Stock Code:1307

2020 ANNUAL REPORT

Printed on: May 11, 2021
Annual Report is available at:
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Notice to readers
This English-version annual report is a summary translation of the Chinese version and is not an official document of the shareholders' meeting.
If there is any discrepancy between the English version and Chinese version, the Chinese version shall prevail.

三芳化學工業股份有限公司
SAN FANG CHEMICAL INDUSTRY CO., LTD.

I. The title, telephone number, and e-mail of the Company's spokesperson and acting spokesperson:

Spokesperson:	Acting spokesperson:
Name: Hsin-Hung Lin	Name: Wei-Chu Chen
Title: Financial officer	Title: Human resources officer
Telephone: (07)3712111	Telephone: (07)3712111
E-mail: lhh@sanfang.com.tw	E-mail: cvg@sanfang.com.tw

II. Address and telephone of the head office and branches:

Company:
No. 120, Dihua St., Sanmin District, Kaohsiung City (07)3712111

Taipei Office:
7F, No. 20, Lane 768, Sec. 4, Bade Rd., Nangang District, Taipei City (02)27155441

Taichung Office:
33F, No. 213, Chaofu Rd., Xitun District, Taichung City (04)4632028

Kaohsiung Office:
No. 402, Fengren Rd., Renwu District, Kaohsiung City (07)3712111

Kaohsiung Factory:
No. 402, Fengren Rd., Renwu District, Kaohsiung City (07)3712111

III. Name, address, website, and telephone number of the stock transfer agency:
CTBC Bank Stock Affairs Department
Address: 5F, No. 83, Sec. 1, Chongqing S. Rd., Taipei City
Telephone: (02)66365566
Website: http://www.ctbcbank.com

IV. CPA who audited the financial statements for the most recent year
Name of CPA: CPA Chiu-Yen Wu and Chia-Ling Chiang
CPA firm name: Deloitte Taiwan
Address: 3F, No. 88, Chengkung 2nd Rd., Qianzhen District, Kaohsiung City
Telephone: (07)5301888
Website: http://www.deloitte.com.tw

V. Name of overseas stock exchange for overseas negotiable securities:
No overseas negotiable securities were issued

Method for accessing information on overseas negotiable securities: N/A

IV. Company website: http://www.sanfang.com.tw

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Chapter 1. Letter to Shareholders

Dear shareholders:

2020 was the most difficult and unpredictable year in the international business environment. COVID-19 spread throughout the world and severely endangered the health and lives of human beings. Countries closed their borders and ordered citizens to stay at home, which devastated the globalized economy. In response to the dire circumstances that rapidly struck, the Company monitored changes in the demand of international shoe brands, and quickly provided integrated plans accordingly. All employees advanced cautiously, reducing expenses and inventory in coordination with the Company to ensure there is sufficient working capital. Furthermore, the Company was able to activate the equipment of its new businesses last year with the guidance and assistance of Taiwan Textile Research Institute, and was able to enter the manufacturing of medical grade melt-blown fabric, which contributed to our profits. Generally speaking, COVID-19 devastated consumer markets around the world. Purchase orders from brand customers significantly decreased, there was a shortage of raw materials, and transportation was delayed. USD depreciated about 5% against NTD and caused revenue and profits to both decline. Our operating revenue of NT$8.44 billion in 2020 was down approximately 17.8% compared with the same period last year, and consolidated net income after tax of NT$220 million was down approximately 49.4% compared with the same period last year.

The successful release of vaccines in 2021 is expected to reign in COVID-19, and the global economy will return to growth from all the pent-up demand. Demand on the delivery time of shoe materials, significant rise in raw materials costs, and tight schedules and rising costs of transportation are all challenges that the Company cannot avoid, but they are also growth opportunities. In an environment full of challenges and opportunities, we will insist on bravely engaging in innovation and widely accepting diversity, placing equal emphasis on quantity and quality to achieve revenue growth, in hopes of making greater breakthrough in our operations.

<u>Summary of Business Plan and Implementation Results</u>

Unit: Thousand NTD

Item \ Year	2020		2019		Rate of change
	Amount	Ratio	Amount	Ratio	
Net operating revenues	8,441,756	100%	10,271,411	100%	(17.81%)
Operating margin	1,863,671	22%	2,367,373	23%	(21.28%)
Operating net profit	498,351	6%	651,090	6%	(23.46%)
Pre-tax profit	344,253	4%	640,646	6%	(46.26%)
Net profit after tax	218,012	3%	430,420	4%	(49.35%)
Earnings per share (NTD)	0.55		1.08		

Solid R&D capabilities

International sports brands are designing shoes with more diverse materials in response to the global trend of environmental protection and green energy, rising labor costs, and labor shortage. No-sew and automated processes will continue to be developed and extensively applied in shoe factories, and demand in the TPU film market will show corresponding growth. The Company not only focuses on the development of textures of artificial leather and film, but also recyclable materials and water-based eco-friendly materials. The Company is also actively investing R&D resources into functional clothing materials, high-end medical materials, and industrial filter materials, in order to increase the added value of products in new application markets.

Influence from the Macro Environment, External Competition, and Regulatory Environment

Spread of COVID-19 slowed as countries began to administer vaccines, and lockdown and border controls were gradually relaxed. The global economy is expected to gradually recover in 2021, and demand on artificial leather will gradually recover. The overall business environment will move in a positive direction. Besides engaging in product R&D and continuing to improve productivity, the Company is dedicating its efforts to market expansion, so as to create business opportunities. The Company is also strengthening compliance and corporate governance to create common benefits for customers, employees, shareholders, and society.

International brands are attaching great importance to green energy and eco-friendly products due to the rising awareness of environmental protection, and the Company is working to increase the ratio of its eco-friendly products. We are developing products with low energy consumption and use clean fuel in our processes in order to fulfill our corporate social responsibility towards environmental sustainability.

Vision and Outlook

Over the years, the Company has developed a wide variety of product lines in the shoe materials market for different market positioning and to meet different demands on shoe products. We have created differentiated products and increased the added value of products, establishing a quality assurance system that has obtained the certification of numerous brands and ensures product quality for customers. We have strengthened our cooperation with the world's leading brands, participated in customers' product innovation strategy, and gained the opportunity to take part in development.

Looking towards the future, we will focus on the transition to eco-friendly processes and recyclable materials in a circular economy, and further optimize current raw materials for promotion in different material application markets. We will integrate supply chain management and strategically work with competitive raw materials suppliers, in order to flexibly and rapidly meet customers' needs, lower inventory cost, and develop green products for energy conservation and carbon reduction. We will develop international business abilities and fulfill our social responsibility towards the environment, create a friendly work environment for employees, and provide customers with more competitive services, while creating better return on investment for shareholders.

Finally, I would like to thank shareholders for your care and support for San Fang, and express my deepest gratitude to shareholders, directors, and all employees. I wish you all good health, peace, and success.

Mun-Jin Lin

Chairman

June 22, 2021

Chapter 2. Company Overview

I. Date of Establishment: June 16, 1973.

II. Company History:

The Company was founded in Kaohsiung City on June 16, 1973, and mainly aimed to construct a PU synthetic leather factory using new production methods. Construction began in 1974, a trial run was carried out in April 1975, and formal production began in June the same year.

The Company was founded over forty years ago, and its capital increase is briefly described below:

1. When the Company was first established, it was located at No. 402, Fengren Rd., Renwu District, Kaohsiung City with a capital of NT$30,000,000.
2. The Company increased its capital by NT$30,000,000 million in cash in January 1975 to improve its financial structure, and its registered capital was NT$100,000,000.
3. The Company increased its capital by NT$40,000,000 in cash in December 1975 in coordination with its business expansion, and the full amount of its registered capital was NT$100,000,000 was paid in.
4. The Company began to diversify in coordination with its business policy to accelerate its growth, and purchased equipment from two companies Qinsheng and Lixin in October 1977. The Company began to relocate the equipment in December the same year and completed installation in February 1978. Production using the equipment began in March the same year, and significantly lowered production cost, resulting in higher profits each year.
5. The annual shareholders' meeting approved a cash capital increase in the amount of NT$45,000,000 in April 1980, and capitalized profits in the amount of NT$55,000,000. The capital was used to add a new factory, coating machine, and auxiliary processing equipment. The registered capital was changed to NT$200,000,000.
6. The annual shareholders' meeting approved the capitalization of profits in the amount of NT$100,000,000 in April 1982 to add raising and dyeing equipment. The registered capital was changed to NT$300,000,000.
7. The annual shareholders' meeting adopted the resolution to capitalize profits in the amount of NT$189,000,000 in April 1984, and added new tape machine and non-woven fabric machine. Of the Company's capital surplus, NT$21,000,000 was capitalized and total capital was changed to NT$510,000,000. The Company was approved to become publicly traded starting on November 23, 1985.
8. The annual shareholders' meeting approved the capitalization of profits in the amount of NT$61,200,000 in April 1986, and the capital was used to add DMF recycling and wet coating machine. The registered capital was changed to NT$571,200,000.
9. The annual shareholders' meeting approved the capitalization of profits in the amount of NT$91,392,000 in April 1987, and the capital was used to add a factory, dry coating machine,

and tape machine. The registered capital was changed to NT$662,592,000.

10. The annual shareholders' meeting approved the capitalization of profits in the amount of NT$93,388,800 million in April 1988, and the capital was used to add natural leather production equipment. The registered capital was changed to NT$761,980,800.
11. The annual shareholders' meeting approved the capitalization of profits in the amount of NT$78,198,038 in April 1989, and the capital was used to add extruders. The registered capital was changed to NT$838,178,880.
12. The annual shareholders' meeting approved the capitalization of profits in the amount of NT$71,245,200 in May 1990, and the capital was used to add non-woven fabric machines. Capital surplus in the amount of NT$12,572,690 was capitalized. The registered capital was changed to NT$921,996,070.
13. The annual shareholders' meeting approved the capitalization of profits in the amount of NT$79,297,20 in May 1991, and the capital was used to add microfiber fabric and microfiber artificial leather equipment. Capital surplus in the amount of NT$12,907,950 was capitalized. The registered capital was changed to NT$1,014,196,440.
14. The annual shareholders' meeting approved the capitalization of profits in the amount of NT$121,703,580 in April 1992, continuing the capital increase for adding microfiber fabric and microfiber artificial leather equipment. The registered capital was changed to NT$1,135,900,020.
15. The annual shareholders' meeting approved the capitalization of profits in the amount of NT$136,308,000 in May 1993, and the capital was used to add wet coating machines and DMF wastewater recycling equipment. The registered capital was changed to NT$1,272,208,020.
16. The annual shareholders' meeting approved the capitalization of profits in the amount of NT$165,387,050 in April 1994, continuing the capital increase in 1993 and registered capital was NT$1,900,000,000. Paid-in capital was NT$1,437,595,070.
17. The annual shareholders' meeting approved the capitalization of profits in the amount of NT$143,759,510 in May 1995, and the capital was used to add microfiber manufacturing equipment. The paid-in capital was NT$1,581,354,580.
18. The Board of Directors adopted the resolution to issue 30,000,000 new shares at NT$14.5 for capital increase by cash. The shares were issued at a premium and raised NT$435,000,000 in total. Along with the capitalization of profits to purchase microfiber equipment and repay loans in 1995, paid-in capital was NT$1,881,354,580.
19. The annual shareholders' meeting approved the capitalization of profits in the amount of NT$188,135,460 in April 1998, and the capital was used to purchase non-woven fabric machines. The paid-in capital was NT$2,069,490,040. It is an indirect investment in China. The Company invested in and holds 100% shares of San Fang Financial Holdings Co., Ltd., and indirectly invested in Taihuangdao Fusheng Chemical and Leather-making Co., Ltd.

through San Fang Financial Holdings Co., Ltd. this year, holding 7.29% shares.

20. To expand into the North China market in 1999, the Company indirectly invested in Taihuangdao Sanfeng Chemical and Leather-making Co., Ltd. through San Fang Financial Holdings Co., Ltd. in 1999, indirectly holding 100% shares.
21. The Company invested in and holds 100% shares of San Fang Development Co., Ltd. in 2000 for global development. The Company indirectly invested in and holds 100% shares of San Fang International Co., Ltd. Through San Fang Development Co., Ltd.
22. The Company indirectly invested in 8% shares of Yentai Wanhua Microfibre Co., Ltd. through San Fang Financial Holdings Co., Ltd. for its business development in 2001. The Company established San Fang International Co., Ltd. for investment purposes, and renamed it Forich Advanced Materials Co., Ltd. in November 2012 due to business needs. Capital increase and reduction was carried out in January 2014 and the Company currently holds 100% shares of Forich Advanced Materials Co., Ltd.
23. The annual shareholders' meeting approved the capitalization of profits in the amount of NT$206,949,000 in May 2003, and the capital was used to replenish working capital in coordination with business needs. The paid-in capital was NT$2,276,439,040. The Company established Grand International Investment Co., Ltd. (GII) through San Fang Development Co., Ltd. for global development, and indirectly invested in San Fang Vietnam Co., Ltd., a processing plant in Vietnam, through GII.
24. The annual shareholders' meeting approved the capitalization of profits in the amount of NT$227,643,900 in May 2004, and the capital was used to replenish working capital in coordination with business needs. The paid-in capital was NT$2,504,082,940. Organizational restructuring was carried out for the convenience of management, and GII shares original held by San Fang Development went through capital reduction and became held by the newly established wholly-owned subsidiary Grand Capital Limited.
25. The Company established Bestac Advanced Material Co., Ltd. in 2005 to engage in the development of new businesses and sale of new products, so as to enhance the Company's competitiveness.
26. The Company established Foretrol Precision Materials Co., Ltd. in 2007 to expand its scope of business and engage in the development, manufacturing, and sales of new businesses and new products.
27. The annual shareholders' meeting approved the capitalization of profits in the amount of NT$125,204,150 in June 2008, and the capital was used to replenish working capital in coordination with business needs. The paid-in capital was NT$2,629,287,090.
28. The annual shareholders' meeting approved the capitalization of profits in the amount of NT$341,807,330 in June 2009, and the capital was used to replenish working capital in coordination with business needs. The paid-in capital was NT$2,971,094,420.
29. GLC invested in and holds 100% shares of Java Ocean Business Limited (JOB) in September

2009 for global development, and then JOB invested in P.T. San Fang, which established a processing plant in Indonesia.

30. SFD invested in and holds 100% shares of Brave Business Holding Limited (BBH) in November 2010 for global development, and then BBH established Dongguan Fucang Shoe Materials Co., Ltd. in April 2010.
31. The annual shareholders' meeting approved the capitalization of profits in the amount of NT$148,554,730 in June 2010, and the capital was used to replenish working capital in coordination with business needs. The paid-in capital was NT$3,119,649,150.
32. The annual shareholders' meeting approved the capitalization of profits in the amount of NT$311,964,920 in June 2011, and the capital was used to replenish working capital in coordination with business needs. The paid-in capital was NT$3,431,614,070.
33. The annual shareholders' meeting approved the capitalization of profits in the amount of NT$102,948,430 in June 2012, and the capital was used to replenish working capital in coordination with business needs. The paid-in capital was NT$3,534,562,500.
34. The annual shareholders' meeting approved the capitalization of profits in the amount of NT$106,036,810 in June 2013, and the capital was used to replenish working capital in coordination with business needs. The paid-in capital was NT$3,640,599,380. The subsidiary Sanfeng Chemical originally leased land and plant from the local development zone for its production and sales activities. Sanfeng Chemical received a notice in July 2010 that the local government passed the policy to change Qinhuangdao Development Zone into a commercial district, and that it needed to terminate its lease agreement and handover land and equipment before September 2010. Sanfeng Chemical terminated production at the end of September 2010 and completed liquidation procedures in July 2013. De-registration was approved by the local competent authority in September 2013. The subsidiary GCL increased its investment by NT$470,793,000 in November 2013.
35. The annual shareholders' meeting approved the capitalization of profits in the amount of NT$109,217,990 in June 2014, and the capital was used to replenish working capital in coordination with business needs. The paid-in capital was NT$3,749,817,370. Subsidiary San Fang Financial Holdings Co., Ltd. reduced capital by US$1,550,000 in August 2014 and refunded payments for shares.
36. The annual shareholders' meeting approved the capitalization of profits in the amount of NT$112,494,530 in June 2015, and the capital was used to replenish working capital in coordination with business needs. The paid-in capital was NT$3,862,311,900. Subsidiary GCL reduced capital and refunded payment for shares in the amount of NT$433,580,000 in July 2015.
37. Subsidiary Foretrol Precision Materials Co., Ltd. increased capital by NT$50,000,000 in March 2016, and paid-in capital was NT$300,000,000.
38. Subsidiary San Fang International Co., Ltd. Invested in Megatrade Profits Limited (MPL) in

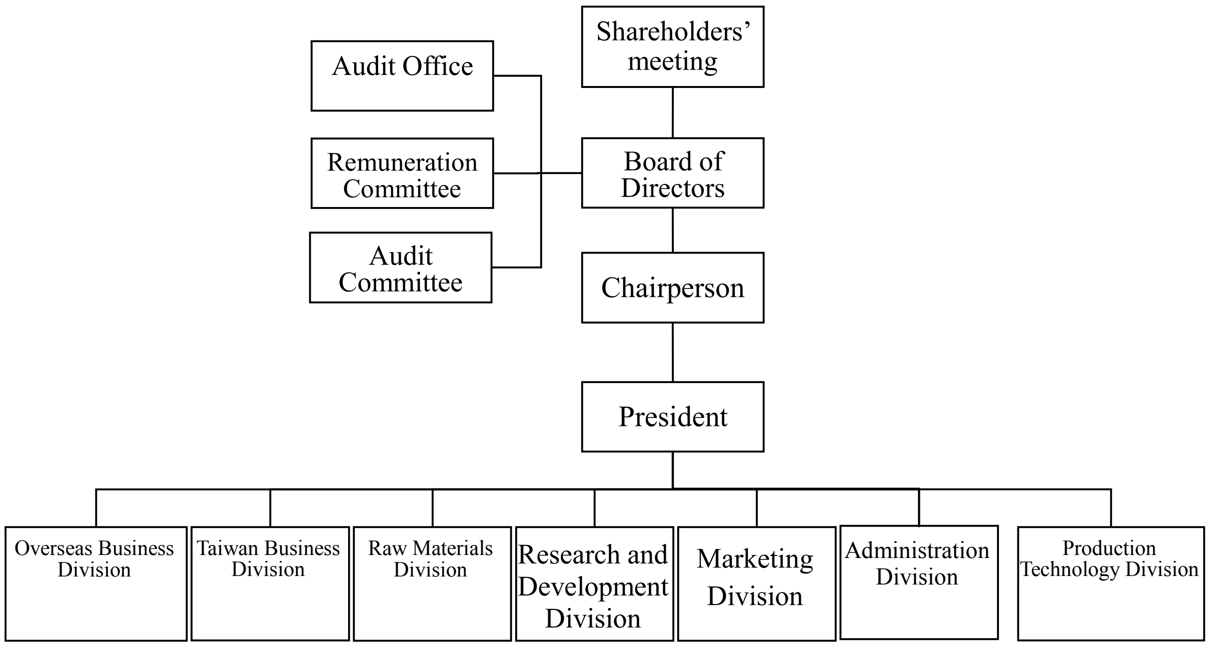
2016, and then MPL invested US$3,484,104 in cash and US$5,515,896 in machinery and equipment in Dongguan Baoliang Material Technology Co., Ltd. (BAL). BAL's paid-in capital was US$9,000,000.

39. The annual shareholders' meeting approved the capitalization of profits in the amount of NT$115,869,360 in June 2016, and the capital was used to replenish working capital in coordination with business needs. The paid-in capital was NT$3,978,181,260.
40. The Company acquired shares of Giant Tramp Limited (GTL) in October 2017 and indirectly obtained 100% shares of Dongguan Yuguo Shoe Materials Co., Ltd.
41. The Company merged BAL and Dongguan Yuguo Shoe Materials Co., Ltd. in April 2018 to integrate resources.
42. The Company merged BAL and Dongguan Fucang Shoe Materials Co., Ltd. in November 2018 to integrate resources.
43. The Company merged Bestac Advanced Material Co., Ltd. and Foretrol Precision Materials Co., Ltd. in October 2019 to integrate resources.
44. The company are certified by IATF16949 in 2019.
45. The company are honored with the successful manufacturer in Epidemic Prevention by The Ministry of Economic Affairs and won the Epidemic Prevention Medal by Ministry of Health and Welfare in 2020.

Chapter 3. Corporate Governance Report

I. Organization

Organizational structure:



Business operations of major departments:

(1) Audit Office: Responsible for regular and irregular audits of operations and systems.

(2) Administration Division: Responsible for matters related to finance, information, human resources, quality assurance, materials, and cost performance.

(3) Research and Development Division: Responsible for research and development of new products and production technologies and modifications.

(4) Raw Materials Division: Responsible for the manufacturing of synthetic resin and microfiber.

(5) Marketing Division: Responsible for marketing, price setting, customer development, product sales, sales contract signing, customer services, and account management.

(6) Taiwan Business Division: Responsible for manufacturing of artificial leather products and film/fiber products, expansion of production machinery and equipment, maintenance and repair, factory environment maintenance, and industrial safety.

(7) Overseas Business Division: Responsible for the manufacturing and marketing of artificial leather products.

(8) Production Technology Division: Responsible for the modification of current products and production technologies.

II. Information on directors, president, vice presidents, assistant vice presidents, and department and branch directors

(I) Information on Directors

April 24, 2021

Title	Nationality or place of registration	Name	Gender	Date of election (appointment)	Term	Date first elected	Shares held when elected		Shares currently held		Shares held by spouse and underage children		Shares held in the name of others		Experience (Education)	Other positions at the Company or elsewhere	Other managerial officer, director or supervisor who is the spouse or a relative within second degree			Remarks
							Number of shares	Shareholding ratio	Number of shares	Shareholding ratio	Number of shares	Shareholding ratio	Number of shares	Shareholding ratio			Title	Name	Relationship	
Chairperson	ROC	Sanfang Investment Co., Ltd.		2018.6.12	2018.6.12 ~ 2021.6.11	2012.6.6	1,033,574	0.26%	1,143,574	0.29%					N/A	N/A	N/A			N/A
Representative of institutional chairperson	ROC	Representative: Mun-Jin Lin	Male	2018.6.12	2018.6.12 ~ 2021.6.11	2012.6.6	26,239,427	6.60%	26,239,427	6.60%	155,559	0.04%	1,143,574	0.29%	Graduate program					
Director	ROC	Pou Chien Enterprise Co., Ltd.		2018.6.12	2018.6.12 ~ 2021.6.11	2000.5.17	57,991,504	14.58%	38,501,504	9.67%	0	0	0	0	N/A	Director of Pou Chen Corporation, Director of Pou Chien Technology Co., Ltd.	N/A			N/A
Representative of institutional director	ROC	Representative: Chin-Chun Lu	Male	2018.6.12	2018.6.12 ~ 2021.6.11	2000.5.17	0	0	0	0	0	0	0	0	Graduate program					
Director	ROC	Yue Dean Technology Corporation		2018.6.12	2018.6.12 ~ 2021.6.11	2004.5.27	56,788,876	14.28%	37,298,876	9.37%	0	0	0	0	N/A	Pou Chen Corporation Vice President	N/A			N/A
Representative of institutional director	ROC	Representative: Chia-Li Chang	Male	2018.6.12	2018.6.12 ~ 2021.6.11	2017.2.9	0	0	0	0	0	0	0	0	Undergraduate program					

Director	ROC	Pou Chien Technology Co., Ltd.		2018.6.12	2018.6.12 ~ 2021.6.11	20156.9	36,549,118	9.19%	36,549,118	9.18%	0	0	0	0	N/A	Tah Kong Fine Chemical (Kun-Shan) Co., Ltd. Chairperson	N/A	N/A
Representative of institutional director	ROC	Representative: Chia-Hui Teng	Male	2018.6.12	2018.6.12 ~ 2021.6.11	2018.6.12	5,368,891	1.35%	5,368,891	1.35%	20,442	0.01%	0	0	Graduate program			
Independent director	ROC	Li-Syuan Lin	Male	2018.6.12	2018.6.12 ~ 2021.6.11	2015.6.9	0	0	0	0	0	0	0	0	Graduate program	Executive Director of Acosta Ventures (BVI) Limited, Independent Director of Fong-Chien Construction Co., Ltd.	N/A	N/A
Independent director	ROC	Wan-Lin Hsu	Male	2018.6.12	2018.6.12 ~ 2021.6.11	2015.6.9	0	0	0	0	0	0	0	0	Undergraduate program	Member of the Company's Remuneration Committee, Independent Director of JMC Electronics Co., Ltd.	N/A	N/A
Independent director	ROC	Chih-Long Chou	Male	2018.6.12	2018.6.12 ~ 2021.6.11	2018.6.12	0	0	0	0	0	0	0	0	Graduate program	Member of the Company's Remuneration Committee, Supervisor St.Shine Optical Co., Ltd.	N/A	N/A

Note: The Company's chairperson and president are not the same person.

Major shareholders of institutional shareholders April 24, 2021

Name of institutional shareholder	Major shareholders of institutional shareholders	
Sanfang Investment Co., Ltd.	Mun-Jin Lin	100%
Pou Chien Enterprise Co., Ltd.	Pou Chien Chemical (Holdings) Ltd.	100%
Yue Dean Technology Corporation	Great Pacific Investments Limited	100%
Pou Chien Technology Co., Ltd.	Pou Chien Chemical (Holdings) Ltd.	96.31%

Main shareholders of institutional shareholders April 24, 2021

Name of Institution	Major shareholders of institution	
Pou Chien Chemical (Holdings) Ltd.	Key International Co., Ltd.	100%
Great Pacific Investments Limited	Pou Hing Industrial Co. Ltd	100%

April 24, 2021

Qualifications / Name	Has at least five years work experience and the following professional qualifications			Meet the independence criteria												Number of other public companies in which the individual is concurrently serving as an independent director
	An instructor or higher position in a department of commerce, law, finance, accounting, or other academic department related to the business needs of the Company in a public or private junior college, college or university	A judge, public prosecutor, attorney, certified public accountant, or other professional or technical specialists who has passed a national examination and been awarded a certificate in a profession necessary for the business of the company	Have work experience in the field of commerce, law, finance, or accounting, or otherwise necessary for the business of the Company	1	2	3	4	5	6	7	8	9	10	11	12	
Mun-Jin Lin			✓						✓	✓		✓	✓	✓		0
Chin-Chun Lu			✓			✓				✓		✓	✓	✓		0
Chia-Li Chang			✓			✓				✓		✓	✓	✓		0
Chia-Hui Teng			✓	✓			✓			✓		✓	✓	✓		0
Li-Syuan Lin			✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
Wan-Lin Hsu		✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
Chih-Long Chou		✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0

Note: Please tick the corresponding boxes if directors or supervisors have been any of the following during the two years prior to being elected or during the term of office"✓".

