfare Charity



Employee Care

Employees are an important part of the Company. After employees join the Company, the factory carries out a series of training programs to discover potential talents and improve employees' comprehensive abilities. Every year, the factory collaborates with the brand to carry out various employee care projects to enhance employees' sense of happiness and belonging. The factory collaborates with the labor union to arrange diverse cultural and sporting events after working hours, aiming to enrich the lives of employees and balance their work and life. For impoverished employees or special groups, the Group provides high-level care. The factory management and the labor union representatives regularly visit impoverished families and provide financial assistance. In the case that employees suffer from major illnesses or accidents, the Group initiates charity donation activities, with senior executives taking the lead in making donations.

Employee Care Project

In 2023, the Group persisted in executing the employee care project, maintaining follow-up and tracking the progress of the project initiated in 2022 to ensure its effectiveness and long-term sustainability.

1. In 2023, the factory partnered with VISION SPRING to offer free vision examination to a cumulative number of 7,159 employees throughout the Group. Based on the assessment results, employees in need were furnished with glasses, and their usage were followed up to improve their vision.

Amara Vietnam Factory:

- Project timeline: Conducted in December 2023
- Number of people tested: 2835
- Number of people who need to wear glasses: 1746

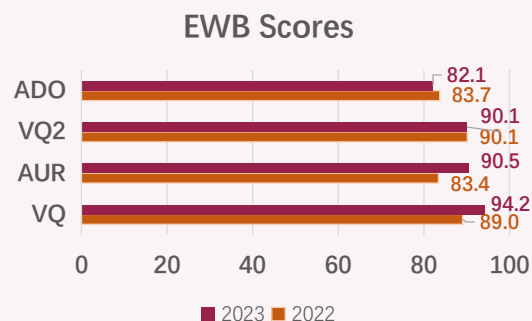
Venus Vietnam Factory:

- Project timeline: Conducted in December 2023
- Number of people tested: 4324
- Number of people who need to wear glasses: 2388



2. Employee engagement and well-being survey (EWB)

The Group commissioned an external third-party company to conduct an annual Employee Engagement and Well-being (EWB) survey for the Group's four factories in Vietnam. The survey covered six aspects: communication, compensation and benefits, health and safety, capacity building, social interaction, and stress. Employees were asked to respond based on their actual experiences. Based on the employees' responses, the third-party company calculated scores and identified the top three and bottom three aspects with the highest and lowest scores, so that the factories could make improvements based on these aspects. The following is a comparison of the average scores between 2023 and 2022:



Based on the analysis and summary, the factories in 2023 can further improve in the areas of communication and benefits. Specifically, supervisors should make efforts to provide assistance to employees facing work challenges, and the factories should offer more competitive compensation and benefits. In 2023, the issues of employee satisfaction were a healthy and safe working environment, stress-free communication with supervisors, and learning skills that were useful in the future. At the same time, we will continue to improve the aspects that employees in Adora Vietnam not satisfied with in 2024.



3. Gender equality

The Group has always encouraged diversity and respected employees from different cultural backgrounds. Therefore, the Group implements equal pay for equal work, treats everyone fairly, while encouraging employees to achieve self-improvement. For female employees, the group's factories carried out a series of gender equality projects, such as the HER project, training on workplace harassment and abuse prevention, self-assessment tools for gender equality, and projects to promote female leaders, in order to improve the working ability of women and increase the proportion of women in management positions.

4. Women Leadership Accelerator Program

Building upon the success implementation of 2022, the second batch of training was initiated in 2023, meticulously selecting female employees for participation. Conducted from June to November 2023, this training covered a total of 70 hours, emphasizing key areas such as communication, teamwork, and time management. As a result, the participants gained valuable management skills and problem-solving capabilities, not only enhancing their self-worth but also making them preferred candidates for future factory promotion and selection of management positions.



Course feedback from participants in the Women Leadership Accelerator Program

Feedback 1: We appreciate the Company's leadership for creating conditions and providing useful courses. We will apply the knowledge and skills we have learned to our work, improving productivity and developing our teams. We hope to contribute to the Company's growth.

Feedback 2: I have learned time management skills in the Women Leadership Accelerator Program, which helps me improve work efficiency and reduce stress. By eliminating bad habits and avoiding wasting time, effective time management helps me accomplish more tasks.

This training course helped the female employees who participated in the training to learn various useful skills from different aspects. The outcomes were noteworthy, enabling them to utilize their newly acquired knowledge effectively in both personal and professional settings. Furthermore, the training is scheduled to resume in 2023 for subsequent groups of trainees.

5. HER Project

Continuance Vietnam and Amara Vietnam took the lead in implementing the HER Project within the Group. The project is carried out in the factories by LIFE (Center for Promotion of Quality of Life), and the costs were shared by the factories and customers. In 2023, the Group persevered in promoting the Project to other factories. Venus Vietnam successfully implemented the HER Project and organized an series of training sessions focused on women's issues, allowing more female employees to learn useful health knowledge and protect themselves.

In 2023, a total of 3,208 female workers participated in the HER Project at Venus Vietnam.



Assistance for Families in Need

Each factory in the Group regularly visited impoverished families, organizing enjoyable activities and expressing concern for the living conditions and upbringing and education of children in impoverished employee families. They also provided caring supplies to make employees feel the company's concern for their families.

The Labor Union of Annora Vietnam Footwear Limited held the 'Celebrating the Spring Festival with My Colleagues' event for employees in difficult situations.



At the Annora Vietnam Factory, the Women's Leadership Team (WLT) and the labor union collaborated to hold the "Warm Winter" event. The purpose of this event was to provide winter clothes and supplies to company employees, thereby helping them reduce shopping expenses, and fostering a sense of company unity, promoting interconnections among colleagues, to spread the love.



Roll Sport Vietnam and customers sent condolences and gifts to impoverished families together



All factories organized to visit and give financial support to the impoverished families and sick employees.



Bright Future 2023 event was held by Annora Vietnam Factory in order to improve the learning conditions for the children of impoverished employees in the factory. This event aimed to harness the longstanding tradition of loving each other, and a spirit of mutual support and solidarity, while also expressing the company leadership's compassion and regard for its employee, further solidifying the connection between the Company and its employees.



Enriching Employees' Extracurricular Cultural Life

To promote corporate culture and enrich employees' leisure cultural life, each factory of the Group organizes a variety of activities in the factory every year under the guidance of the leadership and the coordination of the labor union. This allows them to adjust and relieve themselves from busy work, which is conducive to promoting employees' enthusiasm for work, enhancing employee cohesion and centripetal force.

China region

Huali Group and the labor unions of various factories in Zhongshan jointly organized hiking activities and basketball matches in 2023.



Vietnam region

Various factories in Vietnam held sports meetings.



The various factories and labor unions in the Vietnam region of the Group jointly organized a joyful Mid-Autumn Festival celebration.



Akalia Vietnam organized a family day.



Adora Vietnam organized a team-building tour for outstanding employees



In 2023, Aleron and Roll Sport factories established employee libraries, cultural corners, as well as fitness and entertainment areas.



Public Welfare Charity

Roses given, fragrance in hand. The Group actively participated in various social charity activities, making significant contributions to society.

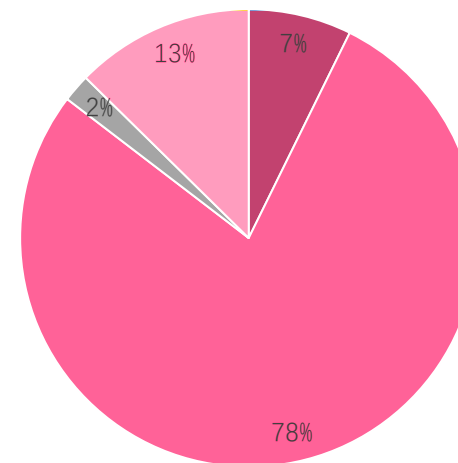
In 2023, the Group donated a total of RMB **2,171,200**,

including RMB **197,600** (7%) for education,

RMB **2,117,500** (78%) for assistance,

RMB **53,300** (2%) for disability assistance,

and RMB **342,800** (13%) for other purposes.



■ Education ■ Assistance ■ Disability assistance ■ Others

1. Description of a donation case

In 2023, Huali Group donated 10,884 pairs of sports shoes to students in 20 schools in remote areas of Guangdong, Henan, and Yunnan through the Red Cross.



Various factories in Vietnam organized the delivery of scholarships and gifts for children of employees who were diligent in their studies and children with disabilities in employee families.



In 2023, Aurora Vietnam Factory continued to organize various campus donation activities.