(1) Not an employee of the Company or any of its affiliates.
(2) Not a director or supervisor of the Company or any of its affiliates (not applicable in cases where the person is an independent director of the Company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).
(3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of one percent or more of the total number of issued shares of the company or ranks as one of its top ten shareholders.
(4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship of a manager in (1) or personnel in (2) and (3).
(5) Not a director, supervisor, or employee of a corporate shareholder that directly holders 5% or more of the Company's outstanding shares, is a top five shareholder, or appointed a representative as the Company's director or supervisor in accordance with Article 27, Paragraph 1 or 2 of the Company Act (not applicable in cases where the person is an independent director of the Company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).
(6) Not a director, supervisor, or employee of other companies controlled by the same person with over half of the Company's director seats or shares with voting rights (not applicable in cases where the person is an independent director of the Company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).
(7) Not a director, supervisor, or employee of another company or institution who is the same person or spouse of the Company's chairperson, president or equivalent position (not applicable in cases where the person is an independent director of the Company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).
(8) Not a director, supervisor, or managerial officer of a specific company or institution with financial or business dealings with the Company, or shareholder with 5% or more shares of the Company (not applicable in cases where the specific company or institution holds 20% or more but less than 50% of the Company's outstanding shares, and is an independent director of the Company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).
(9) Not a professional individual who, or an owner, partner, director, supervisor, or manager of a sole proprietorship, partnership, company, or institution that audited or provided commercial, legal, financial, or accounting services for total compensation not exceeding NT$500,000 in the most recent two years to the company or to any affiliate of the company, or a spouse thereof. This does not apply to members of the Remuneration Committee, Public Tender Offer Review Committee, or Merger and Acquisition Special Committee performing duties in accordance with the Securities and Exchange Act or laws and regulations related to mergers and acquisitions.
(10) Not having a marital relationship, or a relative within the second degree of kinship to any other director of the company.
(11) Not having any of the situations set forth in Article 30 of the Company Act of the R.O.C.
(12) Not a government agency, juristic person, or its representative set forth in Article 27 of the Company Act of the R.O.C.

(II) President, Vice Presidents, Assistant Vice Presidents, and Department and Branch Directors

April 24, 2021

Title	Nationality	Name	Gender	Date of election (appointment)	Shares held		Shares held by spouse and underage children		Shares held in the name of others		Experience (Education)	Concurrently held positions in other companies	Other manager who is the spouse or a relative within the second degree			Remarks
					Number of shares	Shareholding ratio	Number of shares	Shareholding ratio	Number of shares	Shareholding ratio			Title	Name	Relationship	
President	ROC	Chih-I Lin	Male	2018.6.22	0	0.00%	0	0.00%	0	0.00%	Undergraduate program	N/A	N/A			N/A
Vice President	ROC	Chin-Fa Chiu	Male	2015.7.1	0	0.00%	0	0.00%	0	0.00%	Senior High School	N/A	N/A			N/A
Vice President	ROC	Wei-Chu Chen	Male	2015.7.1	10,566	0.00%	0	0.00%	0	0.00%	Graduate program	N/A	N/A			N/A
Vice President	ROC	Kuo-Kuang Cheng	Male	2015.7.1	1,156	0.00%	0	0.00%	0	0.00%	Ph.D	N/A	N/A			N/A
Vice President	ROC	Li-Chuan Li	Male	2015.7.1	0	0.00%	0	0.00%	0	0.00%	Undergraduate program	N/A	N/A			N/A
Vice President and Financial Officer	ROC	Hsin-Hung Lin	Male	2007.9.1	0	0.00%	0	0.00%	0	0.00%	Graduate program	N/A	N/A			N/A
Head of accounting	ROC	Hua-Hsing Wang	Male	2015.8.7	0	0.00%	0	0.00%	0	0.00%	Undergraduate program	N/A	N/A			N/A

Note 1: The Company's managers did not work for the certifying accounting firm or its affiliated enterprises in the past year.
Note 2: The Company's chairperson and president are not the same person.

(III) The chairperson and president or equivalent position (highest level managerial officer) is the same person, the spouse, or a first-degree relative: N/A.

III. Remunerations to directors, president, and vice presidents in the most recent year

(I) Director's remuneration

Unit: Thousand NTD

Title	Name	Director's remuneration								Ratio of total remuneration (A+B+C+D) to net income after tax		Pay received as an employee								Ratio of total compensation (A+B+C+D+E+F+G) to net income after tax		Remuneration received from investee companies other than subsidiaries or the parent company
		Remuneration (A)		Severance pay and pension (B)		Directors' remuneration (C) Note 5		Business expense (D)				Salary, bonus and special allowance (E)		Severance pay and pension (F)		Employee bonuses (G)						
																The Company		All Consolidated Entities				
		The Company	All Consolidated Entities	The Company	All Consolidated Entities	The Company	All Consolidated Entities	The Company	All Consolidated Entities	The Company	All Consolidated Entities	The Company	All Consolidated Entities	The Company	All Consolidated Entities	Cash amount	Stock amount	Cash amount	Stock amount	The Company	All Consolidated Entities	
Chairperson	Sanfang Investment Co., Ltd. Representative: Mun-Jin Lin	807	807	0	0	6,188	6,188	720	720	3.53	3.53	0	0	0	0	0	0	0	0	3.53	3.53	N/A
Director	Pou Chien Enterprise Co., Ltd. Representative: Chin-Chun Lu																					
Director	Yue Dean Technology Corporation Representative: Chia-Li Chang																					
Director	Pou Chien Technology Co., Ltd. Representative: Chia-Hui Teng																					
Independent director	Li-Syuan Lin	1,560	1,560	0	0	0	0	0	0	0.71	0.71	0	0	0	0	0	0	0	0	0.71	0.71	N/A
Independent director	Wan-Lin Hsu																					
Independent director	Chih-Long Chou																					

Note 1: The policy, system, standard, and structure of remuneration to independent directors, and the correlation between duties, risk, and time input with the amount of remuneration:

The Company's independent directors do not participate in the distribution of directors' remuneration to maintain their independence, and received fixed monthly salaries instead. The remuneration of the Audit Committee's convener is 1.25 times that of independent directors because the convener is responsible for convening and handling related matters of the Audit Committee and for approving audit reports.

Note 2: The remuneration of directors providing services (e.g. providing consulting services as a non-employee) to the Company and all consolidated entities in the past year: N/A

Note 3: No individual director received remuneration exceeding NT$15 million.

Note 4: No directors pledged more than 50% shares in the most recent year.

Note 5: The amount to be distributed was approved by the Board of Directors on March 16, 2021.

Note 6: The Company ranked in the top 36% to 50% among public companies in the 7th Corporate Governance Evaluation.

Note 7: The average annual salary of the Company's full time non-managerial employees was higher than NT$500,000 in the most recent year.

Range of remuneration chart

Remuneration scale applicable to the Company's directors	Name of director			
	Total of (A+B+C+D)		Total of (A+B+C+D+E+F+G)	
	The Company	All Consolidated Entities H	The Company	All Consolidated Entities I
Less than NT$1,000,000	Li-Syuan Lin, Wan-Lin Hsu, Chih-Long Chou	Li-Syuan Lin, Wan-Lin Hsu, Chih-Long Chou	Li-Syuan Lin, Wan-Lin Hsu, Chih-Long Chou	Li-Syuan Lin, Wan-Lin Hsu, Chih-Long Chou
NT$1,000,000 (inclusive) to NT$2,000,000 (exclusive)	Pou Chien Enterprise Co., Ltd., Yue Dean Technology Corporation, Pou Chien Technology Co., Ltd.	Pou Chien Enterprise Co., Ltd., Yue Dean Technology Corporation, Pou Chien Technology Co., Ltd.	Pou Chien Enterprise Co., Ltd., Yue Dean Technology Corporation, Pou Chien Technology Co., Ltd.	Pou Chien Enterprise Co., Ltd., Yue Dean Technology Corporation, Pou Chien Technology Co., Ltd.

NT$2,000,000 (inclusive) to NT$3,500,000 (exclusive)	Sanfang Investment Co., Ltd.	Sanfang Investment Co., Ltd.	Sanfang Investment Co., Ltd.	Sanfang Investment Co., Ltd.
NT$3,500,000 (inclusive) to NT$5,000,000 (exclusive)				
NT$5,000,000 (inclusive) to NT$10,000,000 (exclusive)				
NT$10,000,000 (inclusive) to NT$15,000,000 (exclusive)				
NT$15,000,000 (inclusive) to NT$30,000,000 (exclusive)				
NT$30,000,000 (inclusive) to NT$50,000,000 (exclusive)				
NT$50,000,000 (inclusive) to NT$100,000,000 (exclusive)				
NT$100,000,000 and above				
Total	7	7	7	7

Note 1: The Company's 3 independent directors have not served for more than 9 years and do not concurrently hold the position of director and supervisor of more than 5 TWSE/TPEx-listed companies.
Note 2: The Company has 0 executive directors, which does not exceed 1/3 of all director seats.

(II) Remuneration to supervisors: The Company does not have any supervisors.

(III) Remunerations to the president and vice presidents Unit: Thousand NTD

Title	Name	Salary (A)		Severance pay and pension (B)		Bonuses and allowances, etc. (C)		Employee bonuses (D)				Ratio of total remuneration (A+B+C+D) to net income after tax		Remuneration received from investee companies other than subsidiaries or the parent company
		The Company	All Consolidated Entities	The Company	All Consolidated Entities	The Company	All Consolidated Entities	The Company		All Consolidated Entities		The Company	All Consolidated Entities	
								Cash amount	Stock amount	Cash amount	Stock amount			
President	Chih-I Lin	5,960	6566	353	353	10,392	10,392	205	0	205	0	7.75%	8.03%	N/A
Vice President	Chin-Fa Chiu													
Vice President	Hsin-Hung Lin													
Vice President	Wei-Chu Chen													
Vice President	Kuo-Kuang Cheng													
Vice President	Li-Chuan Li													

Note 1: All amounts for severance pay and pension are the amount allocated.

Note 2: The Company did not have any net loss after tax and was not ranked in the lowest bracket of the Corporate Governance Evaluation in the past three years. Hence, the Company does not need to disclose its top five highest paid managers.

Information on highest paid managers

Range of remuneration chart

Range of remuneration paid to presidents and vice presidents	Names of president and vice presidents	
	The Company	All Consolidated Entities
Less than NT$1,000,000		
NT$1,000,000 (inclusive) to NT$2,000,000 (exclusive)		
NT$2,000,000 (inclusive) to NT$3,500,000 (exclusive)	Chin-Fa Chiu, Hsin-Hung Lin, Wei-Chu Chen, Kuo-Kuang Cheng, Li-Chuan Li	Chin-Fa Chiu, Hsin-Hung Lin, Wei-Chu Chen, Kuo-Kuang Cheng, Li-Chuan Li
NT$3,500,000 (inclusive) to NT$5,000,000 (exclusive)	Chih-I Lin	Chih-I Lin
NT$5,000,000 (inclusive) to NT$10,000,000 (exclusive)		
NT$10,000,000 (inclusive) to NT$15,000,000 (exclusive)		
NT$15,000,000 (inclusive) to NT$30,000,000 (exclusive)		
NT$30,000,000 (inclusive) to NT$50,000,000 (exclusive)		
NT$50,000,000 (inclusive) to NT$100,000,000 (exclusive)		
NT$100,000,000 and above		
Total	6	6

(IV) Names of managerial officers that received employee bonuses and status of the distribution

Unit: Thousand NTD

<table>
<tr><th></th><th>Title</th><th>Name</th><th>Stock amount</th><th>Cash amount</th><th>Total</th><th>Ratio of total amount to net income (%)</th></tr>
<tr><td rowspan="9">Managers</td><td>President</td><td>Chih-I Lin</td><td rowspan="9">No stock dividend were distributed</td><td rowspan="9">310</td><td rowspan="9">310</td><td rowspan="9">0.14%</td></tr>
<tr><td>Vice President</td><td>Chin-Fa Chiu</td></tr>
<tr><td>Vice President</td><td>Wei-Chu Chen</td></tr>
<tr><td>Vice President</td><td>Kuo-Kuang Cheng</td></tr>
<tr><td>Vice President</td><td>Li-Chuan Li</td></tr>
<tr><td>Vice President and Financial Officer</td><td>Hsin-Hung Lin</td></tr>
<tr><td>Senior Manager</td><td>Yi-Cheng Chang</td></tr>
<tr><td>Senior Manager</td><td>Jin-Liang Yi</td></tr>
<tr><td>Head of accounting</td><td>Hua-Hsing Wang</td></tr>
</table>

(IV) Compare the percentage of after-tax net profit distributed by the Company and all companies on the consolidated financial statements as remuneration to the Company's directors, supervisors, president, and vice presidents in the most recent two years, and describe the policy, standard, and composition of remuneration, procedures to determining remuneration, and the connection to business performance and future risks.

The difference in remuneration to directors, supervisors, president and vice president in 2020 compared to 2019 is as follows:

	2020		2019	
Title	The total amount of remuneration to the Company's directors, supervisors, president, and vice presidents from the Company as a percentage of net profit after tax	The total amount of remuneration to the Company's directors, supervisors, president, and vice presidents from all Consolidated Entities as a percentage of net profit after tax	The total amount of remuneration to the Company's directors, supervisors, president, and vice presidents from the Company as a percentage of net profit after tax	The total amount of remuneration to the Company's directors, supervisors, president, and vice presidents from all Consolidated Entities as a percentage of net profit after tax
Director Supervisors President and vice presidents	12.01%	12.28%	6.543%	6.543%

Note: The Company established the Audit Committee on 2018.6.12 to replace the role of the supervisors.

The Company's remuneration policy and standards for directors, president, and vice presidents are in accordance with the Articles of Incorporation and Board resolutions. With regard to the remuneration policy for the president and vice presidents, reasonable remuneration is determined based on the position's scope of authority and responsibility, contribution to the Company's business goals, the decision-making risk borne by the position, risk of unable to achieve business goals, and risk of non-compliance with policies, laws, and regulations. Review of the remuneration above references Article 5 of the Remuneration Committee Charter:

Article 5. The Committee shall perform its duties in the preceding article according to the following principles:

1. Ensure that the Company's overall remuneration is in compliance with the law and sufficient to attract outstanding talent.
2. Performance evaluations and remuneration of directors and managerial officers should take into consideration industry standards, and the reasonableness of the connection with individual performance, the Company's business performance, and future risks.
3. Do not guide directors and managers to engage in actions that exceed the Company's risk appetite for higher remuneration.
4. The percentage of remuneration distributed for the short-term performance of directors and senior executives and the time of payment for variable compensation shall be determined after considering industry characteristics and the nature of the Company's business.
5. Committee members may not participate in discussions and voting on decisions

regarding their individual remuneration.

Remuneration in this Charter includes cash compensation, stock options, bonuses, retirement benefits or severance pay, allowances, and other incentive measures. The scope of remuneration must be consistent with the remuneration to directors and managerial officers in the Regulations Governing Information to be Published in Annual Reports of Public Companies.

The Board of Directors shall comprehensively consider the amount of remuneration, payment method, and the Company's future risks when discussing recommendations of the Committee.

A Board resolution to not accept or to revise the Committee's recommendations shall be adopted by a majority vote in a Board meeting attended by more than two thirds of all directors, and the resolution must explain whether or not the remuneration passed after comprehensive considerations in the preceding paragraph is higher than that recommended by the Committee.

If the remuneration passed by the Board of Directors is higher than that recommended by the Committee, besides specifying the difference and reason in the meeting minutes, it shall be announced and reported on the reporting website designated by the competent authority on the date the resolution is adopted by the Board of Directors.

If the remuneration of directors and managerial officers of the Company's subsidiaries requires approval from the Company's Board of Directors in accordance with the subsidiary's delegation of authority, the Committee shall first be requested to make a recommendation submitted to the Board of Directors for discussion.

Payment of remuneration to directors shall be in accordance with the Articles of Incorporation.

Article 21: The Board of Directors is authorized to determine the regular earnings of directors based on their participation in the Company's operations, value of contributions, and industry standards. Transportation allowance for directors shall be determined by the Board of Directors.

Only directors receive a transportation allowance. Independent directors received fixed compensation and do not receive any variable compensation.

The payment of remuneration to managerial officers is based on the resolution in the 10th meeting of the 11th-term Board of Directors on March 8, 2005.

Agenda content: To formulate regulations on regular earnings of the Company's managerial officers.

Description: (1) Handled according to Article 29 of the Company Act and Letter Tai-Zheng-Shang-Zi No. 0940100293 from Taiwan Stock Exchange Corporation dated February 1, 2005.

(2) To authorize the chairperson to determine the regular earnings of managerial officers based on their participation in the Company's operations, value of contributions, and industry standards, and the same shall apply to any adjustments.

IV. Implementation of Corporate Governance

(I) Status of Board operations

Attendance in person: ○
Attendance by proxy: Δ
On leave: Φ

Director	2020/01/14 16~11 Attendance	2020/03/06 16~12 Attendance	2020/05/08 16~13 Attendance	2020/08/11 16~14 Attendance	2020/11/10 16~15 Attendance	Total of Board of Directors in 2020: Attendance in person	Attendance by proxy	Individual attendance rate
Chairperson Meng-Jing Lin	○	○	○	○	○	5		100%
Director Chia-Li Chang	Δ	Δ	○	○	Δ	2	3	40%
Director Chin-Chun Lu	○	○	○	○	○	5		100%
Director Chia-Hui Teng	○	○	○	○	Φ	4		80%
Independent Director Li-Hsuan Lin	○	○	○	○	Δ	4	1	80%
Independent Director Wan-Lin Hsu	○	○	○	○	○	5		100%
Independent Director Chih-Lung Chou	○	○	○	○	○	5		100%
						30	4	
					Overall attendance rate	86%		

Status of Board Operations

A total of 5 Board meetings were held in the most recent year. The attendance was as follows:

Title	Name	Attendance in person	Attendance by proxy	Attendance in person (%)	Remarks
Chairperson	Sanfang Investment Co., Ltd. Representative: Mun-Jin Lin	5	0	100%	Re-elected
Director	Pou Chien Enterprise Co., Ltd. Representative: Chin-Chun Lu	5	0	100%	Re-elected
Director	Yue Dean Technology Corporation Representative: Chia-Li Chang	2	3	40%	Re-elected
Director	Pou Chien Technology Co., Ltd. Representative: Chia-Hui Teng	4	0	80%	Newly elected on 2018.6.12
Independent director	Li-Syuan Lin	4	1	80%	Re-elected
Independent director	Wan-Lin Hsu	5	0	100%	Re-elected
Independent director	Chih-Long Chou	5	0	100%	Newly elected on 2018.6.12

Other disclosures:

I. If any of the following circumstances occurs in the operation of the Board of Directors, the date, period, content of the motions, the opinions of all independent directors, and the Company's handling of independent directors' opinions shall be stated:

(I) Matters referred to in Article 14 -3 of the Securities and Exchange Act:

Date of Board meeting	Session	Agenda content	All independent directors' opinions	The Company's handling of independent directors' opinions
2020.3.6	12th meeting of the 16th-term	1.Proposal to acknowledge endorsements/guarantees provided by the Company to subsidiaries. 2.Proposed 2019 Statement on Internal Control.	No dissenting or unqualified opinions	Approved as proposed
2020.5.8	13th meeting of the 16th-term	1.Proposal to revise the Company's internal control system.	No dissenting or unqualified opinions	Approved as proposed

(II) In addition to the aforementioned matters, other Board meeting resolutions with independent directors' dissenting and unqualified opinions in records or written statements.

N/A

II. Specify the name of the director, agenda item, reason for recusal, and participation in voting of directors who recused themselves from agenda items they have a conflict of interest.

Recusal of directors from discussion or voting on an agenda item in which they have an interest in the current year

III. TWSE/TPEx-listed companies are required to disclose the evaluation cycle and period, scope of evaluation, evaluation method, and evaluation items of the self (or peer) evaluations conducted by the Board of Directors, and to fill out the implementation of Board evaluations (Table 2).

The implementation status of the 2020 Board of Directors evaluation was reported in the 16th meeting of the 16th-term Board of Directors on January 29, 2021. Please see Table 2 (2) for the implementation status of Board of Directors evaluations.

IV. Goals for enhancing Board functions in the current year and most recent year (such as establishing an Audit Committee and increasing information transparency) and evaluation of implementation status.

1.The Company's Board of Directors operates according to the Rules of Procedure for Board of Directors Meetings and complies with related laws and regulations. Independent directors all personally attended Board meetings for supervision, in order to understand the Company's financial position, business performance, and implementation of major business plans.

2.The Company elected three independent directors during the 2018 shareholders' meeting to participate in Board operations and strengthen corporate governance and Board functions. The independent directors formed an Audit Committee to replace supervisors.

3.The three independent directors have not served consecutive terms for over nine years as of December 31, 2020.

(II) Implementation of Board evaluations:

Evaluation cycle	Evaluation period	Scope of evaluation	Evaluation method	Evaluation items
Once a year	2020.1.1~ 2020.12.31	Board of Directors	Board of Directors	A. Participation in the operation of the Company B. Improving the quality of Board decisions C. Board composition and structure D. Selection and continuing education of directors E. Internal control
Once a year	2020.1.1~ 2020.12.31	Individual Board members	Self-evaluation by directors	A. Understanding of the Company's goals and mission B. Understanding of directors' duties C. Participation in the operation of the Company D. Maintaining internal relationships and communication E. The professional and continuing education of directors F. Internal control
Once a year	109.1.1~ 109.12.31	Functional committees	Peer evaluations	A. Participation in the operation of the Company B. Understanding of the committee's duties C. Improvement of committee decision-making quality D. Composition of committee and member selection E. Internal control

(III) Operation of the Audit Committee

Information on Operations of the Audit Committee

Key work items of the Audit Committee in 2020:

1. Review of financial statements.
2. Amendment to the Company and subsidiaries' "Procedures for Extending Loans to Others" and the Company's internal control system.
3. Assessment of the effectiveness of the internal control system.
4. Review the evaluation of the CPA's independence and competence.

Operation of the Audit Committee in 2020:

Date of Audit Committee meeting	Session	Agenda content	Resolution	The Company's handling of Audit Committee opinions:
2020.3.5	8th meeting of 1st-term	1. Proposed 2019 business report and financial statements. 2. 2019 Dividend distribution proposal. 3. Proposal to amend the Company's Ethical Corporate Management Best Practice Principles. 4. Proposal to revise the Company's Code of Ethical Conduct. 5. Proposal to acknowledge endorsements/guarantees provided by the Company to subsidiaries. 6. Proposed 2019 Statement on Internal Control.	No dissenting or unqualified opinions	Approved as proposed
2020.5.7	9th meeting of 1st-term	1. Proposed 2020 Q1 financial statements. 2. Proposal to revise the Company's internal control system.	No dissenting or unqualified opinions	Approved as proposed
2020.8.10	10th meeting of 1st-term	1. Proposed 2020 2H financial statements.	No dissenting or unqualified opinions	Approved as proposed
2020.11.6	11th meeting of 1st-term	1. 2020 Q3 financial statements. 2. Proposed 2021 audit plan. 3. Evaluation of the CPA's independence and competence in 2020.	No dissenting or unqualified opinions	Approved as proposed

The Audit Committee convened 4 meetings (A) in the most recent year, and the attendance of independent directors in the meetings is as follows:

Title	Name	Attendance in person (B)	Attendance by proxy	Attendance rate (%) (B/A) (Note)	Remarks
Convener	Wan-Lin Hsu	4	0	100%	
Committee Member	Li-Syuan Lin	4	0	100%	
Committee Member	Chih-Long Chou	4	0	100%	

Other disclosures

I. Where any of the following circumstances occurs with respect to the operations of the Audit Committee, the date, session, details of the motions, the resolutions from the Audit Committee, and the Company's measures in accordance with the Audit Committee's recommendations, shall be specified.

(I) Items specified in Article 14-5 of the Securities and Exchange Act:

Date of Board meeting	Session	Agenda content	Resolutions of the Audit Committee	The Company's handling of Audit Committee members' opinions
2020.3.6	12th meeting of the 16th-term	1. Proposed 2019 business report and financial statements. 2. 2019 Dividend distribution proposal. 3. Proposal to acknowledge endorsements/guarantees provided by the Company to subsidiaries. 4. Proposed 2019 Statement on Internal Control.	Approved as proposed	No opinion, submitted to the Company's Board of Directors and passed
2020.5.8	13th meeting of the 16th-term	1. Proposal to revise the Company's internal control system.	Approved as proposed	No opinion, submitted to the Company's Board of Directors and passed
2020.8.11	14th meeting of the 16th-term	1. Proposed 2020 2H financial statements.	Approved as proposed	No opinion, submitted to the Company's Board of Directors and passed
2019.11.7	15th meeting of the 16th-term	1. Proposed 2021 audit plan. 2. Proposal to evaluate the CPA's independence and competence in 2020.	Approved as proposed	No opinion, submitted to the Company's Board of Directors and passed

(II) Besides the matters above, other resolutions adopted with the approval of two-thirds or more of all directors, without having been passed by the Audit Committee: N/A.

II. If independent directors recused from themselves from an agenda item in which they have a conflict of interest, specify the name of the independent director, agenda item, reason for recusal, and participation in voting: N/A.

III. Communication between independent directors and the chief internal auditor and CPAs (must include material matters of communication, methods, results relating to the Company's financial reports and business conditions)

1.The Company's Audit Committee is formed by all independent directors and convenes meetings at least once a quarter. Meetings may be convened at any time when necessary.

2.Communication between the Company's chief internal auditor and Audit Committee

(1)Audit reports are completed each month according to the audit plan, and submitted to independent directors for review before the end of the moth via e-mail or in person.

(2)Internal audit reports are submitted to the Audit Committee each quarter.

(3)Communication, instructions, and responses are provided irregularly via telephone, e-mail, or in person.

(4)Material special events are immediately reported to the Audit Committee.

3.Communication between accountants and the Audit Committee

(1)The Company's CPAs explained key points of review for the 2019 financial statements during the accountant meeting on 2020.03.05, and also explained and communicated opinions on matters of communication required by the law during the accountant meeting on 2020.11.06.

(2)Frequency of communication between accountants and the Audit Committee: At least twice a year.

(3)The Audit Committee may utilize a number of communication channels (e.g. telephone, e-mail, and in person) to discuss the financial statement audit situation and results of the Company's accountants.

(4)A meeting may be scheduled to exchange opinions on important matters.

4.The Company's independent directors have a variety of communication channels and maintain good communication with the chief internal auditor and accountant.