In 2023, Amara Vietnam provided 150 employees with fire extinguishers worth 30 million VND, thereby enhancing fire safety within their residences.



2. Blood donation activity

In 2023, the Group's various factories in Vietnam organized voluntary blood donation activities and received excellent performance awards.



3. Environmental Protection

In 2023, various factories of Huali Group, including Zhongshan Jingmei Factory, Alena Vietnam, Sun Jade Vietnam, Amara Vietnam, Continuance Vietnam, and Venus Vietnam, organized employees to participate in environmental protection activities such as cleaning rivers, beaches, and garbage in mountains and forests. Some factories also organized tree planting activities and Earth Hour events, calling for everyone to protect the environment and the Earth.

Environmental protection activity - Clearing the garbage



A total of 3,245 trees were planted in tree planting activity in 2023.



Factories in Vietnam carried out World Water Day and Earth Hour activities in 2023.



Stakeholder Communication and Substantive Analysis

Stakeholder communication

The communication with stakeholders is a primary focus of Huali Group for long-term development. We use diverse communication methods to actively engage with stakeholders to promptly understand and respond to their expectations and requirements.

Our stakeholders include employees, customers, shareholders and investors, regulatory authorities, as well as supply chain partners and communities, etc. Meanwhile, issues concerned by stakeholders are collected through daily communication, working meetings, exchanges and visits, which are integrated into the Group's relevant strategy formulation, so as to continuously enhance and improve the practical management of the Enterprise and realize the sustainable development.

In 2023, we made the following response to the main concerns of key stakeholders:

Key stakeholders	Communication	Concerns	Response
Shareholders and investors	Telephone Online and offline meetings Annual reports and financial statements/announcements Online platform Q&A	Corporate Operation Risk management Compliance operation of the Company Information Disclosure	1. Timely disclose important information to investors through regular and irregular announcements. 2. Interact and communicate with investors through investor surveys, investor interactive phone calls, etc. 3. Operate legally
Customers	Emails Online meeting Customer satisfaction survey	Energy management and greenhouse gas emissions Science-based targets Customer information security Chemical management Use efficiency of water resource Pollution management Occupational safety and health Gender equality Community engagement Supply chain management Quality management Customer service R&D Innovation Zero tolerance for workplace violence and harassment Circular economy	1. Enterprises shall establish medium- to long-term carbon reduction targets and carbon neutrality pathways in accordance with scientific based targets. 2. Provide product information as well as pre-sales and after-sales management. 3. Establish a team responsible for customer information security, develop strategies to protect customer information and product security, and establish an information security management system. 4. Take various measures to vigorously promote the development of a circular economy. 5. Provide training on workplace violence and harassment

Employees	<p>Emails</p> <p>Communication meetings</p> <p>Training activities and grievance mechanism.</p>	<p>Occupational safety and health</p> <p>Compensation and benefits</p> <p>Training and education</p> <p>Chemical management</p> <p>Employee care</p> <p>Diversity and equal opportunities</p> <p>Zero tolerance for workplace violence and harassment</p>	<ol style="list-style-type: none"> 1. Establish an occupational health and safety management system. 2. Prioritize safety and provide employees with a safe and suitable working environment. 3. Provide regular training and assessment, and offer employees dual channels for management and technical career development to realize their personal value. 4. Maintain the legitimate rights and interests of employees and establish a grievance mechanism..
Suppliers and partners	<p>Training</p> <p>Audit</p>	<p>Fair and just operation</p> <p>Drive supplier development</p>	<ol style="list-style-type: none"> 1. Uphold anti-bribery and anti-corruption as paramount over interests. 2. Adhere to the principles and processes of fair and transparent procurement, establishing standardized supplier management standards, and implementing responsible procurement.
Community	<p>Visitation</p> <p>Feedback</p> <p>Participate in community charity projects.</p>	<p>Public welfare charity</p> <p>Reduce negative impact on the community.</p> <p>Water risk</p> <p>Pollution management</p> <p>Community engagement</p>	<ol style="list-style-type: none"> 1. Organize charity activities. 2. Provide material and financial donations.
Government and regulatory authorities	<p>Notice on WeChat group for activities such as safety production</p> <p>On-site visit</p>	<p>Energy management and greenhouse gas emissions</p> <p>Economic development and employment</p> <p>Operate legally</p> <p>Pollution management</p> <p>Occupational safety and health</p>	<ol style="list-style-type: none"> 1. Actively respond to climate and environmental challenges, reduce carbon emissions, and increase the use of renewable energy, to promote the development of circular economy. 2. Employ local employees, and localize procurement, to promote local development and employment. 3 Operate legally . 4 Actively participate in government promotion activities and implement them in a timely manner.

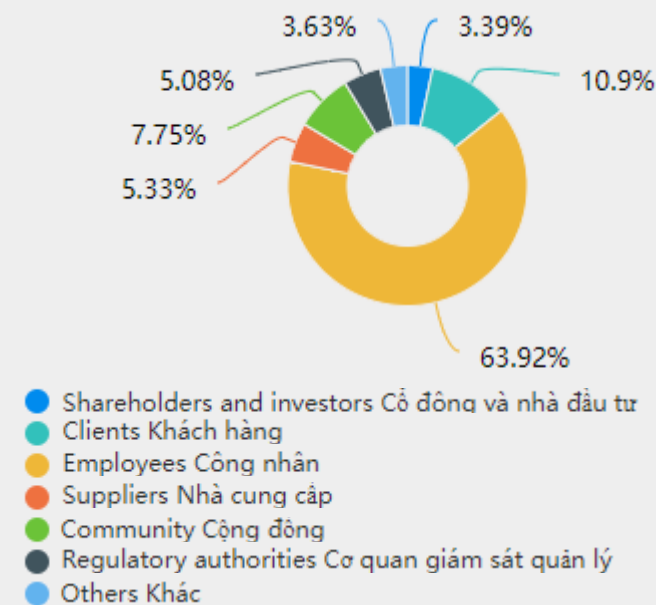
Communication and engagement process of stakeholders

We conducted a series of communications, surveys, and questionnaires for the purpose of achieving a deeper comprehension of the perspectives and requirements of internal and external stakeholders. Through these endeavors, we engaged with both internal and external parties to determine the most important issues for the Group in terms of environment, society, and governance.

Analysis of substantive issues

We distributed substantive issue surveys to various stakeholders. As of November 30, 2023, we received 413 questionnaires. By aggregating and analyzing the ratings from stakeholders such as employees, suppliers, regulators, and customers, we identified 23 strategic issues that were most helpful in achieving our ESG goals. We evaluated and analyzed each substantive issue based on two dimensions: "importance to Huali Group" and "importance to stakeholders of Huali Group", assigning scores and prioritizing them to form a substantive issue matrix. The score range for each dimension of each issue is from 0 to 5, with 0 indicating extremely unimportant and 5 indicating extremely important.