Independent directors communicate with the accountants and chief auditor at least twice a year.

Matters of communication between independent directors, the chief internal auditor, and the accountants in 2020:

Date	Method	Target of communication	Matters of communication	Results
2020.03.05	Reported during meeting with accountants	CPA	1. The accountants explained the financial position and profits/losses in 2019, and discussed issues with the applicability of some accounting principles. 2. The accountants discussed and communicated issues raised by attendees of the meeting.	Fully discussed and fully understood by independent directors. The 2019 financial statements were passed by the Audit Committee, and submitted to the Board of Directors for resolution.
	Reported during Audit Committee meeting	Chief auditor	2019 Q4 internal audit report.	Fully discussed, passed by the Audit Committee, and reported to the Board of Directors.
2020.05.07	Reported during Audit Committee meeting	Chief auditor	2020 Q1 internal audit report.	Fully discussed, passed by the Audit Committee, and reported to the Board of Directors.
2020.08.10	Reported during Audit Committee meeting	Chief auditor	2020 Q2 internal audit report.	Fully discussed, passed by the Audit Committee, and submitted to the Board of Directors for resolution.
2020.11.06	Reported during meeting with accountants	CPA	1. Communication of annual audit plans. 2. Key Audit Matters (KAM). 3. Explained the independence of the CPAs and audit team.	Fully discussed, CPA independence evaluation passed by the Audit Committee, and submitted to the Board of Directors for resolution.
	Reported during Audit Committee meeting	Chief auditor	1. 2020 Q3 internal audit report. 2. Submitted the 2021 internal audit plan.	Fully discussed, passed by the Audit Committee, and submitted to the Board of Directors for resolution.

(IV) Supervisors' participation in the operation of the Board of Directors: The Company does not have any supervisors.

(V) Status of corporate governance and deviations from the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies and reasons

Evaluation item	Implementation status			Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies and reasons
	Yes	No	Summary	
I. Does the company establish and disclose its corporate governance principles in accordance with the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies?	✓		The Company established the "Corporate Governance Best Practice Principles" in accordance with the "Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies" to establish a good corporate governance system, and disclosed the principles on the company website.	No significant difference
II. Shareholding structure & shareholders' rights (I) Does the company establish internal operating procedures for handling shareholder suggestions, questions, complaints or litigation and handled related matters accordingly? (II) Does the company have a list of major shareholders that have actual control over the Company and a list of ultimate owners of those major shareholders? (III) Does the company establish and implement risk management and firewall mechanisms between affiliated enterprises. (IV) Does the company establish internal rules against insiders trading with undisclosed information?	✓ ✓ ✓ ✓		(I) The Company has a spokesperson, acting spokesperson, and Shareholders Service Office to handle related matters. (II) The Company monitors the shareholding of directors, managerial officers, and major shareholders with 10% and above shares, and reports and announces the shareholding when required to. (III) The Company has established and implemented Subsidiary Supervision Regulations (IV) The Company established "Procedures for Handling Material Inside Information and Prevention of Insider Trading" and "Code of Ethics" to regulate ethical conduct.	No significant difference
III. Composition and duties of the board of directors (I) Does the board of directors develop and implement a diversified policy for the composition of its members?	✓		(I) The diversity of Board members should be taken into consideration, so the Company formulated a suitable diversity policy based on the form of its operations and development needs, and implemented the policy accordingly. See Note 1 for the implementation status of the Board diversity policy: 1. Basic qualifications and values: Gender, age, nationality, and culture. 2. Professional knowledge and skills: Professional background (e.g. law, accounting, industry, finance, marketing), professional skills, and industry experience. Board members are required to have the knowledge, skills and the competencies necessary to perform their duties. The Board of Directors should have the following abilities as a whole to achieve the goals of corporate governance:	No significant difference

Evaluation item	Implementation status			Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies and reasons
	Yes	No	Summary	
(II) Does the company voluntarily establish other functional committees in addition to the Remuneration Committee and Audit Committee?	✓		1. Ability to make sound business judgments. 2. Ability to perform accounting and financial analysis. 3. Ability to manage a business. 4. Ability to handle crisis management. 5. Knowledge of the industry. 6. An understanding of international markets. 7. Leadership. 8. Ability to make policy decisions. (II) The Company has not established any other functional committees and will evaluate the establishment of such committees as needed in the future. The Audit Committee was established in 2018.	No significant difference
(III) Does the company establish standards and method for evaluating Board performance, conduct annual performance evaluations, submit performance evaluation results to the Board, and use the results as a basis for determining the remuneration and nomination of individual directors?	✓		(III) The Company established the Rules for Board Performance Self-Evaluations and Peer Evaluations in March 2020. Board performance evaluations must be conducted at least once a year, either through director self-evaluation and Board self-evaluation or evaluation by others. Results of Board performance evaluations are reported in the first Board meeting after the end of the fiscal year. The criteria for Board performance evaluations include the following five aspects: (1)Participation in the operation of the Company. (2)Improvement of the Board of Directors' decision-making quality. (3)Composition and structure of the Board of Directors. (4)The selection and continuing education of directors. (5)Internal control. The criteria for Board member performance evaluation include the following six aspects: (1)Understanding of the Company's goals and mission. (2)Understanding of directors' duties. (3)Participation in the operation of the Company. (4)Maintaining internal relationships and communication. (5)The professional and continuing education of directors. (6)Internal control.	No significant difference

<table>
<tr><th rowspan="2">Evaluation item</th><th colspan="3">Implementation status</th><th rowspan="2">Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies and reasons</th></tr>
<tr><th>Yes</th><th>No</th><th>Summary</th></tr>
<tr><td></td><td></td><td></td><td>An evaluation was conducted in December 2020 via self-evaluation by the Board of Directors and self-evaluation by individual Board members. Results were reported in the Board meeting in January 2020, and the status of Board evaluation was announced in March.
The Board of Directors Standard Operating Procedures for Handling Requests from Directors, so that there is a consistent approach for the Company to handle information required by directors or provide assistance for requests from directors.</td><td></td></tr>
<tr><td>(IV) Does the company regularly evaluate the independence of CPAs?</td><td>✓</td><td></td><td>(IV) The Company evaluates the independence of accountants by a Board resolution. Before appointing accountants, the Company first reviews their independence and requires accountants to provide a "Declaration of Total Independence." The Company has verified that there are no financial interests and business relationships with the accountants other than fees for attestation and tax cases, and that family members of the accountants do not violate independence requirements. The independence of CPAs Chiu-Yen Wu and Chia-Ling Chiang was evaluated and approved by the Board of Directors in 2020.
Evaluation items are as follows:
<table><tr><th>Independence of the accountant Evaluation item</th><th>Evaluation results</th><th>Meet the independence criteria</th></tr><tr><td>1. Do the accountants have direct or material indirect financial interests in the Company?</td><td>No</td><td>Yes</td></tr><tr><td>2. Have the accountants engaged in any loans or guarantees with the Company's directors?</td><td>No</td><td>Yes</td></tr><tr><td>3. Do the accountants have a close business relationship or potential employment relationship with the Company?</td><td>No</td><td>Yes</td></tr></table></td><td>No significant difference</td></tr>
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<table>
<tr><th>Independence of the accountant Evaluation item</th><th>Evaluation results</th><th>Meet the independence criteria</th></tr>
<tr><td>4. Did the accountants and their audit team members serve as director, managerial officer, or position with significant influence on audit work at the Company in the past two years, or are they currently holding such a position?</td><td>No</td><td>Yes</td></tr>
<tr><td>5. Are the accountants providing non-audit services to the Company that may directly affect audit work?</td><td>No</td><td>Yes</td></tr>
<tr><td>6. Are the accountants brokering the stock or other securities issued by the Company?</td><td>No</td><td>Yes</td></tr>
<tr><td>7. Are the accountants serving as the Company's defense attorney or represent the Company in handling a conflict with a third party?</td><td>No</td><td>Yes</td></tr>
<tr><td>8. Are the accountants relatives of the Company's directors, managers, or person holding a position with significant influence on audit work?</td><td>No</td><td>Yes</td></tr>
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</td><td></td></tr>
</table>

Evaluation item	Implementation status			Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies and reasons
	Yes	No	Summary	
IV. Does the public company have a suitable number of competent corporate governance personnel, and has it appointed a corporate governance supervisor responsible for corporate governance matters (including but not limited to providing information for directors and supervisors to perform their duties, assisting directors and supervisors with regulatory compliance, handling matters related to Board meetings and shareholders' meetings, and preparing proceedings for Board meetings and shareholders' meetings)?	✓		The Company has appointed dedicated (concurrent) corporate governance personnel and appointed a corporate governance supervisor in May 2021 to supervise corporate governance affairs. The personnel took 18 hours of courses on corporate governance. (I) The main responsibilities of corporate governance personnel are as follows: 1. Provide directors with the data they need to perform their duties and assist them with compliance. 2. Handle matters related to shareholders' meetings, Board meetings, and committee meetings in accordance with the law. 3. Assist in the implementation and improvement of corporate governance. (II) Implementation status of operations in 2020: 1. Assist the Board of Directors and committees in formulating annual work plans and meeting agenda, prepare meeting materials and compliance reminders. A total of 3 Remuneration Committee meetings, 4 Audit Committee meetings, and 5 Board meetings were completed in 2020. 2. Assist in convening shareholders' meetings. 3. Assist in communication meetings between the Audit Committee, accountants, and chief auditor. 4. Assist in arranging continuing education courses for directors. 5. Review material information announcements on important resolutions of Board meetings and shareholders' meetings, announce correct material information in accordance with the law, and ensure that investors obtain the same information. 6. Organize investor conferences and handle investor related affairs.	No significant difference
V. Does the Company have communication channels with stakeholders (including but not limited to shareholders, employees, customers, and suppliers), a stakeholder section on the Company website, and properly respond to important CSR issues of concern to stakeholders?	✓		(I) The Company has a spokesperson and acting spokesperson, and contact information and financial information are all announced on the Market Observation Post System (MOPS) in accordance with regulations, in order to establish good communication channels with investors. (II) The Company communicates with stakeholders based on the principle of good faith. Related departments contact the parties involved, the President's Office assists in properly responding to important CSR issues that stakeholders are concerned about, and the Audit Office is responsible for supervision. There is a stakeholders section in the Company profile on the MOPS and on the company website, in order to provide smooth communication channels.	No significant difference

Evaluation item	Implementation status			Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies and reasons
	Yes	No	Summary	
VI. Does the company designate a professional shareholder service agency to deal with shareholder affairs?			The Company commissioned CTBC Bank Stock Affairs Department to handle affairs of the shareholders' meeting.	No significant difference
VII. Information disclosure (I) Does the company establish a corporate website to disclose information regarding the company's financial, business and corporate governance status? (II) Does the company have other information disclosure channels (e.g., maintaining an English-language website, appointing responsible people to handle information collection and disclosure, creating a spokesperson system, webcasting investor conference on company website)? (III) Does the company announce and report annual financial statements within two months after the end of each fiscal year, and announce and report Q1, Q2, and Q3 financial statements, as well as monthly operation results, before the prescribed time limit?	✓ ✓ ✓		(I) The Company announces its financial position, business performance, and corporate governance on the MOPS in accordance with the law, and uploads the information on its company website at the same time. (II) The Company has set up an English website with dedicated personnel to collect and disclose information, and information on investor conferences are disclosed on the company website. (III) The Company announces and reports Q1, Q2, and Q3 financial statements and monthly operation results within the prescribed time limit, but the 2020 financial statements were not announced within two months after the end of the fiscal year.	No significant difference
VIII. Is there any other important information to facilitate a better understanding of the company's corporate governance practices (including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, continuing education of directors and supervisors, the implementation of risk management policies and risk evaluation standards, the implementation of customer relations policies, and purchasing insurance for directors and supervisors)?	✓		1. The Company's directors select suitable courses based on their personal schedule and background, and training information is announced on the MOPS. All agenda items are carefully reviewed during every Board meeting, and the operational risks to the Company are properly evaluated. The Company has purchased liability insurance for directors in May 2021.	No significant difference
			2. The Company's material information is handled in accordance with the Taiwan Stock Exchange Corporation Procedures for Verification and Disclosure of Material Information of Companies with Listed Securities, in order to protect the interests of shareholders, stakeholders, and investors. 3. Implementation of risk management policies and risk measurement standards: The Company's major business decisions, investment plans, endorsements and guarantees, lending to others, and bank loans are evaluated and analyzed by the responsible department and decided by the Board of Directors. Each department prevents risks based on risk self-assessment results and improvement measures.	
IX. Specify the improvement of corporate governance with reference to the evaluation of corporate governance by the Corporate Governance Center of Taiwan Stock Exchange Corporation in the most recent year, and the measures prioritized for issues that require improvement. Improvements already made: 1. Prepared and announced the English version annual report for the shareholders' meeting. 2. Prepared and announced the English version financial statements. 3. Appointed a corporate governance supervisor. Improvements not yet made that will be given priority: 1. Announce quarterly financial statements on the same day they are approved by the Board of Directors. 2. Established the Ethical Corporate Management Operating Procedures and Code of Conduct.				

Evaluation item	Implementation status			Deviations from Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies and reasons
	Yes	No	Summary	

X. The Company elected the 16th-term Board of Directors according to its diversity policy in June 2018, and implementation of the Board diversity policy is shown below:

(I) Does the board of directors develop and implement a diversified policy for the composition of its members?

The Company set forth its Board diversity policy in Article 23 of the Corporate Governance Best Practice Principles, including the basic qualifications and values (e.g., gender, age, nationality, and culture) and professional knowledge and skills (e.g. Law, accounting, industry, finance, marketing, or technology) of Board members. The abilities that the Board of Directors should have as a whole to achieve the goals of corporate governance include the ability to make sound business judgments, ability to manage a business, ability to handle crisis management, knowledge of the industry, and financial accounting.

The management goal of the Company's Board diversity policy is to have two or more directors with an expertise in accounting and auditing. The Company has already reached this goal.

Note 1: The Company has a total of 7 directors in the 16th-term Board of Directors, in which 43% are directors who are not concurrently employees of the Company and independent directors. Board members are all in their prime of life and have an abundance of experience in manufacturing and business administration.

The implementation status of the Company's Board diversity policy is shown in the table below:

Core items of diversification Name of director	Gender	Age	Number years served as independent director	Highest degree	Industry experience	Academic experience	Field of expertise
Sanfang Investment Co., Ltd. Representative: Mun-Jin Lin	Male	Mostly between 50 and 65 years old		Master, Johns Hopkins University	✓		Business administration, strategic planning, and corporate development
Pou Chien Enterprise Co., Ltd. Representative: Chin-Chun Lu	Male			Master, College of Management, National Chung Hsing University	✓		Production management and business administration
Pou Chien Technology Co., Ltd. Representative: Chia-Hui Teng	Male			Master of Accounting, New York University	✓		Business administration, accounting, and auditing
Yue Dean Technology Corporation Representative: Chia-Li Chang	Male			South Fiekds College ,UK	✓		Business development
Independent Director Li-Syuan Lin	Male		6 years	Master, University of California	✓		Finance
Independent Director Wan-Lin Hsu	Male		6 years	Bachelor of Business Administration, National Taiwan University	✓		Accounting and auditing
Independent Director Chih-Long Chou	Male		3 years	Master of Financial Management, National Kaohsiung First University of Science and Technology	✓	✓	Accounting and auditing

(VI) If the Company established an Remuneration Committee, disclose its composition, duties, and operations:

(1) Profile of Remuneration Committee members

Position (Note 1)	Qualifications / Name	Has at least five years work experience and the following professional qualifications			Meet the independence criteria (Note 2)										Number of other public companies in which the member also serves as a member of their Remuneration Committee	Remarks
		Lecturer or above at the department of business administration, law, finance, accounting, or a field required by the Company's business at a public or private college	A judge, public prosecutor, attorney, certified public accountant, or other professional or technical specialist who has passed a national examination and been awarded a certificate in a profession necessary for the business of the Company	Have work experience in commerce, law, finance, or accounting or a profession necessary for the business of the Company	1	2	3	4	5	6	7	8	9	10		
Independent director	Wan-Lin Hsu		✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	1	N/A
Independent director	Chih-Long Chou		✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	0	N/A
Other	Po-Jen Hu	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	N/A

Note 1: Please fill in director, independent director, or other in position.

Note 2: If the committee member meets any of the following criteria in the two years before being appointed or during the term of office, please check "✓" the corresponding boxes.

(1) Not an employee of the Company or any of its affiliates.

(2) Not a director or supervisor of the Company or any of its affiliates (not applicable in cases where the person is an independent director of the Company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).

(3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of one percent or more of the total number of issued shares of the company or ranks as one of its top ten shareholders.

(4) Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship of a manager in (1) or personnel in (2) and (3).

(5) Not a director, supervisor, or employee of a corporate shareholder that directly holders 5% or more of the Company's outstanding shares, is a top five shareholder, or appointed a representative as the Company's director or supervisor in accordance with Article 27, Paragraph 1 or 2 of the Company Act (not applicable in cases where the person is an independent director of the Company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).

(6) Not a director, supervisor, or employee of other companies controlled by the same person with over half of the Company's director seats or shares with voting rights (not applicable in cases where the person is an independent director of the Company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).

(7) Not a director, supervisor, or employee of another company or institution who is the same person or spouse of the Company's chairperson, president or equivalent position (not applicable in cases where the person is an independent director of the Company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).

(8) Not a director, supervisor, or managerial officer of a specific company or institution with financial or business dealings with the Company, or shareholder with 5% or more shares of the Company (not applicable in cases where the specific company or institution holds 20% or more but less than 50% of the Company's outstanding shares, and is an independent director of the Company, its parent company, subsidiary, or the subsidiary of the same parent company in accordance with the Act or with local laws).

(9) Not a professional individual who, or an owner, partner, director, supervisor, or manager of a sole proprietorship, partnership, company, or institution that audited or provided commercial, legal, financial, or accounting services for total compensation not exceeding NT$500,000 in the most recent two years to the company or to any affiliate of the company, or a spouse thereof. This does not apply to members of the Remuneration Committee, Public Tender Offer Review Committee, or Merger and Acquisition Special Committee performing duties in accordance with the Securities and Exchange Act or laws and regulations related to mergers and acquisitions.

(10) Not having any of the situations set forth in Article 30 of the Company Act of the R.O.C.

(2) Operations of the Remuneration Committee

The 2nd meeting of the 15th-term Board of Directors passed the Remuneration Committee Charter and extended the appointment of the three Remuneration Committee members.

I. The Remuneration Committee was established on December 27, 2011 with three members.

II. Current term of office: From June 12, 2018 to June 11, 2021. The Remuneration Committee convened 3 meetings (A) in the most recent year, and the members' qualifications and attendance are as follows:

Title	Name	Attendance in person (B)	Attendance by proxy	Attendance rate (%) (B/A)	Resume	Remarks
Convener	Chih-Long Chou	3	0	100%	1. Accountant, Pragmatic CPA Firm 2. Current Supervisor of St.Shine Optical Co., Ltd.	Re-elected on 2018.6.12
Committee Member	Wan-Lin Hsu	3	0	100%	Experience: 1. Partner of KPMG Taiwan for 25 years 2. Assistant auditor of the Executive Yuan Tax Reform Committee 3. External supervisor, Chi Mei Optoelectronics Corporation 4. Independent Director and Remuneration Committee Member of JMC Electronics Co., Ltd.	Re-elected on 2018.6.12
Committee Member	Po-Jen Hu	3	0	100%	1. Accountant, Hua Han Joint CPA Firm 2. Adjunct Lecturer, Department of Accounting and Information Systems, National Kaohsiung First University of Science and Technology 3. Adjunct Lecturer, Department of Business Administration, National Pingtung University of Science and Technology	Re-elected on 2018.6.12

Other disclosures:

1. If the Board of Directors does not accept or revises the Remuneration Committee's recommendation, specify the date of the Board meeting, session, contents of the agenda item, resolution of the Board of Directors, and the Company's response to the Remuneration Committee's opinions (if the remuneration passed by the Board of Directors is higher than the recommendation of the Remuneration Committee, specify the discrepancy and reason): Currently not applicable.
2. If with respect to any resolution of the Remuneration Committee, any member has a dissenting or qualified opinion that is on record or stated in a written statement, describe the date of committee meeting, term of the committee, agenda item, opinions of all members, and actions taken by the company in response to the opinion of members: Currently not applicable.

Major resolutions of the Remuneration Committee in 2020 and 2021:

Date of Remuneration Committee meeting	Session	Agenda content	All Remuneration Committee members' opinions	The Company's handling of Remuneration Committee opinions
2020.1.13	6th meeting of 4th-term	1. Proposal to review regulations related to the remuneration of the Company's directors and managerial officers, director and managerial officer performance evaluation standards regularly reviewed by the Committee in accordance with Article 4 of the Remuneration Committee Charter, and the remuneration policy, system, and structure. 2. Proposed 2020 work plan of the Remuneration Committee. 3. Proposal to review the Company's 2019 year-end bonus distribution plan for managerial officers. 4. Proposal to review the Company's allocation of employee bonuses and directors' remuneration in 2020.	Approved	Approved as proposed
2020.3.5	7th meeting of 4th-term	1. Proposal to review the Company's distribution of employee bonuses and directors' remuneration in 2019.	Approved	Approved as proposed
2020.8.10	8th meeting of 4th-term	1. Proposal to amend the Company's Remuneration Committee Charter. 2. Proposal to review the Company's distribution of remuneration to directors, supervisors, and managerial officers in 2019.	Approved	Approved as proposed
2021.1.28	9th meeting of 4th-term	1. Proposed 2021 work plan of the Remuneration Committee. 2. Proposal to review regulations related to the remuneration of the Company's directors and managerial officers, director and managerial officer performance evaluation standards regularly reviewed by the Committee in accordance with Article 4 of the Remuneration Committee Charter, and the remuneration policy, system, and structure. 3. Proposal to review the Company's 2020 year-end bonus distribution plan for managerial officers. 4. Proposal to review the Company's allocation of employee bonuses and directors' remuneration in 2021.	Approved	Approved as proposed
2021.3.15	10th meeting of 4th-term	1. Proposal to review the Company's distribution of employee bonuses and directors' remuneration in 2020.	Approved	Approved as proposed

(3) The Remuneration Committee's duties

The Remuneration Committee's duties: As described in Article 4 of the Remuneration Committee Charter.

Article 4. The Committee's members shall exercise the due care of a good administrator, faithfully perform the following duties, and submit proposals to the Board of Directors for discussion:

1. Regularly review the Charter and recommend amendments.
2. Establish and regularly review the performance evaluation standards for directors and managerial officers, annual and long-term performance goals, and the remuneration policy, system, standards, and structure.
3. Regularly evaluate and establish the performance goals for directors and managerial officers, and determine the contents and amounts of their individual remuneration.

Article 5. The Committee shall perform its duties in the preceding article according to the following principles:

1. Ensure that the Company's overall remuneration is in compliance with the law and sufficient to attract outstanding talent.
2. Performance evaluations and remuneration of directors and managerial officers should take into consideration industry standards, and the reasonableness of the connection with individual performance, the Company's business performance, and future risks.
3. Do not guide directors and managers to engage in actions that exceed the Company's risk appetite for higher remuneration.
4. The percentage of remuneration distributed for the short-term

performance of directors and senior executives and the time of payment for variable compensation shall be determined after considering industry characteristics and the nature of the Company's business.

5. Committee members may not participate in discussions and voting on decisions regarding their individual remuneration.

Remuneration in this Charter includes cash compensation, stock options, bonuses, retirement benefits or severance pay, allowances, and other incentive measures. The scope of remuneration must be consistent with the remuneration to directors and managerial officers in the Regulations Governing Information to be Published in Annual Reports of Public Companies.

The Board of Directors shall comprehensively consider the amount of remuneration, payment method, and the Company's future risks when discussing recommendations of the Committee.

A Board resolution to not accept or to revise the Committee's recommendations shall be adopted by a majority vote in a Board meeting attended by more than two thirds of all directors, and the resolution must explain whether or not the remuneration passed after comprehensive considerations in the preceding paragraph is higher than that recommended by the Committee.

If the remuneration passed by the Board of Directors is higher than that recommended by the Committee, besides specifying the difference and reason in the meeting minutes, it shall be announced and reported on the reporting website designated by the competent authority on the date the resolution is adopted by the Board of Directors.

If the remuneration of directors and managerial officers of the Company's subsidiaries requires approval from the Company's Board of Directors in accordance with the subsidiary's delegation of authority, the Committee shall first be requested to make a recommendation submitted to the Board of Directors for discussion.

(4) Connection between performance evaluations and the remuneration of directors and managerial officers:

The remuneration of directors and managerial officers is linked to their performance evaluations, and is reviewed on an annual basis in accordance with Articles 4 and 5 of the Company's Remuneration Committee Charter. The Company also established Rules for Board Performance Self-Evaluations and Peer Evaluations, and conducts evaluations at the end of each year. Results are submitted to the Board of Directors in the following year and serve as the basis for selecting or nominating directors. The Company's independent directors received fixed compensation to maintain their independence.

The Company established Employee Performance Evaluation Implementation Guidelines and conducts performance evaluations every six months, which serves as the basis for annual raises and bonuses.

(VII) Fulfillment of Social Responsibility and Deviations from the "Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons

Evaluation item	Implementation status			Deviations from the "Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and reasons
	Yes	No	Summary	
I. Does the company assess ESG risks associated with its operations based on the principle of materiality, and establish related risk management policies or strategies? (Note)	✓		The Company has assessed the risks of important issues based on the principle of materiality for CSR, and establishes risk management policies or strategies based on risk assessment results.	No significant difference
II. Has the company established a fully (or partially) dedicated unit to promote CSR? Does the Board of Directors authorize the senior management to handle such matters and report its implementation to the Board of Directors?	✓		The president has a subordinate "CSR Team" that is responsible for handling CSR related affairs, which are divided into compliance, environmental protection and energy conservation, safety and health, and employee relations. The team regularly reports its progress and results to management, and regularly reports to the Board of Directors.	No significant difference
III. Environmental issues (I) Has the Company established a suitable environmental management system based on the characteristics of the industry?	✓		(I) The Company has established an environmental management system according to requirements of ISO 14001, in order to fulfill its corporate social responsibility towards environmental protection and employee safety and health. The Company obtained ISO 14001 certification on 2010.7.19 and the certifications is value from 2019.7.19 to 2022.7.18.	No significant difference
(II) Is the Company committed to improving the efficiency of various resources and utilizing renewable materials to reduce the environmental impact?	✓		(II) The Company cooperates with the toxic-free materials and sustainable development strategies of brand customers, and reduces environmental load through production optimization, waste reduction, and raw materials recycling and reuse. The Company also implements renewable energy plans to replace fuel that has a relatively large impact on the environment.	No significant difference
(III) Does the company evaluate potential risks and opportunities brought by climate change, and take response measures to climate-related issues?	✓		(III) The Company supports climate actions under the UN Sustainable Development Goals (SDGs), and actively takes related measures to ensure a sustainable production model, so as to respond to operational risks and impacts caused by climate anomalies. The Company's production bases in Vietnam and Indonesia produce 75% and above of its overall artificial leather. The probability of Southeast Asia being hit by natural weather disasters has gradually increased in recent years, and it is expected to create the risk of causing the Company's production operations to be suspended.	