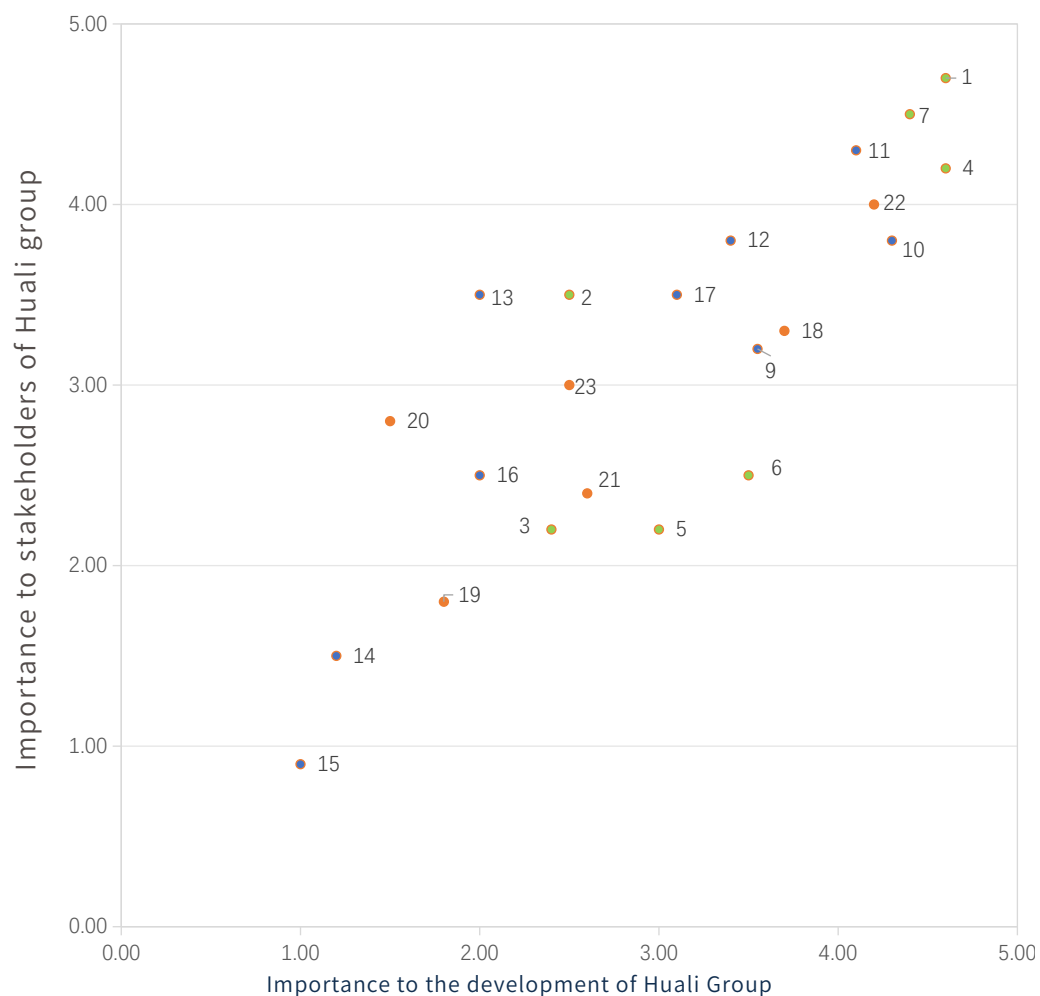
The proportion of stakeholders participating in the substantive issue survey is shown in the following figure:





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

Analysis of substantive issues in Huali Group's 2023 ESG Report.



Environment

1. Energy management and greenhouse gas emissions
2. Science-based targets
3. Circular economy
4. Chemical management
5. Water risk
6. Use efficiency of water resource
7. Pollution management

Society

8. Occupational safety and health
9. Diversity and equal opportunities
10. Gender equality
11. Compensation and benefits
12. Employee care
13. Training and education
14. Community engagement
15. Public welfare charity
16. Supply chain management
17. Quality management

Governance

18. Customer service
19. R&D innovation
20. Compliance operation
21. Corporate governance
22. Zero tolerance for workplace violence and harassment
23. Information security



Independent Assurance Statement

Introduction

TÜV Rheinland (Shanghai) Co., Ltd., member of TÜV Rheinland Group, Germany (hereinafter "TÜV Rheinland", "We") has been entrusted by the management of Huali Industrial Group Company Limited. (hereinafter "Huali Group", "the Company") to conduct independent assurance of Huali Group 2023 Environmental, Social and Governance (ESG) Report (hereinafter "the Report"). All contractual contents for this assurance engagement rest entirely within the responsibility of Huali Group. Our task was to give a fair and adequate judgment on the Report.

The intended users of this assurance statement are stakeholders who have relevance to Huali Group overall ESG performance and impacts of its business activities during year 2023 (1 January 2023 ~ 31 December 2023).

TÜV Rheinland is a global service provider of Corporate Social Responsibility (CSR) & Sustainability Services in over 65 countries, having qualified professionals in the field of Corporate Sustainability Assurance, Environment, Social and Stakeholder Engagement. We have maintained complete impartiality and independence during the assurance engagement, and we were not involved in the preparation of the Report contents.

Assurance Standard

TÜV Rheinland undertook the assurance work in accordance with the AA1000 Assurance Standard v3 (AA1000AS v3) Moderate level of assurance.

Scope & Type of Assurance

Our assurance engagement was carried out in accordance with the AA1000AS v3, Type 1, Moderate level on Huali Group ESG performance information and data disclosed in the Report. The following assurance criteria were used in performing the assurance work:

- With reference to GRI Sustainability Reporting Standards (GRI Standards)
- The United Nations Sustainable Development Goals (UN SDGs)
- Adherence to the AA1000 AccountAbility Principles of *Inclusivity, Materiality, Responsiveness, and Impact*.