Evaluation item	Implementation status			Deviations from the "Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and reasons
	Yes	No	Summary	
			Besides monitoring international trends in responses to climate change, as well as policy and regulatory requirements, the Company has dedicated its efforts to energy management for energy conservation and carbon reduction, aiming to improve the efficiency of energy use, effectively reduce GHG emissions from energy consumption, and thereby mitigate the risk of climate change. The Company is actively developing eco-friendly products, promoting the use of e-documents, implementing the same energy conservation measures used by government agencies at the office and in daily life, formulating and implementing energy conservation and carbon reduction strategies, such as turning off the light when leaving the room, recycling, replacing lights in the office with more energy efficient lights, and controlling the temperature of air conditioning during the summer, in order to reduce the impact of the Company's operations on the climate and environment.	
(IV) Does the company compile statistics of greenhouse gas emissions, water use, and total weight of waste in the past two years, and does it establish policies for energy conservation & carbon reduction, greenhouse gas emission reduction, water use reduction, and other waste management?	✓		(IV) To support the government's energy conservation and carbon reduction policy, new factories and equipment are all energy efficient, and a team was formed to regularly review and discuss energy management, in order to achieve energy conservation and carbon reduction and mitigate the impact on the Company and environment. Carbon emissions totaled 34,489 tons in 2020 Carbon emissions totaled 43,930 tons in 2019 The Company has completed a GHG inventory according to ISO 14064, reports its energy use, and calculates carbon emissions. Carbon emissions in 2020 and 2019 were inspected by SGS in July each year. We set our target is to achieve 5% emission reduction each year, and this target has been achieved in 2020. The decrease in carbon emission this year was due to the use of natural gas for boilers, which significantly reduced GHG emissions. The boiler fuel is changed from heavy oil to natural gas for GHG Offset Project. San Fang has signed the counseling Letter of Intent for GHG Offset Project with Environmental Protection Bureau Kaohsiung City Government. We expect that the GHG offset reduction will be about 11,500 tons of CO2 per year. **Waste statistics**	No significant difference

Evaluation item	Implementation status			Deviations from the "Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and reasons
	Yes	No	Summary	
			The Company has reported its business waste to the EPA. Waste totaled 2,333 tons in 2020 Waste totaled 3,356 tons in 2019 Decreased approximately 30% **Water consumption statistics** According to the measurement of Taiwan Water Corporation Water consumption totaled 188,204 m3 in 2020 Water consumption totaled 249,012 m3 in 2019 Reduced water consumption by approximately 24% Information on related reduction strategies is as follows: Greenhouse gas emissions The risks brought by the Greenhouse Gas Reduction and Management Act are mainly from the requirement on companies to disclose and report their energy use, so that companies will need to control and reduce their energy use. Hence, the Company replaced energy-consuming products and equipment to reduce energy consumption and GHG emission. Strategies, methods, and goals for GHG management: (I) Strategy for responding to climate change or managing GHG 1. The Company is currently seeking ways to reduce energy consumption and increase the recycling rate in its processes. 2. In the future, the Company will actively develop low energy consumption products and clean fuel. (II) Budget and plan for reducing greenhouse gas emissions 1. Kaohsiung Plant and Vietnam Plant have installed solar panels to improve energy efficiency. 2. Boiler fuel has replaced heavy oil with natural gas to reduce environmental pollution. 3. Replaced conventional lights with LED lights in processes.	No significant difference

Evaluation item	Implementation status			Deviations from the "Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and reasons
	Yes	No	Summary	
			4. Replaced conventional drive motors with variable frequency motors. 5. Process water recycling and reuse. 6. Waste reduction reduces GHG emissions from incineration. GHG emissions is expected to have been reduced by 21% in 2020. (III) Carbon reduction effect brought by products and services to customers or consumers The Company has the closest production base manufacture products based on the location of the customer that placed the purchase order, in order to reduce GHG emissions from transportation tools used to deliver products or provide services. Waste management Waste management policy The Company's process waste management strategy focuses on lawful clearance and disposal and waste reduction and reuse. All waste is cleared and disposed of by a qualified company certified by the government in accordance with local laws and regulations. Recyclable waste is sorted and recycled. Sorting and management Factory waste is mainly divided into three categories: General business waste (industrial waste), hazardous business waste (hazardous waste), and recyclable waste (waste that can be recycled). General waste and general business waste is cleared and disposed of by a qualified local waste clearance company. Storage areas are designated in the factory site for hazardous business waste and recyclable waste, and the collection, sorting, necessary measuring, and reporting is carried out in the areas. Hazardous business waste is identified, categorized, and collected in a dedicated temporary storage area according local laws, and is managed by dedicated personnel. A local company licensed to handle hazardous waste is then commissioned to transport and dispose of the waste. **Water conservation measures** In response to the increased consumption of pure water in processes, the Company has made it a policy to fully utilize water resources. Besides monitoring water consumption in factories, the Company has proposed water conservation and recycling measures, inspecting the use of flushing valves and faucets and irregularly replacing them.	No significant difference

Evaluation item	Implementation status			Deviations from the "Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and reasons
	Yes	No	Summary	
IV. Social issues (I) Has the Company formulated management policies and procedures in accordance with relevant laws and regulations as well as the International Bill of Human Rights?	✓		(I) The Company has established a Code of Conduct in accordance with the core standards of the International Labour Organization and local labor laws and regulations. The Company complies with local regulations on compensation and work hours, does not employ child labor or forced labor, and prohibits any discriminatory practices when hiring employees. 1.The Company respects and cares about employees, and encourages employees to engage in positive conduct. Hence, the Company established Sexual Harassment Prevention Management Guidelines, and set up complaint channels, immediately intervening when a violation is found. 2.The Company purchases social insurance in accordance with local laws and regulations, and provides employees with annual leave, maternity leave, and marriage leave. The Company has breastfeeding protection measures and also provides scholarships for employees that need it.	No significant difference
(II) Does the company have reasonable employee benefit measures (including salaries, leave, and other benefits), and do business performance or results reflect on employee salaries?	✓		(II) Please refer to the description of employee benefit measures on P.78. The Company established efficiency bonus distribution rules and calculates bonuses each month based on the Company's business performance and the yield of each product; the bonuses are paid along with employee salaries.	
(III) Has the Company provided employees with a safe and healthy working environment, and routinely implemented safety and health education for employees?	✓		(III) The Company is constantly improving the work environment for employees, and aims to create the perfect workplace. Besides establishing a labor safety department to provide employees with fire safety and labor safety training, the Company also organizes physical and mental health lectures for employees to feel safe and focus on their work. Please see V. Labor-management relations for working environment and employee safety protection measures.	
(IV) Has the Company established an effective career developmental plan for its employees?	✓		(IV) The Company's Human Resources Office formulates complete training plans for the career development of employees in each organization.	

Evaluation item	Implementation status			Deviations from the "Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and reasons
	Yes	No	Summary	
(V) Does the company comply with relevant regulations and international standards in customer health and safety, customer privacy, and marketing and labeling its goods and services, and has it established consumer rights protection policies and complaint procedures?	✓		(V) The Company complies with related laws and regulations and has obtained the ISO 9001, ISO 14001, TS 16949, ISO 14064, and GREEN LEAF management system certifications, as well as the IATF 16949 automotive material certification. The Company has dedicated personnel to handle matters related to stakeholders.	No significant difference
(VI) Does the company have a supplier management policy, require suppliers to comply with regulations on environmental protection, occupational safety and health, and labor rights, and what is its implementation status?	✓		(VI) The Company attaches great importance to environmental and social protection, and chooses to work with companies that also operate on the principle of good faith, regularly evaluating their suitability. Pursuant to the Company's Ethical Corporate Management Best Practice Principles, all of the Company's suppliers are required to comply with the Company's policy of integrity, and jointly fulfill our corporate social responsibility. The Company selects suppliers through supplier audit and selection mechanisms. The Company periodically evaluates and provides guidance to suppliers, and tracks their improvement to achieve better operational efficiency.	

Evaluation item	Implementation status			Deviations from the "Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and reasons
	Yes	No	Summary	
V. Does the company reference internationally accepted reporting standards or guidelines, and prepare reports that disclose non-financial information of the company, such as corporate social responsibility reports? Do the reports above obtain assurance from a third party verification unit?		✓	The Company has disclosed related policies on the company website and annual report, but the Company has not prepared a CSR report.	The Company plans to compile corporate social responsibility reports.
VI. If the Company has established corporate social responsibility principles based on "Corporate Social Responsibility Best Practice Principles for TWSE/TPEx Listed Companies", please describe any discrepancy between the principles and their implementation: The Company has not established Corporate Social Responsibility Best Practice Principles. The Company actively sponsored events organized by communities, elementary schools, and government agencies in Renwu District, Nanzi District, and Dashe District, and also organized events for employees to clean mountains and roads in communities. Donations are also made when appropriate to fulfill the Company's corporate social responsibility.				
VII. Other important information helpful in understanding CSR operations: The Company is actively making process improvements to achieve waste reduction, emission reduction, and carbon reduction, and engages in promotions and sponsorship for community development events based on the philosophy of being a member of society. The system adopted by the Company for environmental protection and implementation status is as follows: 1. The Company continues to strategically and systemically implement ISO 14001 (date obtained: 2010.7.19, valid from 2019.7.19 to 2022.7.18) and ISO 14064 management systems as the fundamental management systems for factory production. 2. The Company has completed a GHG inventory according to ISO 14064, reports its energy use, and calculates carbon emissions, which were inspected by SGS.				

Note: The risk management policy or strategy is shown in the table below:

Material issues	Risk assessment item	Risk management policy or strategy
Environmental	Environmental protection and ecological conservation	The Company dedicates efforts to environmental protection and waste, emissions, and wastewater generated in processes are strictly controlled in accordance with the law, effectively reducing pollution and environmental impact. The Company commissions SGS to conduct carbon emission inspections every year to strengthen examination of environmental protection.
Social	Product safety	The Company complies with standards for emissions, wastewater, and waste set forth in the law, and continues to require suppliers to implement ZDHC on the brand side. The Company has implemented stricter controls on hazardous substances and set long-term goals for energy efficiency. The Company also requires certifications for environmental protection and recycling, clean production, and sustainability, in hopes of gaining customers' trust and building long-term partnerships.
Corporate governance	Social, economic, and compliance	Internal control mechanisms are thoroughly implemented, and compliance by all Company personnel is ensured through the corporate governance structure and Compliance Section on the internal website.

(VIII) Implementation of Ethical Corporate Management and Deviations from the "Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons

Evaluation item	Implementation status (Note)			Deviations from the "Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies" and reasons
	Yes	No	Summary	
I. Establishment of ethical corporate management policy and approaches (I) Did the company establish an ethical corporate management policy that was approved by the Board of Directors, and declare its ethical corporate management policy and methods in its regulations and external documents, as well as the commitment of its Board and management to implementing the management policies?	✓		(I) The Company established an ethical corporate management policy that was approved by the Board of Directors, and also established Ethical Corporate Management Best Practice Principles. The Company declared the ethical corporate management policy and methods, as well as the commitment of its Board and management to implementing the management policy in its internal regulations. The Company's business philosophy is to "become the most trustworthy materials supplier," and senior management and members of the Board of Directors are committed to upholding their responsibility of supervision based on ethical concepts when performing their duties, in order to create a sustainable business environment.	No significant difference
(II) Does the company establish mechanisms for assessing the risk of unethical conduct, periodically analyze and assess operating activities within the scope of business with relatively high risk of unethical conduct, and formulate an unethical conduct prevention plan on this basis, which at least includes preventive measures for conduct specified in Article 7, Paragraph 2 of the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies?	✓		(II) In the Ethical Corporate Management Best Practice Principles, the Company explicitly prohibits offering and accepting bribes; providing illegal political donations; improper charity donations or sponsorship; offering or accepting unreasonable gifts, hospitality, or other improper benefits; infringing on trade secrets, trademark, patent rights, copyright, and other intellectual property right; engaging in unfair competition; products and services directly or indirectly damage the rights, health, and safety of consumers or other stakeholders during R&D, procurement, manufacturing, provision, or sales. Operating procedures are	No significant difference

Evaluation item	Implementation status (Note)			Deviations from the "Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies" and reasons
	Yes	No	Summary	
			specified in the Ethical Corporate Management Regulations to ensure that ethical corporate management is implemented, and establish an effective accounting system and internal control system. Internal auditors regularly audit the compliance with the systems above.	
(III) Did the company specify operating procedures, guidelines for conduct, punishments for violation, rules of appeal in the unethical conduct prevention plan, and does it implement and periodically review and revise the plan?	✓		(III) The Company has established "Ethical Corporate Management Regulations" and "Code of Ethics," which specify operating procedures, penalties and reporting method for violations. Aside from active investigations, complaint channels are provided on the company website for cases that might violate the law or Code of Ethics. Penalties are assessed based on the situation and severity of the violation, and enhanced education, training, and promotion are provided for new employees. Regular reviews and amendments are made according to actual operations and amendments to the Ethical Corporate Management Best Practice Principles for TWSE/TPEX-Listed Companies. The Ethical Corporate Management Regulations are disclosed on the company website.	No significant difference
II. Implementation of ethical corporate management (I) Does the company evaluate the ethical records of parties it does business with and stipulate ethical conduct clauses in business contracts?	✓		(I) The Company considers the lawfulness and reputation of the counterparty before engaging in business dealings, in order to avoid engaging in transactions with unethical counterparties. Contents of contracts shall include the ethical corporate management policy.	No significant difference

Evaluation item	Implementation status (Note)			Deviations from the "Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies" and reasons
	Yes	No	Summary	
(II) Did the company establish a dedicated unit under the Board of Directors to promote ethical corporate management, and periodically (at least once a year) report to the Board of Directors and supervise the implementation of the ethical corporate management policy and unethical conduct prevention plan?	✓		(II) The Company established an Ethical Corporate Management Team to implement the Company's ethical corporate management policy and ethical violation prevention programs, and reports its progress to the Board on an annual basis. Implementation status of the Ethical Corporate Management Team in 2020 is as follows: 1. The Company has important employees sign an "Employee Confidentiality Agreement." 2. Special units that have access to the Company's trade secrets are required to sign a "Confidentiality Agreement."	No significant difference
(III) Does the company establish policies to prevent conflict of interests, provide appropriate channels for filing related complaints and implement the policies accordingly?	✓		(III) The Company actively conducts investigations and set up internal complaint channels in accordance with the Ethical Corporate Management Best Practice Principles.	
(IV) Does the company have effective accounting system and internal control systems set up to facilitate ethical corporate management, does the internal auditing unit formulate audit plans based on unethical conduct risk assessment results, and does it audit compliance with the unethical conduct prevention plan or commission a CPA to perform the audit?	✓		(IV) The Company has established an effective accounting system and internal control system to ensure the implementation of ethical corporate management, and internal auditors regularly audit the Company's compliance with the systems.	
(V) Does the company regularly hold internal and external educational trainings on ethical corporate management?	✓		(V) The Human Resources Department plans and organizes ethical corporate management education and training to implement the Company's ethical corporate management policy. Ethical corporate management education is incorporated in on-the-job training for new employees. Ethical corporate management concepts and regulations are irregularly promoted to all personnel in the organization.	

Evaluation item	Implementation status (Note)			Deviations from the "Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies" and reasons
	Yes	No	Summary	
III. Operation of whistleblowing system (I) Does the company establish concrete whistleblowing and reward system and have a convenient reporting channel in place, and assign an appropriate person to communicate with the accused? (II) Does the company establish standard operating procedures for investigating reported cases, and does it take subsequent measures and implement a confidentiality mechanism after completing investigation? (III) Does the company provide proper whistleblower protection?	✓ ✓ ✓		(I) The Company has appointed dedicated personnel in the Human Resources Department to handle complaints, and provides contact persons for investor relations services. These are the Company's internal and external channels for complaints and whistleblowing. (II) The Company has established confidentiality mechanisms for handling reports. Once violations are confirmed, a report will be immediately submitted to management, and penalties will be imposed based on the severity of the situation. (III) The Company keeps the identity of whistleblowers confidential in the process, so that they will not be punished for whistleblowing.	No significant difference
IV. Enhancing information disclosure Does the company disclose information regarding the company's ethical corporate management principles and implementation status on its website and the Market Observation Post System?	✓		The information is disclosed on the company website and MOPS. Website: http://www.sanfang.com.tw	No significant difference
V. If the company has established Ethical Corporate Management Principles in accordance with "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies", describe difference with the principles and implementation status: The Company established "Ethical Corporate Management Best Practice Principles" and "Guidelines for Whistleblowing on Illegal or Unethical Conduct, and there are currently no discrepancies.				
VI. Other important information to facilitate a better understanding of the company's implementation of ethical corporate management: (e.g., review and amendment of the Ethical Corporate Management Best Practice Principles) 1. The Board of Directors passed an amendment to the Ethical Corporate Management Best Practice Principles on March 6, 2020 in coordination with actual operations and amendments to the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies. 2. The Company established "Procedures for Handling Material Inside Information and Prevention of Insider Trading" to establish good mechanisms for handling and disclosing material insider information, prevent inappropriate leakage of information, and ensure the consistency of information that is disclosed.				

(IX) If the company has established corporate governance principles and related guidelines:
The Company has established Corporate Governance Best Practice Principles, Ethical Corporate Management Best Practice Principles, and Code of Ethics, which are available on the company website at http://www.sanfang.com.tw.

(X) Other significant information which may improve the understanding of corporate governance operations:

1. The Company complies with the Company Act, Securities and Exchange Act, Business Entity Accounting Act, regulations for public companies, and other laws related to business practices, and use them as the basic principles for implementing ethical corporate management. The Rules of Procedure for Board of Directors Meetings set forth a system for directors to avoid conflict of interest, and the Standard Operating Procedures for Handling Requests from Directors were established to assist directors in performing their duties and enhancing Board functions.
2. The Company's "Procedures for Handling Material Inside Information and Prevention of Insider Trading" explicitly prohibits directors, managers, and employees from disclosing material insider information to others, and provides guidelines for how to properly handle and disclose material insider information, ensuring the consistency and correctness of information disclosed by the Company. The current status of implementation is good.
3. The Company established Subsidiary Supervision Regulations to improve the operations of subsidiaries.
4. The Company distributes the manual for directors and supervisors prepared by the FSC Securities and Futures Bureau, as well as laws and regulations relating to insider equity, to newly appointed directors and managers to ensure their compliance.
5. Participation in corporate governance related continuing education (including accounting supervisor and chief auditor):

Title	Name	Date of continuing education	Organizer	Course Name	Hours
Director	Mun-Jin Lin	2020/12/29	Taiwan Investor Relations Institute	Corporate governance and the responsibilities and rights of independent directors	3
		2020/12/30	Taiwan Investor Relations Institute	Business administration and strategies for public relations crisis management	3
Director	Chin-Chun Lu	2020/07/24	Taiwan Academy of Banking and Finance	Corporate Governance and Corporate Sustainability Workshop	3
		2020/11/05	Assistant Vice President, Taiwan Corporate Governance Association	10 Required Courses on Corporate Governance	3
Director	Wan-Lin Hsu	2020/09/03	Securities & Futures Institute	2020 Insider Trading Prevention Meeting and Insider Stock Transaction Explanation	3
Director	Chih-Long Chou	2020/09/03	Securities & Futures Institute	2020 Insider Trading Prevention Meeting and Insider Stock Transaction Explanation	3
Head of accounting	Hua-Hsing Wang	2020/07/23~ 2020/07/24	Securities & Futures Institute	Accounting officers of issuers, securities firms, and securities exchanges Continuing education course	6
Chief auditor	Po-Hsueh Chou	2020/09/30	The Institute of Internal Auditors, R.O.C.	Ethical Corporate Management Best Practice Principles and practices of ISO 37001 Introduction	6

(XI) Implementation status of the internal control system

1. Statement on Internal Control

San Fang Chemical Industry Co., Ltd.

Statement on Internal Control

Date: March 16, 2021

In 2020, the Company conducted an internal audit of its internal control system and hereby declares the following:

I. The Company acknowledges and understands that the establishment, enforcement and maintenance of the internal control system are the responsibility of the Board of Directors and management, and that the Company has already established such a system aimed at providing reasonable assurance of the achievement of objectives in the effectiveness and efficiency of operations (including profits, performance, and safeguard of asset security), reliability of reporting, and compliance with applicable laws and regulations.

II. There are inherent limitations to even the most well designed internal control system. As such, an effective internal control system can only reasonably ensure the achievement of the aforementioned goals. Moreover, the operating environment and situation may change, impacting the effectiveness of the internal control system. However, self-supervision measures were implemented within the Company's internal control policies to facilitate immediate rectification once procedural flaws have been identified.

III. The Company determines the effectiveness of the design and implementation of its internal control system in accordance with the items in "Regulations Governing Establishment of Internal Control Systems by Public Companies" (hereinafter called "Governing Regulations") that are related to the effectiveness of internal control systems. The criteria introduced by the "Governing Regulations" cover the process of management control and consist of five major elements, each representing a different stage of internal control: 1. control environment, 2. risk assessment, 3. control activities, 4. information and communications, and 5. monitoring activities. Each of the elements in turn contains certain audit items. Please refer to "Governing Regulations" for details.

IV. The Company has adopted the aforementioned measures for an examination of the effectiveness of the design and implementation of the internal control system.

V. Based on the findings of the aforementioned examination, the Company believes it can reasonably assure that the design and implementation of its internal control system as of December 31, 2020 (including supervision and management of subsidiaries), including the effectiveness and efficiency in operation, reliability in financial reporting and compliance with relevant regulatory requirements, have achieved the aforementioned objectives.

VI. This declaration constitutes part of the Company's annual report and prospectus, and shall be disclosed to the public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171, and 174 of the Securities and Exchange Act.

VII. This statement was passed by the Board of Directors on March 16, 2021, with none of the 7 attending Directors expressing dissenting opinions, and the remainder all affirming the content of this Statement.

San Fang Chemical Industry Co., Ltd.

Chairperson: Mun-Jin Lin

President: Chih-I Lin

2. Accountant engaged by the Company to examine its internal control system: N/A

(XII) Penalty imposed on the Company and its personnel, punishment imposed by the Company on personnel in violation of internal control system regulations, major deficiencies and improvements in the past year and up to the date of report: N/A

(XIII) Important resolutions adopted in shareholders' meeting and Board meetings in the past year and up to the date of report

1. Important resolutions of the 2020 shareholders' meeting and implementation status:

Date	Session	Resolution	Implementation status
2020.6.9	Shareholders' meeting	Acknowledgments: (1) Proposed 2019 business report, financial statements, and dividend distribution proposal.	Followed resolution results. Set 2020.9.2 as the record date for distribution of cash dividends-NT$0.8 per share, and distributed cash dividends on 2020.9.23.
		Matters for discussion: (1) Proposal to revise the Company's Rules of Procedure for Shareholders' Meetings.	Followed resolution results and implemented according to the new rules.

2. Important resolutions of Board meetings in 2020 and up to the date of report:

Date	Session	Resolution	Resolution
2020.1.14	11th meeting of the 16th-term Board of Directors	1. Discuss resolutions of the 6th meeting of the 4th-term Remuneration Committee.	Approved by all Directors in attendance
2020.3.6	12th meeting of the 16th-term Board of Directors	1. Proposal to determine the distribution of employee bonuses and directors and supervisors' remuneration in 2019. 2. Proposed 2019 business report and financial statements. 3. 2019 Dividend distribution proposal.	1.Approved by all Directors in attendance 2.Distribution of cash dividend – NT$0.8 per share.
		4. Proposed distribution of cash dividends in 2019. 5. Proposal to set the date, venue, and agenda of the 2020 annual shareholders' meeting. 6. Proposal to establish the Rules for Board Performance Self-Evaluations and Peer Evaluations. 7. Proposal to amend the Company's Rules of Procedure for Board of Directors Meetings. 8. Proposal to amend the Company's Audit Committee Charter. 9. Proposal to amend the Company's Ethical Corporate Management Best Practice Principles. 10.Proposal to revise the Company's Code of Ethical Conduct. 11.Proposal to revise the Company's Rules of Procedure for Shareholders' Meetings. 12.Proposal to acknowledge	3.The independent directors in attendance did not object to the amendments to the Rules for Board Performance Self-Evaluations and Peer Evaluations, Ethical Corporate Management Best Practice Principles, and Code of Ethics in items 5, 8, and 9. The proposals were passed as proposed.

Date	Session	Resolution	Resolution
		endorsements/guarantees provided by the Company to subsidiaries. 13. Proposed 2019 Statement on Internal Control.	
2020.5.8	13th meeting of the 16th-term Board of Directors	1. Proposed 2020 Q1 financial statements. 2. Proposal to amend the Company's Corporate Governance Best Practice Principles. 3. Proposal to revise the Company's internal control system. 4. Proposal to authorize the chairperson to change the venue for the annual shareholders' meeting. 5. Report on the purchase of liability insurance for directors in 2020.	Approved by all Directors in attendance
2020.8.11	14th meeting of the 16th-term Board of Directors	1. Proposed 2020 1st half financial statements. 2. Proposal to set the record date for distribution of cash dividends. 3. Proposal to amend the Company's Remuneration Committee Charter. 4. Proposal to discuss the "distribution of remuneration to directors, supervisors, and managerial officers in 2019" proposed by the Remuneration Committee.	1. Approved by all Directors in attendance. 2. Set September 2, 2020 as the record date for distribution of cash dividends, and distributed cash dividends on September 23, 2020.
2020.11.10	15th meeting of the 16th-term Board of Directors	1. Proposed 2020 Q3 financial statements. 2. Proposed 2021 audit plan. 3. Proposal to evaluate the CPA's independence and competence in 2020.	All directors in attendance approved below matters were compliant with the independence criteria: : 1. The CPAs are not a director, supervisor, manager, or position with significant influence and have conflict of interest with the Company 2. The CPAs have not audited the Company's financial statements for 7 consecutive years 3. The CPAs issued a Declaration of Total Independence.
2021.1.29	16th meeting of 16th-term Board of Directors	1. Discuss resolutions of the 9th meeting of the 4th-term Remuneration Committee.	Approved by all Directors in attendance.
2021.3.16	17th meeting of 16th-term Board of Directors	1. Proposal to determine the distribution of employee bonuses and directors and supervisors' remuneration in 2020. 2. Proposed 2020 business report and financial statements. 3. 2020 Dividend distribution proposal. 4. Proposed distribution of cash dividends	1. Approved by all Directors in attendance 2. Distribution of cash dividend – NT$0.5 per share. 3. The independent directors in attendance

Date	Session	Resolution	Resolution
		in 2020. 5. Proposal to set the date, venue, and agenda of the 2021 annual shareholders' meeting. 6. Proposal to amend the Company and subsidiaries' Procedures for Extending Loans to Others. 7. Proposal to acknowledge endorsements/guarantees provided by the Company to subsidiaries. 8. Proposed 2020 Statement on Internal Control. 9. Proposal to elect the Company's 17th-term directors. 10. Passed the list of director (including independent director) candidates nominated by the Board of Directors.	did not object to the amendment to the "Procedures for Extending Loans to Others" in Item 6. The proposal was passed as proposed. 4. The list of director candidates was passed by the Board of Directors and announced within the prescribed time limit.
2021.5.11	18th meeting of the 16th-term Board of Directors	1. Proposed 2021 Q1 financial statements. 2. Proposed remuneration to the CPAs. 3. Proposal to appoint a corporate governance supervisor. 4. Report on the purchase of liability insurance for directors in 2021.	Approved by all Directors in attendance

(XIV) Dissenting or qualified opinion of Directors or Supervisors against an important resolution passed by the Board of Directors that is on record or stated in a written statement in the past year and up to the date of report: Currently not applicable to the Board of Directors.

(XV) Resignation and dismissal of managerial officers, including chairperson, president, chief accounting officer, chief financial officer, chief internal auditor, corporate governance supervisor, and R&D supervisor, in the past year and up to the date of report: N/A

V. Information on fees to CPA:

Unit: Thousand NTD

Name of accounting firm	Name of CPA	Audit fee	Non-audit fee					CPA Audit period	Remarks
			System design	Business registration	Human resources	Other (Note)	Subtotal		
Deloitte Taiwan	Chiu-Yen Wu Chia-Ling Chiang	5,520	0	0	0	630	630	2020	"Other" includes transfer pricing service fee in the amount of NT$380,000 + Master file service fee in the amount of NT$200,000 + Attestation of the salary of non-managerial full-time employees NT$50,000.

Note: "Other" includes transfer pricing service fee in the amount of NT$380,000 + Global file service fee in the amount of NT$200,000 + Attestation of the salary of non-managerial full-time employees NT$50,000.

Unit: Thousand NTD

Range of amount \ Fee category		Audit fee	Non-audit fee	Total
1	Less than NT$2,000,000		✓	
2	NT$2,000,000 (inclusive) to NT$4,000,000			
3	NT$4,000,000 (inclusive) to NT$6,000,000	✓		
4	NT$6,000,000 (inclusive) to NT$8,000,000			✓
5	NT$8,000,000 (inclusive) to NT$10,000,000			
6	NT$10,000,000 (inclusive) or above			

(I) When non-audit fees paid to the certified public accountant, to the accounting firm of the certified public accountant, and/or to any affiliated enterprise of such accounting firm are equivalent to one quarter or more of the audit fees paid thereto: N/A

(II) If the accounting firm is changed and the audit fees paid in the year of the replacement is less than that of the previous year: N/A

(III) If the audit fees were reduced more than 10% from that of the previous year: N/A

VI. Information on the replacement of CPA: The CPAs were not replaced as of the date of report.

VII. The chairperson, president, financial or accounting manager of the company who had worked for the certifying accounting firm or its affiliated enterprise in the past year: None.

VIII.Changes in shareholding of directors, managers, and major shareholders

Title	Name	2020		The current year up to April 24	
		Increase (decrease) in shares held	Increase (decrease) in pledged shares	Increase (decrease) in shares held	Increase (decrease) in pledged shares
Chairperson	Sanfang Investment Co., Ltd. Representative: Mun-Jin Lin	0	0	0	0
Director	Yue Dean Technology Corporation	(19,490,000)	0	0	0
	Representative: Chia-Li Chang				
Shareholders with 10% or more shares	Yue Dean Technology Corporation	(19,490,000)	0	0	0
Director	Pou Chien Enterprise Co., Ltd.	(19,490,000)	0	0	0
	Representative: Chin-Chun Lu				
Shareholders with 10% or more shares	Pou Chien Enterprise Co., Ltd.	(19,490,000)	0	0	0
Director	Pou Chien Technology Co., Ltd. Representative: Chia-Hui Teng	0	0	0	0
Independent director	Wan-Lin Hsu	0	0	0	0
Independent director	Li-Syuan Lin	0	0	0	0
Independent director	Chih-Long Chou	0	0	0	0
President	Chih-I Lin	0	0	0	0
Vice President	Chin-Fa Chiu	0	0	0	0
Vice President	Kuo-Kuang Cheng	0	0	0	0
Vice President	Wei-Chu Chen	0	0	0	0
Vice President	Li-Chuan Li	0	0	0	0
Vice president and financial officer	Hsin-Hung Lin	0	0	0	0
Senior Manager	Yi-Cheng Chang	0	0	0	0
Senior Manager	Jin-Liang Yi	0	0	0	0
Head of accounting	Hua-Hsing Wang	0	0	0	0

Share transfer information:

Name	Purpose of Share Transfer	Transaction Date	Trading counterpart	Relations between trading counterpart and board of directors	Shares	Trading Price (Per Share)
Yue Dean Technology Corporation	Disposal	2020/11/19	I-TECH. SPORTING ENTERPRISE LTD.	Both of them are Yue Yuen Industrial (Holdings) Limited's subsidiaries	19,490,000	NT$20.5
Pou Chien Enterprise Co., Ltd.	Disposal	2020/11/19	I-TECH. SPORTING ENTERPRISE LTD.	Both of them are Yue Yuen Industrial (Holdings) Limited's subsidiaries	19,490,000	NT$20.5

Share pledge information: N/A

IX. Information on the relationship between any of the top ten shareholders (related party, spouse, or kinship within the second degree):

<u>Information disclosing the relationship between any of the top ten shareholders</u>

Name	Shareholding		Shares held by spouse and underage children		Total shareholding by nominee arrangement		Titles, names and relationships of top 10 shareholders with relationships, spousal relationships, or kinship within the second degree		Remarks
	Number of shares	Shareholding ratio	Number of shares	Shareholding ratio	Number of shares	Shareholding ratio	Name	Relationship	
i-Tech. Sporting Enterprise Ltd. Representative: Chi-Chih Hung	38,980,000	9.80							
Pou Chien Enterprise Co., Ltd. Representative: Ming-Kun Ho	38,501,504	9.68					Pou Chien Technology Co., Ltd., i-Tech. Sporting Enterprise Ltd.	Supervisor of the company	
Yue Dean Technology Corporation Representative: Hui-Chi Wu	37,298,876	9.38					Pou Chien Technology Co., Ltd.	Chairperson of the company	
Pou Chien Technology Co., Ltd. Representative: Hui-Chi Wu	36,549,118	9.19					Yue Dean Technology Corporation	Chairperson of the company	
Investment account of Beevest Securities Limited under the custody of CTBC Bank	26,578,577	6.68							
Mun-Jin Lin	26,239,427	6.60	155,559	0.04	1,143,574	0.29	Meng-Wei Lin, Meng-Yang Lin	Relative within the second degree of kinship	
Mun -Yon Lin	19,935,265	5.01	2,196,604	0.55			Mun-Jin Lin, Meng-Wei Lin	Relative within the second degree of kinship	
Mun-Wi Lin	16,302,783	4.10					Mun-Jin Lin, Meng-Yang Lin	Relative within the second degree of kinship	
Mun -Tan Lin	12,777,737	3.21							
Mei-Chin Teng Liao	6,189,349	1.56							

X. Total shareholding percentage

Unit: shares; %

Investee company	Investment by the Company		Investments from directors, supervisors, managerial officers and their directly or indirectly controlled enterprises		Combined investment	
	Number of shares	Shareholding ratio	Number of shares	Shareholding ratio	Number of shares	Shareholding ratio
San Fang Financial Holdings Co., Ltd. (BVI)	604,113	100	—	—	604,113	100
San Fang Development Co., Ltd.	20,000,000	100	—	—	20,000,000	100
Forich Advanced Materials Co., Ltd.	7,698,545	100	—	—	7,698,545	100
Grand Capital Limited (GCL)	19,750,000	100	—	—	19,750,000	100
Bestac Advanced Material Co., Ltd.	20,000,000	100	—	—	20,000,000	100

Chapter 4. Capital overview

I. Capital and shareholding

(I) Sources of capital

Year/Month	Issue price	Authorized capital		Paid-in capital		Remarks		
		Shares	Amount (NT$)	Shares	Amount (NT$)	Sources of capital	Subscriptions paid with property other than cash	Other
2012.4	10	350,000,000	3,500,000,000	343,161,407	3,431,614,070	Capitalization of profits	N/A	Jin-Guan-Zheng-Fa-Zi No. 1000029848 dated June 29, 2011
2013.4	10	380,000,000	3,800,000,000	353,456,250	3,534,562,500	Capitalization of profits	N/A	Jin-Guan-Zheng-Fa-Zi No. 1010027991 dated June 25, 2012
2014.4	10	380,000,000	3,800,000,000	364,059,938	3,640,599,380	Capitalization of profits	N/A	Jin-Guan-Zheng-Fa-Zi No. 1020028871 dated July 24, 2013
2015.4	10	380,000,000	3,800,000,000	374,981,737	3,749,817,370	Capitalization of profits	N/A	Jin-Guan-Zheng-Fa-Zi No. 1030025782 dated July 8, 2014
2016.4	10	400,000,000	4,000,000,000	386,231,190	3,862,311,900	Capitalization of profits	N/A	Jin-Guan-Zheng-Fa-Zi No. 1040024012 dated June 25, 2015
2017.4	10	400,000,000	4,000,000,000	397,818,126	3,978,181,260	Capitalization of profits	N/A	June 24, 2016 FSC Approved and effective
2019.7	10	460,000,000	4,600,000,000	397,818,126	3,978,181,260	Increased authorized share capital	N/A	Jing-Shou-Shang-Zi No. 10801077130 dated July 12, 2019

April 24, 2021

Type of stock	Authorized capital			Remarks
	Outstanding shares (Note)	Unissued shares	Total	
Ordinary shares	397,818,126	62,181,874	460,000,000	Listed stocks

Note: The shares issued are listed.

Information on shelf registration: N/A.

(II) Shareholder structure

April 24, 2021

Shareholder structure	Government agencies	Financial institutions	Other institutions	Foreign institutions & natural persons	Individuals	Treasury stock	Total
Number of people	2	1	64	87	21,985	0	22,139
Number of shares held	104	1,000	161,908,737	44,354,990	191,553,295	0	397,818,126
Shareholding ratio (%)	0.00%	0.00%	40.70%	11.15%	48.15%	0.00%	100.00%

Note: No shares were held by Chinese capital as of 2020.4.11.

(III) Shareholding distribution status

Par value of NT$10 per share

April 24, 2021

Shareholding range			Number of shareholders	Number of shares held	Shareholding ratio (%)
1	—	999	11,903	2,087,160	0.52%
1,000	—	5,000	7,618	16,179,152	4.07%
5,001	—	10,000	1,305	9,765,828	2.45%
10,001	—	15,000	441	5,394,701	1.36%
15,001	—	20,000	242	4,384,585	1.10%
20,001	—	30,000	211	5,264,515	1.32%
30,001	—	40,000	107	3,809,586	0.96%
40,001	—	50,000	70	3,216,222	0.81%
50,001	—	100,000	117	8,452,381	2.12%
100,001	—	200,000	45	6,259,589	1.57%
200,001	—	400,000	23	6,128,788	1.54%
400,001	—	600,000	12	5,816,329	1.46%
600,001	—	800,000	6	4,202,810	1.06%
800,001	—	1,000,000	2	1,877,710	0.47%
1,000,001 shares or more			37	314,978,770	79.19%
Total			22,139	397,818,126	100.00%

Preferred shares: The Company has not issued any preferred shares.

(IV) List of major shareholders

Top ten shareholders with 5% or more shares

Name of major shareholder	Number of shares held	Shareholding ratio (%)
i-Tech. Sporting Enterprise Ltd.	38,980,000	9.80%
Pou Chien Enterprise Co., Ltd.	38,501,504	9.68%
Yue Dean Technology Corporation	37,298,876	9.38%
Pou Chien Technology Co., Ltd.	36,549,118	9.19%
Investment account of Beevest Securities Limited under the custody of CTBC Bank	26,578,577	6.68%
Mun-Jin Lin	26,239,427	6.60%
Mun -Yon Lin	19,935,265	5.01%
Mun -Wi Lin	16,302,783	4.10%
Mun -Tan Lin	12,777,737	3.21%
Mei-Chin Teng Liao	6,189,349	1.56%

(V) Stock price, net worth, earnings, dividends and related information for the past two years

Item			2019	2020	The current year up to May 11, 2021 (Note 8)
Stock price (Note 1)	Highest		26.35	33.50	24.20
	Lowest		21.90	15.25	19.35
	Average		23.97	21.58	21.47
Net worth per share (Note 2)	Before distribution		20.77	19.79	19.86
	After distribution		19.97	19.29	19.36
EPS	Weighted average shares		397,818,126	397,818,126	397,818,126
	EPS (Note 3)	Before adjustment	1.08	0.55	0.51
		After adjustment	1.08	0.55	0.51
Dividends per share	Cash dividends		0.8	0.5	
	Stock dividends	Earnings	–	–	
		Capital surplus	–	–	
	Accumulated unpaid dividend (Note 4)		–	–	
Return on investment	Price-earnings ratio (Note 5)		22.19	39.23	
	Price-dividend ratio (Note 6)		29.96	43.16	
	Cash dividend yield (Note 7)		0.033	0.023	

Note 1: The year's high and low market prices of common stock are provided, and the average price for the year is computed based on the year's transaction amount and volume.
Note 2: Please use the number of outstanding shares at the end of the year and distribution decided by the shareholders' meeting in the following year.
Note 3: If adjustments must be made due to stock dividends, list the EPS before and after adjustment.
Note 4: If the conditions of securities issuance stipulate that dividends not distributed in the current year may be distributed when there is a profit, disclose the cumulative amount of dividends not distributed up to the current year.
Note 5: Price-earnings ratio = Year's average per share closing price / earnings per share.
Note 6: Price-dividend ratio = Year's average per share closing price / cash dividend per share.
Note 7: Cash dividend yield = Cash dividend per share / year's average per share closing price.
Note 8: Fill in data for the current year up to the date of report.
Note 9: The 2020 dividend distribution proposal was reviewed and approved by the Audit Committee on March 15, 2021 and approved by the Board of Directors on March 16, 2021. Dividends will be distributed after the Board of Directors sets the record date.

(VI) Dividend policy and implementation status

1. If there is a profit after year-end closing, the Company shall first set aside ten percent of such profits as a legal reserve after losses have been covered and all taxes and dues have been paid, and then allocation or reversal of a special reserve should be made in accordance with the law or the Company's operational needs. If there is still a surplus, it should be distributed together with accumulated undistributed earnings after the Board of Directors makes a proposal of distribution; the proposal shall be submitted to the shareholders' meeting for approval if it involves the issuance of new shares.

   Pursuant to the Company Act, the Company authorizes the Board of Directors to distribute all or a part of dividends or legal reserve and capital surplus in cash by a majority vote in a Board meeting with at least two thirds of directors in attendance, and the decision shall be reported during a shareholders' meeting.

   The Company's dividend policy takes into consideration the Company's current and future investment environment, funding requirements, and financial plans, as well as the interests of shareholders and balanced dividends. At least 10% of distributable earnings is allocated for distribution. However, if the dividend per share is lower than NT$0.5 when all distributable earnings is distributed, then the distributable earnings are retained and not distributed.

   Cash dividends may not be less than 10% of all dividends. However, cash dividends are not distributed when dividends per share is lower than NT$0.3 (inclusive), and stock dividends are distributed instead.

2. Dividend distribution to be proposed to the annual shareholders' meeting

Cash dividend of NT$0.5 per share.

3. Dividend distribution to be proposed to the shareholders' meeting

San Fang Chemical Industry Co., Ltd.

2020 Earnings Distribution Table

Unit:NTD

Item	Amount	
Beginning unappropriated retained earnings		$2,078,680,381
Add: Post-tax net income for the Current Year	$218,011,709	
Add: Remeasurement of defined benefit plans recognized in retained earnings	10,094,273	
Subtract: legal reserve (net income after tax 10%)		(22,810,598)
Subtract: special reserve		(9,038,009)
Retained earnings available for distribution as of 2020		2,274,937,756
Distribution items：		
Shareholders' dividend - cash dividend (NT$ 0.5 per share)		(198,909,063)
Unappropriated retained earnings		2,076,028,693

Remark: The Shareholders' cash dividend was distributed at 2020 surplus of $196,257,375 and 2019 surplus of $2,651,688

Chairperson: Manager: Head of accounting:

(VII) Effect of the proposed stock dividends (to be adopted by the shareholders' meeting) on the Company's operating performance and earnings per share:

Not applicable. There is no stock dividend distribution proposed in this shareholders' meeting.

(VIII) Employee bonuses and directors' remuneration:

1. Percentage or scope of employee bonuses and directors and supervisors' remuneration provided in Company's Articles of Incorporation:

   Article 24 of the Articles of Incorporation:

   The Company shall allocated 3-5% of its profit for the year (before tax and before distribution of employee bonuses and directors and supervisors' remuneration) as employee bonuses and no more than 3% as remuneration of directors and supervisors.

   The percentage allocated for employee bonuses and directors' remuneration and whether employee bonuses is paid in stock or cash shall be decided by a majority vote in a Board meeting with at least two thirds of directors in attendance, and the decision shall be reported during a shareholders' meeting.

   However, a sum shall be set aside in advance to pay down any outstanding cumulative losses, and then the percentages in the preceding paragraph shall be allocated for employee bonuses and directors' remuneration.

2. Basis for estimating the amount of employees bonuses and directors' remuneration, basis for calculating the number of shares to be distributed as employee bonuses, and the accounting treatment of the discrepancy, if any, between the actual distributed amount and the estimated amount, for the current period: The basis for estimates is in accordance with the Articles of Incorporation.

   No stock dividends are distributed. The difference between estimated amount and actual distributed amount is handled as an accounting change and recognized as income or loss in the following year. The amount of employee bonuses and directors' remuneration approved by the Board of Directors is the same as the amount of expenses recognized.

3. Distribution of remuneration passed by the Board of Directors:

   (1) Amount of employee bonuses and directors and supervisors' remuneration to be distributed in cash or stocks. If there is any discrepancy between the amounts and the amortized estimates for the year, the differences, reasons, and responses shall be disclosed. Employee bonuses in the amount of NT$10,312,500 and directors' remuneration in the amount of NT$6,187,500 in 2020 will be distributed in cash. No stock dividends will be distributed to employees and directors, and the amount distributed is the same as the estimated amount.

(2) The amount of employee bonuses to be paid in stocks as a percentage of net income after tax on the financial statements and total employee bonuses: Employee bonuses were not distributed in stock.

4. Actual distribution of employee bonuses and directors' remuneration in the previous year: The 2020 shareholders' meeting approved the distribution of employee bonuses in the amount of NT$19,368,890 and directors' remuneration in the amount of NT$11,621,334. Both will be distributed in cash, and the actual amount distributed is the same as the amount approved by the Board of Directors.

(IX) Stock buyback: None.

II. Issuance of corporate bonds (including overseas corporate bonds): None.

III. Issuance of preferred shares: None.

IV. Issuance of global depositary receipts (GDR) None.

V. Issuance of employee stock warrants: None.

VI. Issuance of restricted stock awards: None.

VII. Mergers, acquisitions, or transfer: None.

VIII. Financing plans and implementation: The Company does not have any of the situations specified in Article 17 of the Regulations Governing Information to be Published in Annual Reports of Public Companies.

Chapter 5. Business overview

I. Business activities

(I) Business scope

1. Main products and revenue breakdown

Main products	Percentage of sales revenue
① Wet-processed synthetic leather	62.2%
② Dry-processed synthetic leather	27.2%
③ Other	10.6%

2. Current products and services: Production, sales, and R&D of various PU leather, film materials, and functional fibers.
3. New products under development:

   Eco-friendly material made from solvent-free process, materials for transportation tools, materials for sports and daily life, functional film and fibers, and advanced applied materials.

(II) Industry overview:

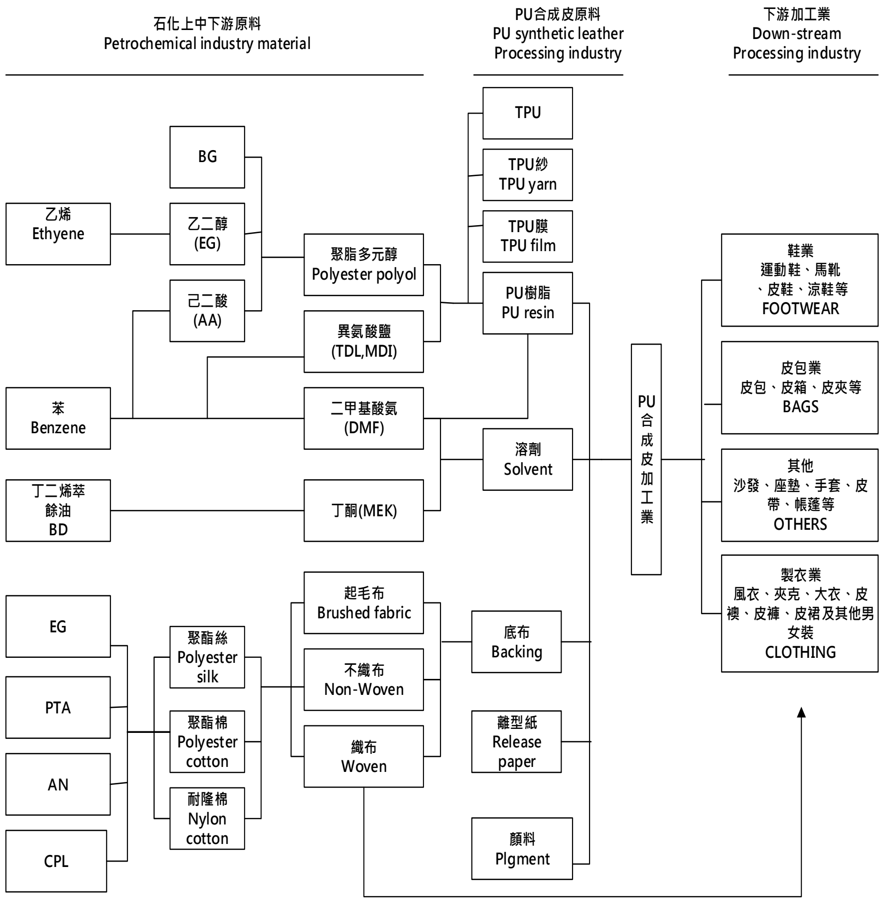
1. Current trends and outlook of the industry

   The PU leather industry is a labor-intensive processing industry in which automation is difficult to achieve. The industry has already lost the competitive advantage of conventional industries in labor cost and human resource supply. Environmental protection regulations are becoming growingly strict and brands are requiring suppliers to implement ZDHC, plan short-term, mid-term, and long-term goals for clean energy efficiency, and obtain certifications for environmental protection, recycling, and sustainability.

   Changes in the global economic still need to be observed as the COVID-19 pandemic continues to spread, international sports events such as the Tokyo Olympics are being delayed, the US-China trade war continues, and NTD appreciates.

   Facing the business challenges above, the Company has strengthened its internal raw materials development, vertically integrated production, and expanded overseas plants, transferring labor intensive processes to overseas factories. The parent company has transitioned to the development of key applications for raw materials, in order to reduce labor requirements and increase the added value of functions. The Company further integrates and optimizes materials, expands applications in different markets, and gain momentum through industry upgrade.

2. The relationship between upstream, midstream and downstream in the industry



3. Product trends

a. Artificial leather produced through eco-friendly processes.

b. Eco-friendly materials for vehicles and daily life.

c. Eco-friendly fiber materials.

4. Product competition

a. Product: The Company been in the shoe market for many years and has a diverse product line that meets

the needs of different brands and types of shoes.

The Company has been actively developing eco-friendly products in recent years, and meets environmental protection requirements of brands, including recycling, pollution prevention, waste reduction, and carbon reduction.

b. Delivery: To meet customers' demand on shorter delivery time and localization, the Company continues to expand overseas production bases to effectively shorten the delivery time and reduce transportation costs, expanding overseas production capacity to meet the needs of brands for rapid development, and gain a development advantage on the front end.

c. Quality: The Company has created a culture of putting quality first and established a quality assurance system over the years, obtaining the certification of numerous brands. The Company ensures quality for customers to build trust and a long-term partnership.

d. Price: The Company utilizes the advantages from specialized processing technologies, fashion elements, eco-friendly and functions to differentiate products and increase the value delivered by products.

(III) Overview of Technology and R&D

1. R&D expenses in the past year

Unit: Thousand NTD

Year / Item	2019	2020	2021 Q1
R&D expenses	448,154	309,365	83,754

2. Successfully developed technologies and products

(1) Eco-friendly process technology.

(2) Applications of functional materials in new markets.

(3) Structural process integration technology.

(4) Applications of film materials in new markets.

(5) Applications of functional fibers in new markets.

3. R&D projects and expected R&D expenses in the coming year

The Company allocates technical resources based on the production capacity of each production base, and enhances the product development ability of overseas locations to meet the application requirements of local customers. For technology R&D, we utilize development tools, strengthen our patent strategy, integrate upstream raw materials, and develop eco-friendly processes and raw materials, accurately controlling the quality of mass production to increase productivity and lower cost.

We optimized capabilities of the R&D team and production technologies for brands and different application markets. We transformed core technologies into technologies that can be scaled up for mass production and further applied in different markets. In the future, our R&D expenses are expected to account for 3-4% of our annual revenue. Future research and development plans are as follows:

R&D projects	Current progress	Expected mass production date
022	Mass production being tested	2021.06
071	Undergoing development and testing	2021.12
072	Mass production being tested	2021.03
073	Mass production being tested	2021.06
051, 052, 069	Mass production being tested	2021.09
025	Mass production being tested	2021.06
037、038	Mass production being tested	2021.09

(IV) Long-term and short-term business development plans

1. Short-term business development plans

(1) COVID-19 has made it inconvenient for personnel to travel and participate in exhibitions, so the deployment and strengthening of distance marketing abilities and systems should be accelerated, and customer relationships must be maintained to secure development opportunities.