Assurance Methodology

Our assurance activities included:

- Reviewing the company's management practices and processes to evaluate ESG management system, including ESG governance, compliance management, risk management, stakeholder communication, material issue analysis, and ESG-related key performance.
- Conducting interviews with company management and managers responsible for gathering and analyzing information on ESG performance.
- Reviewing and examining ESG management practices and performance information and data to test the accuracy of such information and data based on a sample basis and applied analytical procedures.
- Reporting assurance observations to management provides an opportunity for the company to take corrective actions before the assurance process is completed.
- Collecting documentary evidence and assessing management representations to support adherence to the AccountAbility Principles.

Limitations

TÜV Rheinland performed the assurance based on the scope of defined engagement agreement, and on a moderate level assurance under the AA1000AS for engagement. Information and performance data subject to assurance is limited to the contents of the Report.

Our assurance work did not cover financial report and its financial data, and other information not related to sustainability.



Conclusions

Based on our methodology and activities performed within the scope of this assurance, we can reach a conclusion that no instances or information came to our attention that would be to the contrary of the statement made as below:

- ESG report (2023) of Huali Group and its contents, to a large extent, adhere to the AA1000 AccountAbility Principles. For a summary and evidence of such adherence, the following content of *Inclusivity, Materiality, Responsiveness and Impact* is addressed.
- Huali Group has implemented management processes to collect and aggregate key performance data related to significant issues within the reporting boundary.
- The ESG-related information and performance indicators disclosed in this report have been evaluated and supported by documentary evidence.

TÜV Rheinland shall not bear any liability or responsibility to a third party for perception and decision on Huali Group based on this Assurance Statement.

Adherence to the AA1000 AccountAbility Principles

Inclusivity

The key stakeholders identified by the Huali Group include shareholders and investors, customers, employees, suppliers and partners, communities, governments and regulators. The company understands and responds to the views and demands of stakeholders through routine communication, work meetings, exchange visits and other channels. Supporting evidence shows that the company conducted a stakeholder questionnaire on sustainability issues in 2023 and analyzed the results for the annual materiality assessment. We recommend that Huali Group should establish a stakeholder engagement process and strategy and evaluate the results and impact of stakeholder engagement and communication.

Materiality

Based on the analysis of the results of the stakeholder questionnaire, Huali Group evaluates and prioritizes significant issues from the two dimensions of "importance to the company" and "importance to stakeholders". As revealed in the issue matrix, issues of high importance include, but are not limited to, energy management and greenhouse gas emissions, pollution management, chemical management, zero tolerance for workplace violence and harassment, and compensation and benefits. We recommend that the senior management of Huali Group should fully understand the process of materiality analysis and determination, and review and approve the results of the materiality assessment.

Responsiveness

Through a variety of communication channels, Huali Group is able to respond in a timely and appropriate manner to the sustainability concerns of its key stakeholders. Responses include government communications, information disclosure, customer meetings, employee and supplier training, grievance mechanisms, and community welfare activities.

This report discloses key performance indicator data covering supplier management, energy consumption, greenhouse gas emissions, employee employment, and occupational health and safety.


Impact

Risk management and internal control mechanisms of Huali Group mainly focus on fair competition, information security, supply chain management, occupational health and safety, etc. We recommend that Huali Group should conduct comprehensively an analysis of the impact of ESG on the company's operations, including appropriate processes to measure, evaluate and manage the impact.

Daniel Pan

Corporate Sustainability Service Technical Manager
TÜV Rheinland (Shanghai) Co., Ltd
Shanghai, China, 7 April 2024

GRI Indicator Index

Report Framework	GRI Standard	SDGs
Corporate Governance		
About Huali	102-1, 102-2, 102-3, 102-6, 102-9, 102-10, 201-1	 
Business Ethics	205-2	
Information and Product Security	418-1	
Business Operations		
Quality Management		  
R&D Innovation		
Customer Service		
Supply Chain Management	308-1, 414-1	
Occupational Health and Safety	403-1 to 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		
Environmental Management	306-1, 306-2, 306-3, 306-4, 306-5	
Talent Development		
Employee Benefits	102-30305-5, 305-6, 305-7	     
Talent Structure	102-7, 401-1, 401-2, 401-3, 404-2, 404-3, 405-1, 405-2	
Social Contributions		
Employee Care		  
Public Welfare Charity		
Appendix		
Stakeholder Communication and Substantive Analysis	102-29	
TUV Certification Statement		
GRI Indicator Index		