(2) Use advantages in processing artificial leather to develop products aligned with brand trends, meet the demand of sports shoe brands on sport style and retro shoes, and thereby increase purchase orders on artificial leather.

(3) Fully utilize the Company's production bases and services, as well as the advantages of its technical team to provide customers with integrated value through products, technologies, and services, and avoid a market with excessive price competition.

2. Long-term business development plans

(1) Fully cooperate with the Brand Innovation Project and strengthen strategic cooperation with the world's leading brands to seize opportunities for working together, thereby securing long-term sources of purchase orders.

(2) Establish complete market detection mechanisms to gain insights into market development trends, invest R&D resources to accelerate the development of new products, and thereby gain a leading position and first mover advantages.

(3) Accelerate the development of eco-friendly products and processes in response to the demand of major brands on sustainable development, eco-friendly products, and eco-friendly processes, in order to gain a leading position and an edge in receiving future purchase orders.

(4) Monitor changes in brands and major customers, plan overseas production lines, product lines, and service teams in advance, and improve local delivery time and service competitiveness to gain a competitive advantage.

II. Market, production and sales overview

(I) Market analysis

1. Sales regions of main products

(1) Ratio of domestic sales and exports

Unit: Thousand NTD

Product \ Sales amount \ Year	2020			
	Domestic sales		Exports	
	Amount	Ratio	Amount	Ratio
Wet-processed synthetic leather	403,332	35%	4,840,529	66%
Dry-processed synthetic leather	295,951	26%	2,005,282	28%
Other	440,317	16%	456,345	6%
Total	1,139,600	100%	7,302,156	100%

(2) Main sales regions for exports

Region	Ratio in 2020
Asia	86.71%
Other	3.47%
Total	90.19%

2. Market share

The Company has worked with international sports and leisure shoe brands for many years, and has established solid partnerships with leading international brands. Over the years, the Company has dedicated its efforts to developing a wide variety of product applications for different brands and different sports shoes based on the functional, fashion, and environmental protection requirements of customers, jointly expanding the market scale together with customers. In addition to the Company's current woven fabric, non-woven fabric, and artificial leather products, the Company has continued to develop film materials suitable for no-sew shoe making processes in recent years. The amount of purchase orders for film products has continued to grow and become another main product line.

The Company has diverse product lines and leading process technologies, and has met the localization requirements of customers by expanding its overseas production capacity over the years, establishing a complete sales and technical service system. This has allowed us to maintain a substantial part of market share in the shoe market.

3. The future supply and demand situation and growth of the market

The shoe market has shown steady growth over the past decade for international brands, and major brands have began to diversify in recent years. In addition to professional sports shoes, the brands are combining their image with fashion elements and environmental protection to expand the market scale for sports shoe brands.

The global economy was severely impacted by the pandemic in 2020. The shoe and sports goods market significantly shrunk and purchase orders decreased. The market began to show signs of recovery in 2020 Q4. The market is expected to gradually return to its previous levels in 2021, and return to its growth trajectory. The designs of international sports shoe brands are using more diverse materials and have a strong sense of fashion. The great variety of textures offered by artificial leather and film along with the processing technologies meet the demand of brands and markets, which will benefit future purchase order growth for artificial leather and film products. Due to the rising wages and labor shortage that is occurring everywhere, no-sew and automated processes will continue to be developed and extensively applied in plants.

4. Competitive niche

The Company has built long-term strategic partnerships with customers over the years, and established complete market channels for international brands. The Company has developed products that lead the industry after years of investing its abundant R&D resources. We offer a full array of product lines for different price markets and shoe requirements, and monitor market development trends.

We have developed innovative products that meet customer needs, and have effectively controlled costs and raw materials supply after years of vertical integration, and it has enabled us to effectively grasp purchase orders and maintain reasonable profits. To meet the market's demand on localization and gain a competitive advantage from fast delivery and immediate service, we continue to expand our overseas production capacity and have formed production capacity, customer services, and technical teams.

5. Advantages and disadvantages of the Company's vision of development and response measures

(1) Favorable factors

①We have built deep and extensive partnerships with major brand customers over the years, and regularly convene meetings to discuss market development trends and business opportunities.

②We have a highly experienced, complete R&D team and have invested our abundant R&D resources into building a superior R&D team with leading product processing technologies. We have developed a wide variety of products that meet the market's needs through vertical integration.
We have a wide variety of channels for collecting market information, and monitor changes in downstream markets, which allows us to rapidly allocate resources and take response measures.

③We have globalized production bases to meet the localization requirements of customers, and also to accelerate delivery and immediately provide customer services and technical support. Over the years, we have continued to expand and complete our global production bases and customer service network, and have become the supplier with the most complete network in the industry.

(2) Unfavorable factors

①Market requirements are becoming growingly strict, markets are changing rapidly, requirements of brands and shoe manufacturers are becoming growingly strict, the delivery time is becoming shorter, and the ratio of purchase orders for smaller quantities is increasing, which increases the load on production capacity and operating costs.

②Customers are far away and make it harder to provide services. Due to the labor shortage and rising labor costs, shoe manufacturers are more quickly moving to remote areas and countries with low wages, which increases the difficulty of providing customer services and increases service and transportation costs.

③

Price competition for Chinese and Korean competitors

China's artificial leather companies are actively expanding their production lines, and small Korean PU manufacturers are seizing market share with low prices and disrupting prices and competition in the international brand market.

(3) Response measures

① Fully utilize advantages in the depth and breadth of distribution channels to get ahead of competitors

Use long-term partnerships with international brands to gain an edge in development, and strengthen services of the customer development center to increase the ratio of development.

②Fully utilize our complete network to increase customers' dependence

Increase our production capacity in each region based on the strategy for assigning purchase orders from brands and the relocation of shoe factories, in order to meet customers' requirement on localized supply. Increase customer service and technical service resources to provide customers with immediate services and solutions, and thus gain customers' trust to increase the ratio of purchase orders from customers.

③Utilize leading technologies and expand R&D of innovative products

Utilize our advantage from vertically integrated resources to accelerate the R&D of innovative products, and thereby maintain leadership in the industry. Utilize core fiber and film technologies to expand the development of yarn and film products, and accelerate market promotion to create new growth momentum.

(II) Important applications and production processes of main products

1. Important applications of major products

Main products	Application
PU synthetic leather	Shoe materials, furniture, balls, vehicle materials.
Film materials	Shoe materials, balls.
Functional textiles	Shoe materials.

2. Production processes of main products

(1) Polyurethane leather

Release paper → Coating → Drying → Coating, base cloth bonding → Drying → Aging → Release → Printing, treatment → Inspection (packaging) → Finished product.

(2) Artificial leather

Base cloth → Coating → Washing and drying → Inspection → Semi-finished product

Release paper → Coating → Drying → Coating, semi-finished product bonding → Aging → Release → Printing, treatment → Inspection (packaging) → Finished product.

(III) Supply status of primary raw materials

Name of raw material	Supply status
Dimethylformamide (DMF)	Imported and recycled; supply is stable
Methyl Ethyl Ketone (MEK)	All internally purchased; supply is stable
PU synthetic resin	Self-produced and supplied by domestic vendors; supply is stable
Pigment	Supplied by domestic vendors and importers; supply is stable
Release paper	Mainly imported from Europe, America, and Japan; supply is stable
Base cloth	Supplied by domestic vendors; supply is stable

(IV) Names of customers who contributed to more than 10% of total purchase (or sales) amount in one of the most recent two years and the corresponding purchase (or sales) amounts and percentages, as well as reasons for their changes (if applicable):

1. Purchase of goods: There are no customers who contributed to more than 10% of total purchase.
2. Sales of goods:

Unit: Thousand NTD

Item	2020				2019				2021 Q1			
	Name	Amount	Percentage of net sales (%)	Relationship with issuer	Name	Amount	Percentage of net sales (%)	Relationship with issuer	Name	Amount	Percentage of net sales in the current year up to the previous quarter (%)	Relationship with issuer
1	A	1,644,104	20	Affiliated company of institutional director	A	2,210,996	22	Affiliated company of institutional director	A	461,955		Affiliated company of institutional director
2	B	1,128,261	13	Customer	B	1,225,918	12	Customer	B	362,494	14	Customer
3	Other	5,669,391	67		Other	6,834,497	66		Other			
	Net sales	8,441,756	100		Net sales	10,271,411	100		Net sales	2,589,090	100	

The increase and decrease in sales to Customer A and B is due to fluctuations in sales to customers.

(V) Consolidated output volume and value for the last two years

Unit: 1,000 kg, 1,000 yards, NT$1,000

Year / Output quantity and value / Main products	2020			2019		
	Production capacity	Output volume	Output value	Production capacity	Output volume	Output value
Wet-processed synthetic leather		24,244	4,128,524		33,013	5,779,842
Dry-processed synthetic leather		9,241	1,685,312		10,179	2,056,266
Other			5,854,181			7,405,142
Total	49,000	33,485	11,668,017	49,000	43,192	15,241,250

Note: The same machinery is used for the products above, so production capacity is combined.

(VI) Consolidated sales volumes and value for the last two years

Unit: 1,000 kg, 1,000 yards, NT$1,000

Year / Sales volume and value / Main products	2020				2019			
	Domestic sales		Exports		Domestic sales		Exports	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value
Wet-processed synthetic leather	1,365	403,332	22,481	4,840,529	2,349	697,733	29,544	6,409,469
Dry-processed synthetic leather	999	295,951	7,699	2,005,282	1,280	680,888	8,300	2,131,983
Other		440,317		456,345		146,868		493,482
Total		1,139,600		7,302,156		1,236,477		9,034,934

III. The Group's employees in the last two years and up to the date of report

Year		December 2020	December 2019	The current year up to May 11, 2021
Number of employees	Direct employees	1,649	1,834	1,675
	Indirect employees	681	728	667
	Sales management personnel	410	476	418
	Total	2,740	3,038	2,760
Average age		34.77	33.89	35.24
Average years of service		7.41	6.34	7.35
Education background	Ph.D	1	1	1
	Master	45	46	45
	Bachelor	714	788	696
	Senior High School	1,764	1,902	1,785
	Below senior high school	216	301	233
	Total	2,740	3,038	2,760

IV. Information on environmental protection expenses

Losses sustained due to environmental protection (including compensation and violations of environmental protection laws found in environmental protection inspection results, specify the date of the penalty, letter number, article violated, provision violated, details of the penalty) in the most recent year and up to the date of report, and disclose current and future estimated amount and response measures

The Company did not receive any environmental protection fines in 2020 and up to the date of report.

(I) Current response measures.

Set internal control warning levels for early warning.

1. 2,000 points are randomly sampled from equipment elements each month, and those with risks are listed as key points; the internal control warning level is 200 ppm (the standard is 2,000 ppm). Improvements are immediately made if the internal control warning level is exceeded.
2. Emission concentration is sampled every week and the warning level is set at 15 ppm (the standard is 20 ppm). The parameters of prevention equipment are immediately adjusted if the internal control warning level is exceeded.
3. The warning level for effluent is set at 70 ppm (the standard is 100 ppm). Operating parameters are immediately adjusted if the internal control warning level is exceeded.

(II) Future response measures.

The design will be incorporated in new process equipment to meet environmental protection regulations. This measure is a policy for future equipment, so the amount cannot be estimated.

GHG emissions totaled 43,929.78 tons in 2019

GHG emissions totaled 34,488.60 tons in 2020

Passed the SGS inspection for GHG

Waste (tons)

Year	2019	2020	Percentage of change
Total	3,355.62	2,332.55	(30.5%)

Tap water (m3)

Month	2019 years	2020 years	Percentage of change
Total	249,012	188,204	(24.4%)

V. Labor-management relations

(I) Current important labor-management agreements and their implementation

1. Employee benefit measures

(1) Employee clubs include: Softball Club, Bicycle Club, Mountain Climbing Club, etc.

(2) Cash gifts are given during Dragon Boat Festival, Mid-Autumn Festival, and Chinese New Year, and also during employees' birthday.

(3) Company trips are organized every year either in Taiwan or overseas.

(4) Complete insurance system: Labor insurance, health insurance, and group insurance.

(5) The Company also provides childbirth subsidies, scholarships for employees and their children, subsidies for language courses, employee proposal bonuses, patent bonuses, cash gift for wedding, and consolation money for funeral and hospitalization.

(6) The Company provides free parking for cars and scooters, and dormitories and cafeteria for foreign employees, providing accommodations and meals for foreign workers.

(7) The Company implements one fixed day off and one flexible rest day, giving employees sufficient time for leisure and better quality of life. The Company also provides annual leave, paternity leave, and family care leave, and menstrual leave in accordance with the Labor Standards Act and Act of Gender Equality in Employment.

(8) Employee health examinations are conducted on an annual basis in accordance with the Regulations of the Labor Health Protection.

2. Talent training: Training sessions are regularly organized each year according to the annual education and training implementation plan, in order to enhance employees' abilities in coordination with the Company's development strategy. Training hours totaled 47,954 hours and training expenses was approximately NT$962,000 in 2020. The training was mostly for work related expertise and also included stress relief courses.

(1) Standard training hours for employees are determined based on the nature of direct and indirect employees.

(2) Training courses are systematically organized by function and level.

(3) General education on hazards, first aid training, and fire safety drills are regularly implemented in accordance with labor safety and health laws.

(4) External training expenses for each function are paid in full by the Company.

(5) Foreign language training is subsidized to improve employees' foreign language proficiency.

3. Retirement plan

(1) The Company complies with government laws and allocates 4% of employees' monthly salaries to a dedicated account at the Bank of Taiwan for employees applicable to the pension system set forth in the Labor Standards Act (old pension system), and pension payments are made from the account when employees retire. For all employees (including informal employees) applicable to the pension system set forth in the Labor Pension Act

(new pension system), the Company contributes 6% of employees' monthly salaries to their dedicated labor pension account at the Bureau of Labor Insurance.

(2) The Company reported the establishment of a Supervisory Committee of Workers' Retirement Fund to government agencies in accordance with regulations. The Committee is responsible for allocating the labor retirement reserve.

(3) The Company established Labor Retirement Management Regulations, which is applicable to all full-time employees from the date they are hired. The criteria and procedures for employees to apply for retirement are briefly described below:

A. The Company's employees may apply for retirement if they meet any one of the following conditions:

- Has worked for 15 years or more and reached the age of 55.
- Has worked for 25 years or more.
- Has worked for 10 years or more and reached the age of 60.

B. The Company may force employees to retire if they meet any one of the following conditions:

- Reached the age of 65. The Company request the central competent authority to make adjustments for special work that is dangerous or requires strong physical abilities.
- No longer able to work due to insanity or physical disability.

C. Employee pension payment standards:

- Two basis points are given for each full year of work for employees applicable to the pension system set forth in the Labor Standards Act (old pension system), but only one basis point is given for each full year of work more than 15 years, and the total number of basis points is limited to 45. Any length of time shorter than six months is calculated as six months, and longer than six months is calculated as one year. An additional 20% is paid for employees forced to retire due to insanity or physical disability caused by performing their duties.
- For employees applicable to the pension system set forth in the Labor Pension Act (new pension system), the Company contributes 6% of the employees' monthly salary to their personal dedicated pension account. Employees may voluntarily allocate their monthly salary to their pension account within the scope of 6%.

D. Pension payment procedures Pension payments to employees applicable to the Labor Standards Act shall be paid within 30 days after employees retire. Employees may submit documentation to open a dedicated account at a financial institution, and use the account for depositing pension funds.

(4) The defined contribution system is used by overseas subsidiaries, and contributions are made according to local laws.

(5) For employees applicable to the pension system set forth in the Labor Standards Act (old pension system), the amount of labor retirement reserve reached NT$23,001,000 as of

the end of 2020. For employees applicable to the pension system set forth in the Labor Pension Act (new pension system), the Company contributed NT$21,863,000 in 2020.

(6) The Company had 5 employees eligible for voluntary retirement in 2020 in accordance with Article 53 of the Labor Standards Act, and the employees have already completed retirement procedures according to related regulations.

(7) Other important agreements: None.

4. Certifications specified by the competent authority that were obtained by the personnel related to financial information transparency: Employees have not obtained related certifications, but regularly receive training and are competent in their field of expertise.

5. Employee Code of Conduct and Ethics: The Company has established "Ethical Corporate Management Best Practice Principles" and "Code of Ethics." Besides complying with local laws and regulations, we also referenced the Code of Conduct established by international brand customers and leading companies, and use them as the core standards for all employees when performing their work. The principles and code are announced on the company website.

6. Protective measures taken to ensure a safe working environment and maintain employees' personal safety:

(1) Established Environmental Protection, Safety, and Health Management Regulations.

(2) Establishment of a safety and health management unit and personnel:

A. The Company established a safety and health management unit in accordance with labor safety and health regulations.

B. First aid personnel are required at the worksite in accordance with labor safety and health regulations, and the personnel receive re-training according to regulations.

C. Personnel performing operations involving organic solvents, specific chemicals, hazardous machinery and equipment, and high pressure gas are required to have a training certificate and regularly receive re-training in accordance with labor safety and health regulations.

D. Environmental safety meetings are convened on a quarterly basis to discuss environmental safety related issues.

E. Fire drills are scheduled every six months.

(3) Fire safety and facility safety

A. A maintenance company is hired to maintain and conduct spot inspections of elevators each month, and a qualified inspection institution is commissioned to conduct an inspection every year.

B. The Environmental Safety Office conducts spot inspections of fire safety equipment, and a qualified inspection institution is commissioned to conduct an inspection every year.

C. The Engineering Department conducts spot inspections of high pressure gas equipment, and a qualified inspection institution is commissioned to conduct an inspection every year.

(4) Sanitation

A. The work environment is inspected every six months.

B. Health examinations and special health examinations are conducted on an annual basis.

C. Factories have an infirmary with stationed nurses and visiting physicians to provide suitable medical assistance.

7. Other important agreements: None.

8. Has the Company made it a policy to reflect business performance or results on employee compensation:

(1) Percentage of employee bonuses specified in the Articles of Incorporation: Article 24 of the Articles of Incorporation (please see p.65).

(2) The Company established Employee Bonus Distribution Regulations, which sets for standards for individual employee bonuses based on employees' seniority, performance, and position.

(3) The Company established Efficiency Bonus Distribution Regulations and distributes individual bonuses along with monthly salaries based on the Company's monthly business performance, the product yield and attainment of production goals by each department, and the base for each position.

(4)Average employee salary adjustments in 2020 were disclosed on the MOPS.

(II) Losses sustained due to labor disputes (including labor inspection results found in violation of the Labor Standards Act, specify the date of the penalty, letter number, article violated, provision violated, details of the penalty) in the most recent year and up to the printing date of the annual report, and disclose current and future estimated amount and response measures: The Company did not receive any fines in 2020 and up to the date of report.

Estimated amount for the present and future and response measures:

1. We have found the cause and taken preventive measures, so there is low risk of the same situation occurring again.
2. We have established SOP and a mechanism for regularly notifying unit supervisors of overtime hours and compensatory leave hours. The data is linked to the system to ensure correct payment.

Since we have taken prevention measures, it will lower the probability of another fine.

VI. Important contracts

Nature of contract	The Parties	Commencement date/expiration date	Content	Restrictive clauses
Loan agreements	Bank of Taiwan	2017/3~ 2022/3	The loan amount is NT$300 million with the principal repaid in 6 installments of NT$50 million every six months starting in September 2019.	N/A
Loan agreements	CTBC Bank	2016/7~ 2021/7	The loan amount is NT$350 million repaid in full on the due date.	N/A
Loan agreements	Hua Nan Bank	2020/9~ 2025/9	The loan amount is NT$500 million with the principal repaid in 6 installments of NT$62.5 million every six months starting in September 2020.	N/A
Loan agreements	Hua Nan Bank	2020/2~ 2025/2	The loan amount is NT$70 million with the principal repaid in 21 installments every 3 months starting in May 2020, in which the first installment is NT$2,000,000 and subsequent installments are NT$3,500,000.	N/A
Loan agreements	Far Eastern International Bank	2020/12~ 2023/12	The loan amount is NT$300 million repaid in full on the due date.	N/A
Loan agreements	FCB	2019/8~ 2024/8	The loan amount is NT$300 million with the principal repaid in 6 installments of NT$50 million every 6 months starting in February 2022.	Calculated at the floating interest rate for two-year time deposits plus 0.18%, exports (including inward remittance) must reach US$12,000,000 each year, imports (including outward remittance) must reach US$5,000,000 each year, and inward remittance from sales must reach the equivalent of NT$550,000,000 each year.

Nature of contract	The Parties	Commencement date/expiration date	Content	Restrictive clauses
Loan agreements	CHB	2018/2~ 2023/8	The loan amount is NT$300 million with the principal evenly repaid in 6 installments every 6 months starting in August 2020.	N/A
Loan agreements	Taiwan Cooperative Bank	2019/1~ 2024/1	The loan amount is NT$300 million with the principal evenly repaid in 6 installments every six months starting in July 2021.	
Loan agreements	Bank SinoPac	2019/2~ 2024/2	The loan amount is NT$300 million with the principal evenly repaid in 6 installments every six months starting in August 2021.	Consolidated current ratio may not be lower than 1.0 and consolidated debt ratio may not be higher than 1.5 during the drawdown period based on the latest consolidated financial statements.
Loan agreements	E.SUN Bank	2019/9~ 2022/1	The loan amount is NT$300,000,000, the first installment is 12 months from the first drawdown date, and then one installment every 6 months afterwards; divided into 5 installments that decrease progressively, in which installments 1-4 each decrease 15%, and installment 5 decreases 40%. Any amount owed exceeding the decreased amount must be immediately repaid.	It is recommended to increase demand deposits.
Loan agreements	Mega Bank	2019/12~ 2024/12	The loan amount is NT$500 million with the principal evenly repaid in 7 installments every six months starting in December 2021.	Average balance of deposits must reach NT$50,000,000 or above (inclusive), and foreign exchange transactions must reach US$15,000,000 or above (inclusive).

Chapter 6. Financial overview

I. Condensed Balance Sheet and Statement of Comprehensive Income

(I) Condensed Balance Sheet (Consolidated)

Unit: Thousand NTD

Item \ Year		2020	2019	2018	2017	2016	Financial data to March 31, 2021 (Note 1)
Current assets		8,959,289	8,337,017	7,786,422	7,673,657	8,896,453	8,990,806
Property, plant and equipment		5,861,061	6,203,791	6,282,971	6,234,963	5,991,628	5,746,152
Intangible assets		64,124	68,978	38,798	38,829	38,922	67,329
Other assets		456,415	526,285	414,017	452,685	297,234	1,112,564
Total assets		15,340,889	15,136,071	14,522,208	14,400,134	15,224,237	15,917,031
Current liabilities	Before distribution	3,765,507	3,846,140	3,712,278	3,342,236	3,969,683	4,701,982
	After distribution	3,964,416	4,164,394	3,911,187	4,018,527	4,844,883	4,900,891
Non-current liabilities		3,702,256	3,025,846	2,593,317	2,676,933	2,351,589	3,115,226
Total liabilities	Before distribution	7,467,763	6,871,986	6,305,595	6,019,169	6,321,272	7,817,208
	After distribution	7,666,672	7,190,240	6,504,504	6,695,460	7,196,472	8,016,117
Equity attributable to owners of parent		7,873,126	8,264,085	8,216,613	8,380,965	8,902,965	7,900,914
Share capital		3,978,181	3,978,181	3,978,181	3,978,181	3,978,181	3,978,181
Capital surplus		142,438	141,101	140,028	139,055	137,866	142,438
Retained earnings	Before distribution	4,266,335	4,356,483	4,130,784	4,482,278	4,461,237	4,470,811
	After distribution	4,067,426	4,038,229	3,931,875	3,805,987	3,586,037	4,271,902
Other equity interest		(513,828)	(211,680)	(32,380)	(218,549)	325,681	(491,607)
Treasury stock		0	0	0	0	0	0
Non-controlling interest		0	0	0	0	0	0
Total equity	Before distribution	7,873,126	8,264,085	8,216,613	8,380,965	8,902,965	8,099,823
	After distribution	7,674,217	7,945,831	8,017,704	7,704,674	8,027,765	7,900,914

Note 1: Audited by the CPAs.

(I)-1 Condensed Balance Sheet (Standalone)

Unit: Thousand NTD

Item \ Year		2020	2019	2018	2017	2016
Current assets		4,175,314	3,555,458	3,661,648	2,140,330	2,832,142
Property, plant and equipment		3,648,880	3,851,004	3,752,330	3,678,361	3,419,760
Intangible assets		27,441	32,967	2,745	3,070	3,163
Other assets		6,882,803	7,897,489	7,695,583	7,916,606	8,326,367
Total assets		14,734,438	15,336,918	15,112,306	13,738,367	14,581,432
Current liabilities	Before distribution	3,239,328	4,102,758	4,365,368	2,757,749	3,341,114
	After distribution	3,438,237	4,421,012	4,564,277	3,434,040	4,216,314
Non-current liabilities		3,621,984	2,970,075	2,530,325	2,599,653	2,337,353
Total liabilities	Before distribution	6,861,312	7,072,833	6,895,693	5,357,402	5,678,467
	After distribution	7,060,221	7,391,087	7,094,602	6,033,693	6,553,667
Equity attributable to owners of parent		7,873,126	8,264,085	8,216,613	8,380,965	8,902,965
Share capital		3,978,181	3,978,181	3,978,181	3,978,181	3,978,181
Capital surplus		142,438	141,101	140,028	139,055	137,866
Retained earnings	Before distribution	4,266,335	4,356,483	4,130,784	4,482,278	4,461,237
	After distribution	4,067,426	4,038,229	3,931,875	3,805,987	3,586,037
Other equity interest		(513,828)	(211,680)	(32,380)	(218,549)	325,681
Treasury stock		0	0	0	0	0
Non-controlling interest		0	0	0	0	0
Total equity	Before distribution	7,873,126	8,264,085	8,216,613	8,380,965	8,902,965
	After distribution	7,674,217	7,945,831	8,017,704	7,704,674	8,027,765

Note 1: Audited by the accountant

(II) Condensed Statement of Comprehensive Income (Consolidated)

Unit: Thousand NTD

Item \ Year	2020	2019	2018	2017	2016	Financial data for the current year up to March 31, 2021 (Note 1)
Operating revenue	8,441,756	10,271,411	9,492,260	9,855,355	11,045,717	2,589,090
Operating margin	1,863,671	2,367,373	1,927,908	2,903,725	3,257,551	627,908
Operating income	498,351	651,090	308,677	1,238,979	1,571,134	267,636
Non-operating income and expenses	(154,098)	(10,444)	2,864	(90,712)	(29,708)	(595)
Pre-tax profit	344,253	640,646	383,541	1,148,267	1,541,426	267,401
Net income from continuing operations	218,012	430,420	302,933	901,060	1,243,979	204,476
Loss from discontinued operations	0	0	0	0	0	0
Net income (loss)	218,012	430,420	302,933	901,060	1,243,979	204,476
Other consolidated income (net after tax)	(292,054)	(185,112)	208,033	(549,049)	(151,298)	22,221
Total comprehensive income	(74,042)	245,308	510,966	352,011	1,092,681	226,697
Net income attributable to owners of the parent	218,012	430,420	302,933	901,060	1,243,979	204,476
Net income attributable to non-controlling interest	0	0	0	0	0	0
Total comprehensive income (loss) attributable to owners of the parent	(74,042)	245,308	510,966	352,011	1,092,681	226,697
Total comprehensive income (loss) attributable to non-controlling interest	0	0	0	0	0	0
EPS	0.55	1.08	0.76	2.27	3.13	0.51

Note 1: Audited by the CPAs.

(II)-1. Condensed Statement of Comprehensive Income (Standalone)

Unit: Thousand NTD

Item \ Year	2020	2019	2018	2017	2016
Operating revenue	6,786,846	8,048,054	5,780,859	4,669,245	5,201,711
Operating margin	1,177,134	1,334,047	801,699	523,414	685,608
Operating income	358,237	291,428	231,041	149,404	99,854
Non-operating income and expenses	(82,723)	244,144	143,577	969,879	1,416,916
Pre-tax profit	275,514	535,572	374,618	1,119,283	1,516,770
Net income from continuing operations	218,012	430,420	302,933	901,060	1,243,979
Loss from discontinued operations	0	0	0	0	0
Net income (loss)	218,012	430,420	302,933	901,060	1,243,979
Other consolidated income (net after tax)	(292,054)	(185,112)	208,033	(549,049)	(151,298)
Total comprehensive income	(74,042)	245,308	510,966	352,011	1,092,681
Net income attributable to owners of the parent	218,012	430,420	302,933	901,060	1,243,979
Net income attributable to non-controlling interest	0	0	0	0	0
Total comprehensive income (loss) attributable to owners of the parent	(74,042)	245,308	510,966	352,011	1,092,681
Total comprehensive income (loss) attributable to non-controlling interest	0	0	0	0	0
EPS	0.55	1.08	0.76	2.27	3.13

Note 1: Audited by the accountant(III) Name of CPA and auditors' opinions in the last five years

1. Name of CPA and auditors' opinions in the last five years

Year	Name of accounting firm	Name of CPA	Audit Opinion
2016	Deloitte Taiwan	Chia-Ling Chiang, Chen-Li Chen	Unqualified opinion
2017	Deloitte Taiwan	Chiu-Yen Wu, Chen-Li Chen	Unqualified opinion
2018	Deloitte Taiwan	Chiu-Yen Wu, Chen-Li Chen	Unqualified opinion
2019	Deloitte Taiwan	Chiu-Yen Wu and Chia-Ling Chiang	Unqualified opinion
2020	Deloitte Taiwan	Chiu-Yen Wu and Chia-Ling Chiang	Unqualified opinion

Note 1: CPAs Chiu-Yen Wu and Chen-Li Chen were appointed as the Company's accountants in 2017 Q3 due to the CPA firm's internal rotation mechanism.

Note 2: CPAs Chiu-Yen Wu and Chia-Ling Chiang were appointed as the Company's accountants in 2019 Q1 due to the CPA firm's internal rotation mechanism.

II. Financial analysis of the last five years

(I) Financial analysis according to IFRS (consolidated):

Analysis item		2020	2019	2018	2017	2016	The current year up to March 31, 2021 (Note)
Financial structure (%)	Debt ratio	48.68	45.40	43.42	41.80	41.52	50.36
	Long-term fund to property, plant and equipment	197.50	181.98	172.05	177.35	187.84	191.71
Liquidity (%)	Current ratio	237.93	216.76	209.75	229.60	224.11	183.45
	Quick ratio	191.57	160.63	152.69	175.00	187.52	139.45
	Times interest earned	8.23	15.95	11.86	35.73	49.00	22.93
Operating ability	Receivables turnover (times)	6.53	6.84	6.56	6.87	7.25	7.79
	Average collection days	55.89	53.36	55.64	53.12	50.34	46.85
	Inventory turnover (times)	3.60	3.85	3.94	4.37	5.16	4.36
	Payables turnover (times)	10.96	12.37	11.10	8.68	9.73	10.80
	Average inventory turnover days	101.38	94.80	92.63	83.52	70.73	83.73
	Property, plant and equipment turnover (times)	1.40	1.65	1.52	1.58	1.85	1.78
	Total assets turnover (times)	0.55	0.69	0.66	0.67	0.75	0.66
Profitability	Return on assets (%)	1.68	3.13	2.29	6.27	8.68	5.48
	Return on equity (%)	2.70	5.22	3.65	10.43	14.32	10.37
	Pre-tax profit to paid-in capital ratio (%)	8.65	16.10	9.64	28.86	38.75	26.85
	Net margin (%)	2.58	4.19	3.19	9.14	11.26	7.90
	Earnings per share (NT$)	0.55	1.08	0.76	2.27	3.13	0.51
Cash flows	Cash flow ratio (%)	46.14	34.98	3.05	35.02	59.77	-6.90
	Cash flow adequacy ratio (%)	93.84	97.08	99.04	114.85	144.05	13.59
	Cash reinvestment ratio (%)	7.05	5.90	(3.05)	1.63	9.41	-1.71
Leverage	Operating leverage	5.22	4.73	6.93	2.80	2.50	3.23
	Financial leverage	1.11	1.07	1.10	1.03	1.02	1.05

Note: Reviewed by the accountant

1. Decrease in total assets turnover ratio: Customers were relatively conservative in placing purchase orders in 2020 due to the COVID-19 pandemic, and countries around the world implemented border control and social distancing. Major sporting events were either postponed or canceled, and our operating revenue decreased 17.8% compared with the same period last year as a result.
2. Decrease in return on assets, decrease in return on equity, decrease in ratio of operating profit to paid-in capital, decrease in ratio of pre-tax income to paid-in capital, decrease in net profit margin, and decrease in earnings per share: The decrease in operating revenue was mainly due to the COVID-19 pandemic in 2020. The rapid rise in raw materials costs and transportation costs after the pandemic stabilized after the third quarter resulted in an increase in operating costs. Gross profit decreased approximately 21.3% compared with the same period last year, net profit before tax decreased NT$296,393,000 (approximately 46.3%) compared with the same period last year.
3. Increase in cash flow ratio: Purchase orders in the first three quarters of 2020 were impacted by COVID-19, so the Company began controlling raw materials purchases in April to July and cash outflow decreased NT$489,908,000 compared with previous year.

(I)-1. Financial analysis according to IFRS (Standalone):

Analysis item		2020	2019	2018	2017	2016
Financial structure (%)	Debt ratio	46.57	46.12	45.63	39.00	38.94
	Long-term fund to property, plant and equipment	315.03	291.27	286.41	298.52	328.69
Liquidity (%)	Current ratio	128.89	86.66	83.88	77.61	84.77
	Quick ratio	86.70	49.80	48.40	49.68	65.99
	Times interest earned	6.90	13.39	11.99	35.93	49.08
Operating ability	Receivables turnover (times)	7.27	7.07	6.27	6.79	6.44
	Average collection days	50.20	51.62	58.21	53.75	56.67
	Inventory turnover (times)	4.20	4.47	4.39	6.13	6.73
	Payables turnover (times)	6.98	6.31	5.75	5.78	6.34
	Average inventory turnover days	86.90	81.65	83.14	59.54	54.23
	Property, plant and equipment turnover (times)	1.81	2.12	1.56	1.32	1.57
	Total assets turnover (times)	0.45	0.53	0.40	0.33	0.37
Profitability	Return on assets (%)	1.70	3.05	2.29	6.55	9.07
	Return on equity (%)	2.70	5.22	3.65	10.43	14.32
	Pre-tax profit to paid-in capital ratio (%)	6.93	13.46	9.42	28.14	38.13
	Net margin (%)	3.21	5.35	5.24	19.30	23.91
	Earnings per share (NT$)	0.55	1.08	0.76	2.27	3.13
Cash flows	Cash flow ratio (%)	12.29	21.27	(3.58)	40.70	35.19
	Cash flow adequacy ratio (%)	56.73	57.36	58.07	88.52	94.55
	Cash reinvestment ratio (%)	0.51	4.21	(5.37)	1.59	3.30
Leverage	Operating leverage	4.38	5.78	5.99	8.81	13.01
	Financial leverage	1.15	1.17	1.17	1.27	1.46

1. Increase in current ratio and increase in quick ratio: Mainly due to the Board of Directors of a subsidiary adopting the resolution to transfer profits in the amount of NT$766,299,000 back to the parent company in December 2020, and the Company's Board of Directors adopted the resolution to recognize the profits in "Other receivables – related parties" in December 2020.
2. Decrease in times interest earned: The pandemic in 2020 caused customers to be more conservative in placing purchase orders, while the rapid rise in raw materials costs and transportation costs resulted in an increase in operating costs. Hence, net profit before tax decreased NT$260,058,000 (approximately 48.6%) compared with the same period last year.
3. Decrease in return on assets, decrease in return on equity, decrease in ratio of pre-tax income to paid-in capital, decrease in net profit margin, and decrease in earnings per share: The decrease in operating revenue was mainly due to the COVID-19 pandemic in 2020. The rapid rise in raw materials costs and transportation costs after the pandemic stabilized after the third quarter resulted in an increase in operating costs, and net income after tax decreased NT$212,408,000 (approximately 49.3%) compared with the same period last year.
4. Increase in operating profit to paid-in capital: Promotion expenses decreased NT$68,587,000 compared with the same period last year due to the successful reduction of operating expenses in 2020, and R&D expenses decreased NT$134,546,000 compared with the same period last year.
5. Decrease in cash flow ratio and cash reinvestment ratio: The impact of COVID-19 caused pre-tax profit to decrease NT$260,058,000 compared with the same period last year, and the decrease in transactions reduced cash inflows, resulting in a decrease in refund liabilities by NT$193,212,000. As a result, net cash inflow from operating activities this year decreased NT$474,843,000 compared with the same period last year.
6. Decrease in operating leverage: Operating profit increased NT$66,809,000 compared with the same period last year, while fixed costs and expenses decreased by approximately NT$184,994,000 due to the parent company controlling expenses in 2020.

Formulas for financial analysis according to the IFRS:

1. Financial structure
   (1) Debt Ratio = Total Liabilities / Total Assets.
   (2) Long-term fund to property, plant and equipment ratio = (total equity + non-current liabilities) / net amount of real estate properties, plants and equipment.
2. Liquidity
   (1) Current ratio = Current assets / Current liabilities.
   (2) Quick ratio = (current assets - inventory - prepaid expense) / current liabilities.
   (3) Time interest earned = net income before income tax and interest expense / current interest expense.
3. Operating ability
   (1) Receivables (including accounts receivable arising from operation notes receivable) turnover ratio = net sales / average receivables (including accounts receivable arising from operation notes receivable) balances.
   (2) Average collection days = 365 / Receivable turnover.
   (3) Inventory turnover ratio = Cost of goods sold / Average amount of inventory.
   (4) Payables (including accounts payable arising from operation notes payable) turnover ratio = cost of goods sold / average payables (including accounts payable arising from operation notes payable) balances.
   (5) Average inventory turnover days = 365 / Average inventory turnover.
   (6) Property, plant and equipment turnover = Net sales / Average net property, plant and equipment.
   (7) Fixed assets turnover ratio = Net sales / Total average fixed assets.
4. Profitability
   (1) Return on assets ＝ [net income + interest expense (1– tax rate)] / average total assets.
   (2) Return on equity = Net income / Average equity.
   (3) Net profit margin = After-tax profit / Net operating income.
   (4) EPS = (income belonging to owner of parent company - stock dividend of preferred stocks)/weighted average number of issued shares.
5. Cash flows
   (1) Cash flow ratio = new cash flows from operating activities / current liabilities.
   (2) Net cash flow adequacy ratio = Net cash flow from operating activities for the most recent five years / (capital expenditures + inventory increase + cash dividend) for the most recent five years.
   (3) Cash reinvestment ratio = (net cash flows from operating activities –cash dividend) / (gross margin of property, plant and equipment + long-term investment + other non-current assets + working capital).
6. Leverage:
   (1) Operating leverage = (net operating income － variable operating cost and expenses) / operating income.
   (2) Financial leverage = operating profit/(operating profit - interest expense).

III. Audit Committee's review report in the most recent year

The Board of Directors has prepared and submitted the 2020 business report, financial statements, and dividend distribution proposal. The financial statements were audited by CPAs Chiu-Yen Wu and Chia-Ling Chiang at Deloitte Taiwan, who prepared an audit report.

The business report, financial statements, and dividend distribution proposal have been reviewed by the Audit Committee and determined to be in compliance with related laws and regulations. The report above is in accordance with Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act.

To the 2021 annual shareholders' meeting of San Fang Chemical Industry Co., Ltd.

Convener of the Audit Committee: 許萬林

Respresentation Letter

Companies that must be included in the consolidated financial statements of affiliates according to the "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliates" are the same as those that must be included in the consolidated financial statements of parent company and subsidiaries according to IFRS 10 in 2020 (from 2020/1/1 to 2020/12/31). Information that must be disclosed in the consolidated financial statements of affiliates is already disclosed in the consolidated financial statements of the parent company and subsidiaries. Hence, the Company will not separately prepare consolidated financial statements of affiliates.

Hereby declared that

Company name: San Fang Chemical Industry Co., Ltd.

Legal Representative: Mun-Jin, Lin

March 16, 2021

IV. Financial statements for the most recent year

Independent Auditor's Report

To San Fang Chemical Industry Co., Ltd.:

Audit Opinion

We have audited the consolidated balance sheet, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated cash flow statement, and consolidated notes to financial statements (including a summary of major accounting policies) of San Fang Chemical Industry Co., Ltd. and its subsidiaries (San Fang Group) for the years ended December 31, 2020 and 2019.

In our opinion, the consolidated financial statements above were prepared, in all material aspects, in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, International Financial Reporting Standards, International Accounting Standards, and explanations/interpretations approved and announced by FSC, and therefore are sufficient to present the financial position of the San Fang Group as at December 31, 2020 and 2019, as well as its consolidated financial performance and consolidated cash flow for the years ended December 31, 2020 and 2019.

Basis of Audit Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and generally accepted auditing standards. We will further explain our responsibilities under the regulations in the section on the independent auditor's responsibilities relating to consolidated financial statements. Personnel of our firm who are required to maintain independence according to the Code of Professional Ethics have maintained independence from the San Fang Group, and also fulfill other responsibilities set forth by the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

Key audit matters are the most important matters in the 2020 consolidated financial statements of the San Fang Group determined based on our professional judgment. We have already responded to the matters in the process of auditing the consolidated financial statements and forming an audit opinion, and will not express opinions on individual matters.

Key audit matters in the 2020 consolidated financial statements of the San Fang Group are as follows:

Authenticity of sales revenue from specific products

According to Note 21 to the consolidated financial statements, the San Fang Group's revenue is mainly from the sale of artificial leather, in which the unit price of some items had a relatively large difference from the average unit price of the product category. Hence, the default is to set the risk as high according to the Statement of Auditing Standards, and the authenticity of sales revenue from specific products was thus listed as a key audit matter.

We have carried out the following audit procedures in response to the specific aspect described in Key Audit Matters above, including:

I. Understanding and testing internal controls related to the authenticity of revenue recognition, including whether or not purchase order and delivery related internal controls are effective, and if operating revenue is recognized accordingly.

II. We conducted a sampling inspection to see if operating revenue details were consisted with finished product shipping orders and the customers and amounts on invoices, and also checked if finished product shipping orders were signed by customers or are attached with documentation of delivery, such as export customs declaration.

III. We conducted a sampling inspection to see if operating revenue details matched the amount of accounts receivables, and if the customers are the same.

Other Matters

San Fang Chemical Industry Co., Ltd. has prepared standalone financial statements for the years 2020 and 2019, on which we have issued an audit report containing an unqualified opinion for reference.

Management and the Governance Department's Responsibility for the Consolidated Financial Statements

The responsibility of management is to prepare fairly presented consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, International Financial Reporting Standards, International Accounting Standards, and explanations/interpretations approved and announced by FSC, and to maintain necessary internal controls related to the preparation of consolidated financial statements, in order to ensure that the consolidated financial statements are free of material misstatements, whether due to fraud or error.

When preparing the consolidated financial statements, it is also the responsibility of management to evaluate the San Fang Group's ability to continue as a going concern, disclosures, and going concern basis of accounting, unless management intends to liquidate or permanently shut down the San Fang Group, or there are no feasible options other than liquidation or termination.

The governance department (including Audit Committee) of the San Fang Group is responsible for supervising the financial reporting process.

The Independent Auditor's Responsibility when Auditing the Consolidated Financial Statements

The purpose for auditing the consolidated financial statements is to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to fraud or error, and to issue an audit report. Reasonable assurance means high level of assurance. However, audits conducted according to generally accepted auditing standards do not guarantee the detection of material misstatements in the consolidated financial statements. Material misstatements may be due to fraud or error. A misstatement is deemed material if the individual amount or total amount can be reasonably expected to affect the economic decision made by users of the consolidated financial statements.

We utilized our professional judgment and maintained professional skepticism during the audit according to the generally accepted auditing standards. We also performed the following work:

I. Identified and evaluated material misstatements in the consolidated financial statements, whether due to fraud or error. Designed and implemented appropriate countermeasures for the risks that we evaluated. Obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion. Since fraud may involve conspiracy, falsification, intentional omission, false statements, or overriding internal controls, the risk of failing to detect material misstatements due to fraud is higher than the risk of failing to detect material misstatements due to error.

II. Designed appropriate audit procedures to gain necessary understanding of internal controls for the audit. However, the purpose is not to express any opinions on the effectiveness of the San Fang Group's internal controls.

III. Evaluated the appropriateness of management policies adopted by management, as well as the reasonableness of accounting estimates and related disclosures.

IV. Based on the audit evidence we obtained, we reached a conclusion on the appropriateness of management's going concern basis of accounting, and whether or not there are material uncertainties that will lead to events or situations that are cause for serious concern about the San Fang Group's ability to continue as a going concern. If we believe there are material uncertainties about such events or situations, we are required to provide a reminder in the audit report for users of the consolidated financial statements to pay attention to related disclosures, or modify our audit opinion when the disclosures are inappropriate. Our conclusion is based on the audit evidence we obtained as of the the audit report date. However, future events or situations may cause the San Fang Group to no longer be able to continue as a going concern.

V. Evaluated the overall presentation, structure, and contents of the consolidated financial statements (including related notes), and whether or not the consolidated financial statements fairly present related transactions and events.

VI. Obtained sufficient and appropriate audit evidence of financial information on companies in the group, and expressed our opinion on the consolidated financial statements. We are responsible for guidance, supervision, and implementation of the audit, and for forming an audit opinion on the San Fang Group.

Matters we communicated with the governance department include the scope and time of the audit, as well as major findings in the audit (including significant deficiencies in internal control identified in the audit process). We also provided the governance department with a statement that personnel of our firm who are required to maintain independence according to the Code of Professional Ethics have maintained independence, and communicated all relationships and other matters (including related preventive measures) that may affect the independence of auditors with the governance department.

Among the matters we communicated with the governance department, we decided on key audit matters in the 2020 consolidated financial statements of the San Fang Group. The matters are described in the audit report, unless they are specifically prohibited by law from being disclosed, or, under extremely rare circumstances, we decided not to disclose the matters in the audit report because the negative impact can reasonably be expected to be greater than the public benefit it will provide.

Deloitte Taiwan

CPA Chiu-Yen Wu

CPA Chia-Ling Chiang

Securities and Futures Commission Approval No.
Tai-Cai-Zheng(6)-Zi No. 0920123784

Securities and Futures Commission Approval No.
Tai-Cai-Zheng(6)-Zi No. 0920123784

March 16, 2021

San Fang Chemical Industry Co., Ltd. and Subsidiaries
Consolidated Balance Sheet
December 31, 2020 and 2019

Unit: Thousand NTD

		December 31, 2020		December 31, 2019	
Code	Assets	Amount	%	Amount	%
	Current assets				
1100	Cash and cash equivalents (Note 4, 6)	$ 5,203,876	34	$ 3,761,456	25
1150	Notes receivable (Note 4, 9)	20,845	-	34,351	-
1170	Net accounts receivable (Note 4, 9)	873,526	6	941,321	6
1180	Accounts receivable – related parties (Note 4, 9, 27)	282,899	2	430,724	3
1220	Current income tax assets (Note 23)	54,897	-	15,079	-
130X	Inventories (Note 4, 5, 10)	1,598,611	10	2,054,915	13
1410	Advance payments	146,945	1	104,184	1
1476	Other financial assets – current (Note 11)	713,520	5	899,420	6
1479	Other current assets	64,170	-	95,567	1
11XX	Total current assets	8,959,289	58	8,337,017	55
	Non-current assets				
1517	Financial assets at fair value through other comprehensive income (Note 4, 8)	56,648	1	60,912	-
1600	Property, plant and equipment (Note 4, 13, 28)	5,861,061	38	6,203,791	41
1755	Right-of-use assets (Note 4, 14)	167,598	1	177,985	1
1760	Investment properties (Note 4, 15, 28)	111,790	1	112,657	1
1801	Computer software – net (Note 4)	28,365	-	33,219	-
1805	Goodwill (Note 4)	35,759	-	35,759	-
1840	Deferred income tax assets (Note 4, 5, 23)	69,886	1	74,431	1
1915	Advance payments for equipment	21,383	-	68,905	1
1920	Refundable deposits	25,269	-	25,894	-
1990	Other non-current assets	3,841	-	5,501	-
15XX	Total non-current assets	6,381,600	42	6,799,054	45
1XXX	Total assets	$ 15,340,889	100	$ 15,136,071	100

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Code	Liabilities and equity interests				
	Current liabilities				
2100	Short-term borrowing (Note 16, 28)	$ 1,450,000	10	$ 1,700,000	11
2110	Short-term notes and bills payable (Note 16)	49,972	-	99,988	1
2120	Financial liabilities at fair value through profit or loss – current (Note 4, 7)	4,843	-	-	-
2130	Current contract liabilities (Note 4, 21)	21,356	-	6,103	-
2170	Accounts payable (Note 17)	601,074	4	599,701	4
2219	Other payables (Note 18)	712,418	5	720,021	5
2230	Current income tax liabilities (Note 23)	125,670	1	100,008	1
2280	Current lease liabilities (Note 4, 14)	6,936	-	7,562	-
2320	Current portion of long-term liabilities (Note 16, 28)	744,000	5	553,500	3
2399	Other current liabilities	49,238	-	59,257	-
21XX	Total current liabilities	3,765,507	25	3,846,140	25
	Non-current liabilities				
2540	Long-term borrowings (Note 16, 28)	2,437,000	16	1,756,875	12
2570	Deferred income tax liabilities (Note 4, 5, 23)	1,131,251	7	1,115,659	7
2580	Non-current lease liabilities (Note 4, 14)	7,850	-	9,153	-
2640	Net defined benefit liability – non-current (Note 4, 19)	110,887	1	124,467	1
2645	Guarantee deposits received	15,268	-	19,692	-
25XX	Total non-current liabilities	3,702,256	24	3,025,846	20
2XXX	Total liabilities	7,467,763	49	6,871,986	45
	Equity attributable to owners of the Company (Note 20)				
3110	Capital stock – common	3,978,181	26	3,978,181	26
3200	Capital surplus	142,438	1	141,101	1
	Retained earnings				
3310	Legal reserve	1,454,758	10	1,412,298	9
3320	Special reserve	504,790	3	504,790	4
3350	Undistributed Earnings	2,306,787	15	2,439,395	16
3300	Total retained earnings	4,266,335	28	4,356,483	29
3400	Other equity interest	(513,828)	(4)	(211,680)	(1)
3XXX	Total equity	7,873,126	51	8,264,085	55
	Total liabilities and equity interests	$ 15,340,889	100	$ 15,136,071	100

The accompanying notes are an integral part of these consolidated financial statements.

（參閱勤業眾信聯合會計師事務所民國110年3月16日查核報告）

Chairperson: Meng-Jing Lin Manager: Chih-I Lin Head of accounting: Hua-Hsing Wang

San Fang Chemical Industry Co., Ltd. and Subsidiaries

Consolidated Statement of Comprehensive Income

Years ended December 31, 2020 and 2019

Unit: Thousand NTD, EPS in NTD

		2020		2019	
Code		Amount	%	Amount	%
4000	Net operating revenues (Note 4, 21, 27)	$ 8,441,756	100	$ 10,271,411	100
5000	Operating costs (Note 10, 22)	6,578,085	78	7,904,038	77
5900	Operating margin	1,863,671	22	2,367,373	23
	Operating expenses (Note 9, 22)				
6100	Selling expenses	509,481	6	642,166	6
6200	Administrative expenses	547,952	6	624,749	6
6300	Research and development expenses	309,365	4	448,154	5
6450	Expected credit impairment loss (gain)	(1,478)	-	1,214	-
6000	Total operating expenses	1,365,320	16	1,716,283	17
6900	Operating net profit	498,351	6	651,090	6
	Non-operating income and expenses (Note 22)				
7100	Interest income	27,165	-	41,290	-
7010	Other income	37,920	1	18,677	-
7020	Other profits and losses	(171,562)	(2)	(27,558)	-
7050	Financial costs	(47,621)	(1)	(42,853)	-
7000	Total non-operating income and expenses	(154,098)	(2)	(10,444)	-
7900	Pre-tax profit	344,253	4	640,646	6
7950	Income tax expense (Note 4, 5, 23)	126,241	1	210,226	2
8200	Net profit for the year	218,012	3	430,420	4

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Code		2020 Amount	2020 %	2019 Amount	2019 %
	Other comprehensive income				
	Components of other comprehensive income that will not be reclassified to profit or loss				
8311	Remeasurements of the net defined benefit (Note 19)	$ 12,699	-	($ 7,096)	-
8316	Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income (Note 20)	(4,264)	-	10,193	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss (Note 23)	(2,605)	-	1,284	-
8310		5,830	-	4,381	-
	Components of other comprehensive income that will be reclassified to profit or loss				
8361	Exchange differences arising from the translation of the financial statements of foreign operations (Note 20)	(297,884)	(4)	(189,493)	(2)
8300	Other consolidated income (net income after tax)	(292,054)	(4)	(185,112)	(2)
8500	Total comprehensive income	($ 74,042)	(1)	$ 245,308	2
8600	Profit attributable to:				
8610	Owners of the company	$ 218,012	3	$ 430,420	4
8700	Comprehensive income attributable to:				
8710	Owners of the company	($ 74,042)	(1)	$ 245,308	2
	EPS (Note 24)				
9750	Basic	$ 0.55		$ 1.08	
9850	Diluted	$ 0.55		$ 1.08	

The accompanying notes are an integral part of these consolidated financial statements.
（參閱勤業眾信聯合會計師事務所民國 110 年 3 月 16 日查核報告）

Chairperson: Meng-Jing Lin Manager: Chih-I Lin Head of accounting: Hua-Hsing Wang

San Fang Chemical Industry Co., Ltd. and Subsidiaries
Consolidated Statement of Changes in Equity
Years ended December 31, 2020 and 2019

Unit: Thousand NTD, dividend per share is in NTD

		Equity attributable to shareholders of the Company								
				Retained earnings			Other equity interests			
Code		Capital stock – common	Capital surplus	Legal reserve	Special reserve	Undistributed Earnings	Exchange differences on from the translation of foreign financial statements	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	Subtotal	Total equity
A1	Balance as at January 1, 2019	$ 3,978,181	$ 140,028	$ 1,382,005	$ 504,790	$ 2,243,989	($ 37,272)	$ 4,892	($ 32,380)	$ 8,216,613
	Appropriation and distribution of 2018 earnings (Note 20)									
B1	Legal reserve	-	-	30,293	-	(30,293)	-	-	-	-
B5	Cash dividend – NT$0.5 per share	-	-	-	-	(198,909)	-	-	-	(198,909)
		-	-	30,293	-	(229,202)	-	-	-	(198,909)
C17	Dividends not collected by shareholders before the deadline (Note 20)	-	1,073	-	-	-	-	-	-	1,073
D1	Net profit - 2019	-	-	-	-	430,420	-	-	-	430,420
D3	Other comprehensive income after tax - 2019	-	-	-	-	(5,812)	(189,493)	10,193	(179,300)	(185,112)
D5	Total comprehensive income - 2019	-	-	-	-	424,608	(189,493)	10,193	(179,300)	245,308
Z1	Balance as at December 31, 2019	3,978,181	141,101	1,412,298	504,790	2,439,395	(226,765)	15,085	(211,680)	8,264,085
	Appropriation and distribution of 2019 earnings (Note 20)									
B1	Legal reserve	-	-	42,460	-	(42,460)	-	-	-	-
B5	Cash dividend – NT$0.8 per share	-	-	-	-	(318,254)	-	-	-	(318,254)
		-	-	42,460	-	(360,714)	-	-	-	(318,254)
C17	Dividends not collected by shareholders before the deadline (Note 20)	-	1,337	-	-	-	-	-	-	1,337
D1	Net profit - 2020	-	-	-	-	218,012	-	-	-	218,012
D3	Other comprehensive income after tax - 2020	-	-	-	-	10,094	(297,884)	(4,264)	(302,148)	(292,054)
D5	Total comprehensive income - 2020	-	-	-	-	228,106	(297,884)	(4,264)	(302,148)	(74,042)
Z1	Balance as at December 31, 2020	$ 3,978,181	$ 142,438	$ 1,454,758	$ 504,790	$ 2,306,787	($ 524,649)	$ 10,821	($ 513,828)	$ 7,873,126

The accompanying notes are an integral part of these consolidated financial statements.

（參閱勤業眾信聯合會計師事務所民國110年3月16日查核報告）

Chairperson: Meng-Jing Lin Manager: Chih-I Lin Head of accounting: Hua-Hsing Wang

San Fang Chemical Industry Co., Ltd. and Subsidiaries

Consolidated Cash Flow Statement

Years ended December 31, 2020 and 2019

Unit: Thousand NTD

Code		2020	2019
	Cash flow from operating activities		
A10000	Net profit before tax	$ 344,253	$ 640,646
A20010	Revenues and expenses		
A20100	Depreciation expense	766,254	762,406
A20200	Amortization expense	7,923	4,120
A20300	Expected credit impairment loss (gain)	(1,478)	1,214
A20400	Net losses (gains) on financial liabilities at fair value through profit or loss	4,784	(201)
A20900	Financial costs	47,621	42,853
A21200	Interest income	(27,165)	(41,290)
A21300	Dividend income	(334)	(5,328)
A22500	Net losses (gains) on disposal of property, plant and equipment	27,420	(4,934)
A23700	Loss on inventory devaluation	37,640	61,174
A29900	Loss on physical inventory	4,779	14,445
A29900	Other	1,660	2,636
A30000	Net changes in operating assets and liabilities		
A31130	Notes receivable	13,506	43,625
A31150	Accounts receivable	69,273	85,760
A31160	Accounts receivable – related parties	147,825	59,223
A31200	Inventories	413,885	(76,023)
A31230	Advance payments	(39,696)	(48,460)
A31240	Other current assets	37,955	21,165
A32110	Financial liabilities held for trading	59	201
A32125	Contract liabilities	15,253	(85)
A32150	Accounts payable	1,373	(78,486)
A32180	Other payables	18,728	20,732
A32230	Other current liabilities	(10,019)	14,220
A32240	Net defined benefit liability	(881)	3,272
A33000	Cash generated from operating activities	1,880,618	1,522,885
A33100	Interest received	27,165	41,290
A33200	Dividend received	334	5,328
A33300	Interest paid	(48,030)	(44,630)
A33500	Income tax paid	(122,865)	(179,313)
AAAA	Net cash inflow from operating activities	1,737,222	1,345,560

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Code		2020	2019
	Cash flow from investing activities		
B02700	Acquisition of property, plant and equipment	($ 520,311)	($ 787,018)
B02800	Proceeds from disposal of property, plant and equipment	5,247	20,487
B03700	Increase in guarantee deposits	(253)	(38)
B03800	Decrease in refundable deposits	283	229
B04500	Acquisition of intangible assets	(3,065)	(34,310)
B06500	Decrease (increase) of other financial assets	147,745	(3,146)
BBBB	Net cash outflow from investing activities	(370,354)	(803,796)
	Cash flow from financing activities		
C00100	Decrease in short-term borrowings	(250,000)	(160,000)
C00500	Increase in short-term notes and bills payable	(50,000)	-
C01600	Increase in long-term borrowing	1,540,000	900,000
C01700	Repayment of long-term borrowing	(669,375)	(248,500)
C03000	Increase in guarantee deposits	-	12,971
C03100	Decrease in guarantee deposits received	(3,969)	(4,636)
C04020	Repayments of lease liabilities	(8,920)	(8,798)
C04500	Distribution of cash dividends	(318,254)	(198,909)
C09900	Returned unclaimed dividends	1,337	1,073
CCCC	Net cash inflow from financing activities	240,819	293,201
DDDD	Effect of exchange rate changes on cash and cash equivalents	(165,267)	(157,373)
EEEE	Net increase in cash and cash equivalents	1,442,420	677,592
E00100	Cash and cash equivalents at beginning of period	3,761,456	3,083,864
E00200	Cash and cash equivalents at end of period	$ 5,203,876	$ 3,761,456

The accompanying notes are an integral part of these consolidated financial statements.

（參閱勤業眾信聯合會計師事務所民國 110 年 3 月 16 日查核報告）

Chairperson: Meng-Jing Lin Manager: Chih-I Lin Head of accounting: Hua-Hsing Wang

San Fang Chemical Industry Co., Ltd. and Subsidiaries

Notes to the Consolidated Financial Statements

Years ended December 31, 2020 and 2019

(All amounts are in thousand NTD, unless otherwise specified)

I. Company History

San Fang Chemical Industry Co., Ltd. (hereinafter referred to as the "Company") was established in June 1973, and main business items include the manufacturing and sales of artificial leather, synthetic resin, and other materials.

The Company was approved to be listed on the Taiwan Stock Exchange in November 1985.

The consolidated financial statements are presented in the Company's functional currency NTD.

II. The Authorization of Financial Statements

The consolidated financial statements were approved by the Board of Directors on March 16, 2021.

III. Application of New Standards, Amendments, and Interpretations

(I) Application of the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations, and SIC Interpretations (hereinafter collectively referred to as the "IFRSs") as endorsed and announced by the Financial Supervisory Commission (FSC) for the first time

The application of the IFRSs endorsed and announced by the FSC will not result in any major changes to the accounting policy of the Company and entities controlled by the Company (hereinafter referred to as the "Consolidated Entity").

(II) Application of the IFRSs as endorsed by the FSC in 2021

New, Revised or Amended Standards and Interpretations	Effective date of the IASB
Extension of the temporary exemption from applying IFRS 9 (amendments to IFRS 4)	Effective on the date of announcement
Interest rate benchmark reform – Phase 2 (amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16)	Effective at the beginning of the annual reporting period after January 1, 2021
Leases regarding COVID-19-related rent concessions (amendment to IFRS 16)	Effective at the beginning of the annual reporting period after June 1, 2020

As of the date the consolidated financial statements were passed, the Consolidated Entity has determined that the abovementioned amendments to standards and interpretations will not have a material impact on its financial position and financial performance.

(III) New standards, interpretations, and amendments were issued by IASB but not yet included in the IFRSs as endorsed and announced by the FSC

New, Revised or Amended Standards and Interpretations	Effective date of the IASB (Note 1)
"Annual Improvements to IFRSs 2018-2020 Cycle"	January 1, 2022 (Note 2)
Amendments to references to the conceptual framework (amendments to IFRS 3)	January 1, 2022 (Note 3)
Sale or contribution of assets between an investor and its associate or joint venture (amendments to IFRS 10 and IAS 28)	Not determined
IFRS 17 Insurance Contracts	January 1, 2023
Amendments to IFRS 17	January 1, 2023
Classification of Liabilities as Current or Non-current (Amendments to IAS 1)	January 1, 2023
Disclosure of Accounting Policies (Amendments to IAS 1)	January 1, 2023 (Note 6)
Definition of Accounting Estimates (Amendments to IAS 8)	January 1, 2023 (Note 7)
Property, Plant and Equipment: Proceeds before Intended Use (Amendments IAS 16)	January 1, 2022 (Note 4)
Onerous Contracts—Cost of Fulfilling a Contract (Amendments to IAS 37)	January 1, 2022 (Note 5)

Note 1: Unless otherwise specified, the new, revised or amended standards and interpretations are effective at the beginning of the annual reporting period after the dates above.

Note 2: The amendment to IFRS 9 is applicable to the exchange or revision of clauses for financial liabilities that occur in the annual reporting period beginning after January 1, 2022.

Note 3: The amendment to acquisition date is applicable to mergers during annual reporting periods that begin after January 1, 2022.

Note 4: The amendment is applicable to property, plant and equipment that reach the required location and status expected by management after January 1, 2021.

Note 5: The amendment is applicable to contracts that have not been fully performed as of January 1, 2022.

Note 6: Prospective application of the amendment in the annual reporting period starting after January 1, 2023.

Note 7: The amendment is applicable to changes in accounting estimates that occur after the beginning of the annual reporting period after January 1, 2023.

As of the date the consolidated financial statements were passed, the Consolidated Entity has determined that other amendments to standards and interpretations will not have a material impact on its financial position and financial performance.

IV. Summary Remarks on Significant Accounting Policies

(I) Statement of compliance

The consolidated financial statements were prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and the IFRSs endorsed and announced by the FSC.

(II) Basis of preparation

Except for financial instruments measured at fair value and net defined benefit liability recognized at defined benefit liabilities less fair value of assets of the defined benefit plans, these consolidated financial statements have been prepared based on historical cost.

Fair value measurement can be divided into levels 1 to 3 based on the observability and importance of input values:

1. Level 1 input values: Refers to quoted prices (unadjusted) in active markets for identical assets or liabilities on the measurement date.
2. Level 2 input values: Refers to directly (i.e., prices) or indirectly (i.e., derived from prices) observable input values of assets or liabilities other than level 1 quoted prices.
3. Level 3 input values: Refers to unobservable input values of assets or liabilities.

(III) Classification of current and non-current assets and liabilities

Current assets include:

1. Assets that are held mainly for trading purposes;
2. Assets that are expected to be realized within twelve months from the balance sheet date; and
3. Cash and cash equivalents (except those that are restricted as they will be swapped or used to repay liabilities more than 12 months after the balance sheet date)

Current liabilities include:

1. Liabilities that are held mainly for trading purposes;
2. Liabilities that are to be paid off within twelve months from the balance sheet date; and
3. Liabilities for which the repayment term cannot be extended unconditionally beyond 12 months after the balance sheet date.

Assets and liabilities that are not classified as current assets or current liabilities above are classified as non-current assets or non-current liabilities.

(IV) Basis of consolidation

These consolidated financial statements include financial statements of the Company and entities (subsidiaries) controlled by the Company. Financial statements of subsidiaries have been appropriately adjusted to align their accounting policy with the Consolidated Entity's accounting policy. Transactions, account balances, gains, and losses between individual entities were eliminated when preparing the consolidated financial statements. Changes in the Consolidated Entity's ownership interest in a subsidiary that do not result in the loss of control over the subsidiary are equity transactions.

Please refer to Note 12, Note 6, and Note 7 for the detailed list, shareholding ratio, and business items of subsidiaries included in the consolidated financial statements.

(V) Foreign currencies

When each entity is preparing financial statements, transactions denominated in currencies other than the functional currency (i.e., foreign currencies) are recorded after conversion into the functional currency using the exchange rate on the transaction date.

Foreign currency-denominated monetary items are converted using the closing rate on each balance sheet date. The currency translation difference resulting from settlement or conversion of monetary items is recognized as income or loss in the current year.

Foreign currency-denominated non-monetary items carried at fair value are converted at exchange rates on the date of fair value measurement. Currency translation differences are also recognized in current profit or loss; for items that have fair value changes recognized in other comprehensive income, currency translation differences are recognized in other comprehensive income.

Foreign currency-denominated non-monetary items carried at historical costs are converted on the transaction date and are not re-converted.

When preparing the consolidated financial statements, assets and liabilities of overseas operations (including country of operations and subsidiaries that use different currencies than the Company) are converted to NTD using the exchange rate on each balance sheet date. Revenues and expenses/losses are converted using average exchange rate of the current period, with currency translation differences recognized in other comprehensive income.

(VI) Inventories

Inventory includes raw materials, raw materials, work in process, and finished goods. Inventories are measured at cost and net realizable value, whichever is lower. Unless the inventories are in the same category, the cost and net realizable value is compared for each individual item. Net realizable value is the estimated selling price under normal circumstances, less the estimated cost of completion and selling expenses. Inventories are usually calculated at standard cost, and then adjusted to its weighted average cost when settling accounts.

(VII) Property, plant and equipment

Property, plant and equipment are recognized at cost after accumulated depreciation.

Property, plant and equipment under construction are recognized at cost after accumulated impairment losses. Costs include professional service fees and borrowing costs that meet the conditions for capitalization. When assets are completed and reach the expected state of use, they are classified to a suitable category under property, plant and equipment, and depreciation expenses are recognized.

Depreciation is not recognized for self-owned land

Depreciation is separately recognized for each major part of property, plant and equipment on a straight line method over its useful life. If the lease tenor is shorter than the useful life in years, then depreciation is recognized over the lease tenor. The Consolidated Entity reviews methods for estimating useful life in years, residual value, and depreciation, at a minimum, on the last day of each year, as well as the effect of prospective application of changes to accounting estimates.

When derecognizing property, plant and equipment, the difference between net disposal proceeds and the book value is recognized as gains or losses in the current period.

(VIII) Investment properties

Investment properties are real estate properties held for rental income or capital gain, or both.

Self-owned investment property is initially measured at cost (including transaction cost), and is subsequently measured at cost less accumulated depreciation and accumulated impairment loss. Depreciation of investment property is recognized on a straight-line basis.

When property under property, plant and equipment is no longer for self-use, its book value is transferred to investment property.

When derecognizing investment property, the difference between net disposal proceeds and the book value is recognized as gains or losses.

(IX) Goodwill

With regard to goodwill obtained by San Fang Development from acquiring 40% of San Fang International's outstanding shares in 2003, the amount of goodwill recognized on the acquisition date is used as the cost. Goodwill is subsequently measured at cost less accumulated impairment loss.

The purpose of impairment testing is to allocate goodwill to cash-generating units or cash-generating groups (collectively referred to as "Cash-Generating Units") expected by the Consolidated Entity to benefit from synergistic effects of the merger.

Impairment testing is carried out by comparing the book value of a cash-generating unit to which goodwill has been allocated with its recoverable value each year (and when there are signs indicating that the unit may already be impaired). If the goodwill allocated to the cash-generating unit or cash-generating group was obtained from a merger that year, then impairment testing must be conducted for the unit or group before the end of the year. If the recoverable amount of a cash generating unit to which goodwill has been allocated falls below its book value, the impairment loss will first be charged against the book value of the goodwill that has been allocated, and any remaining impairment losses will then be allocated proportionally to reduce book values of all assets under the unit. Any impairment loss is directly recognized as loss in the current period. Goodwill impairment may not be reversed in subsequent periods.

When disposing of an operation in a cash-generating unit to which goodwill has been allocated, then the gain or loss from disposal of the operation is determined by including the amount of goodwill allocated to the operation in the book value of the operation.

(X) Intangible assets

1. Independently acquired

Independently acquired intangible assets (computer software) with a limited useful life is initially measured at cost, and subsequently measured at cost less accumulated amortization. Intangible assets are amortized on a straight-line basis during their useful life. The Consolidated Entity reviews methods for estimating useful life in years, residual value, and amortization, at a minimum, on the last day of each year, as well as the effect of prospective application of changes to accounting estimates.

2. Internal production – R&D expenses

Research expenses are recognized as expenses when incurred.

3. Derecognition

When derecognizing intangible assets, the difference between net disposal proceeds and the book value is recognized as gains or losses in the current period.

(XI) Impairment of property, plant and equipment, right-of-use assets, and intangible assets (except for goodwill)

The Consolidated Entity evaluates if there are any signs of impairment of property, plant and equipment, right-of-use assets, and intangible assets (except for goodwill) on each balance sheet date. If any signs of impairment exist, then estimate the asset's recoverable amount. If the recoverable amount cannot be estimated on an individual basis, the Consolidated Entity will instead estimate recoverable amounts for the entire cash-generating unit. Depreciation of corporate assets may be allocated to the smallest identifiable cash-generating group with a reasonable and consistent basis.

Recoverable amounts are determined as the higher of "fair value less cost to sell" or the "utilization value." If the recoverable amount of an individual asset or cash-generating unit is expected to be lower than its book value, the Company will reduce the book value of the asset or cash-generating unit down to the recoverable amount and recognize impairment loss.

When impairment losses are reversed, the book value of the asset or cash-generating unit is increased to the revised recoverable amount. However, the increased book value may not exceed the asset or cash-generating unit's book value in the previous year before impairment loss was recognized (less depreciation or amortization). Reversal of impairment losses is listed in income.

(XII) Financial instruments

When the Company is a party to the contract, financial assets and financial liabilities are recognized in the consolidated balance sheet.

If financial assets and financial liabilities being recognized for the first time are not measured at fair value through profit or loss, then the are measured at fair value plus transaction costs that can be directly attributed to the acquisition or issuance of financial assets or financial liabilities. Transaction costs that can be directly attributed to the acquisition or issuance of financial assets or financial liabilities are immediately recognized as profit or loss.

1. Financial assets

Regular transactions of financial assets are recognized and derecognized using transaction date accounting.

(1) Type of measurement

Financial assets held by the Consolidated Entity include financial assets at fair value through profit or loss, financial assets at amortized cost, and equity instruments measured at fair value through other comprehensive income.

A. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets for which the fair value is required to be measured through profit or loss.

For "financial assets at fair value through profit or loss," any profit or loss from the remeasurement of fair value is listed in income.

B. Financial assets at amortized cost

Financial assets that the Consolidated Entity invests in are classified as financial assets at amortized cost if they meet both of the conditions below:

a. Held under a certain business model that aims to collect cash flow from the financial asset; and
b. The contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After recognizing financial assets at amortized cost (including cash and cash equivalents, notes and accounts receivable at amortized cost, other receivables, other financial assets, and refundable deposits), they are measured at book value determined using the effective interest rate method less any impairment losses. Any foreign exchange gains/losses are recognized in profit and loss. Interest income is calculated by multiplying the effective interest rate with the financial asset's total book value.

Cash equivalents include highly liquid time deposits and bonds issued under repurchase agreement that can be converted into a specific amount of cash with low risk of value change within 3 months after being acquired. Cash equivalents are used to meet short-term cash commitments.

Credit-impaired financial assets mean that the debtor has encountered major financial difficulties, defaulted, may very likely declare bankruptcy or other financial restructuring, or an active market for the financial asset has disappeared due to financial difficulties.

C. Equity instruments measured at fair value through other comprehensive income

The Consolidated Entity may make an irreversible decision during initial recognition to measure equity instruments, which are not held for trading and not recognized from mergers and acquisitions, at fair value through other comprehensive income.

Investments in equity instruments measured at fair value through other comprehensive income are measured at fair value, and subsequent changes to fair value are listed in other comprehensive income and accumulated in other equity. When disposing of investments, accumulated gains is directly transferred to retained earnings and not reclassified as income.

Dividends from equity instruments measured at fair value through other comprehensive income are recognized in income when the Consolidated Entity is determined to have the right to receive the dividends, unless the dividends clearly represent the recovery of partial investment costs.

(2) Impairment of financial assets

The Consolidated Entity evaluates the impairment loss of financial assets at amortized cost (including accounts receivable) using ECL on each balance sheet date.

A loss provision is recognized for lifetime ECL for accounts receivables. For other financial assets, whether or not credit risk has significantly increased after the financial asset was recognized is first evaluated. If it has not significantly increased, then a loss provision is recognized for 12-month ECL. If it has significantly increased, then a loss provision is recognized for lifetime ECL.

ECL is the weighted average credit loss using the risk of default as weights. 12-Month ECL is the ECL from potential default on the financial instrument within 12 months after the reporting date. Lifetime ECL is the ECL from potential default during the expected lifetime of the financial instrument.

For the purpose of internal credit risk management, the Consolidated Entity may deem a financial asset to be in default in the event of any one of the following situations without considering collateral:

A. There is internal or external information showing that the debtor is no longer able to repay debts.

B. More than 180 days late, unless there is reasonable information with evidence supporting that it is better to extend the deadline for determining default.

The impairment loss on all financial assets is recognized by lowering the book value of the loss provision.

(3) Derecognition of financial assets

The Consolidated Entity derecognizes financial assets when the contractual rights to the cash inflow from the financial asset are terminated or when the Consolidated Entity transfers the financial assets with substantially all the risks and rewards of ownership to other enterprises.

When derecognizing financial assets at amortized cost, the difference between book value and consideration received is recognized in gains or losses. When derecognizing investments in equity instruments at fair value through other comprehensive income, accumulated gains is directly transferred to retained earnings and not reclassified as income.

2. Equity instruments

Equity instruments issued by the Consolidated Entity are recognized at the price amount obtained less the direct flotation costs.

3. Financial liabilities

(1) Subsequent measurement

Financial liabilities are measured at amortized cost using the effective interest rate method.

(2) Derecognition of financial liabilities

When a financial liability is derecognized, any difference between its carrying amount and the paid consideration (including any transferred non-cash assets or liabilities assumed) is recognized in income or loss.

4. Derivatives

Contracts for derivatives signed by the Consolidated Entity include contracts for the purchase of foreign exchange options and FX swaps, and are used to manage the Company's foreign exchange risk.

When a contract is signed for derivatives, the derivatives are initially recognized at fair value, and then remeasured at fair value on the balance sheet date. Any gains or losses from the remeasurement are directly listed in income or loss. For derivatives that are designated as effective hedging tools, however, the time point for recognizing income or loss will be determined based on the nature of the hedging relationship. Derivatives are listed as financial assets when their fair value is positive; Derivatives are listed as financial liabilities when their fair value is negative.

(XIII) Revenue recognition

After the Consolidated Entity identifies its contractual obligations with each customer, it allocates the transaction price to each contractual obligation, and then recognizes revenue when each contractual obligation is fulfilled.

1. Income from sale of merchandise

Income from sale of merchandise comes from the sale of synthetic leather. According to the contract, when synthetic leather is delivered to customers, customers have the right to set prices and use the products, and bear the responsibility of sales and risk of products becoming obsolete. The Consolidated Entity recognizes accounts receivable upon delivery. Unearned revenues from sale of goods is recognized as contract liabilities.

2. Service revenue

Service revenues from leather processing for customers are recognized when the provision of services is completed.

(XIV) Lease

On the date a contract is formed, the Consolidated Entity evaluates if the contract is (or includes) a lease.

1. Where the Consolidated Entity is the lessor

A lease arrangement is classified as a finance lease if the terms involve a transfer of virtually all risks and returns associated with ownership to the lessee. All other lease arrangements are classified as operating lease.

Under an operating lease arrangement, the proceeds received are recognized as income on a straight-line basis over the lease tenor.

2. Where the Company is the lessee

Except for low value asset leases and short-term leases, for which lease payments are recognized as expenses on a straight-line basis over the lease tenor, other leases are all recognized as right-of-use assets and lease liabilities from the start date of the lease.

Right-of-use assets are initially measured at cost, and are subsequently measured at cost less accumulated depreciation and accumulated impairment loss, with adjustments made to the remeasurement of lease liabilities. Right-of-use assets are independently presented in the consolidated balance sheet.

Depreciation of right-of-use assets is recognized on a straight-line method from the start date of the lease until the expiry of its useful life or lease tenor, whichever is earlier.

Lease liabilities are initially measured at the present value of lease payments. If the interest rate implicit in a lease is easy to determine, then lease payments will be discounted using the interest rate. If the interest rate is not easy to determine, then the lessee's incremental borrowing rate of interest is used.

In subsequent periods, lease liabilities is measured at amortized cost using the effective interest rate method, and interest expense is recognized over the lease term. Lease liabilities are independently presented in the consolidated balance sheet.

(XV) Borrowing costs

Borrowing costs that can be directly attributed to the acquisition, construction, or production of qualified assets shall be recognized as a part of asset costs, until almost all necessary activities for the asset to reach its expected state of use or sale.

If a specific loan is used for a temporary investment and obtains investment gains before a qualified capital expenditure occurs, the gains shall be deducted from borrowing costs that qualify for capitalization.

All other borrowing costs are recognized as losses in the period they occur.

(XVI) Government subsidies

Government grants shall not be recognized until there is reasonable assurance that the Consolidated Entity will comply with the attached conditions and that the grants will be received.

If income-related government subsidies are provided in the period that the costs they intend to cover are recognized by the Consolidated Entity as expenses, they are systematically recognized by reducing the costs or recognized in other income.

If the government subsidies are compensation for expenses or losses that have already occurred, or aim to provide the Consolidated Entity with immediate financial support and do not have any related costs in the future, then they are recognized as income in the period they are received.

(XVII) Employee benefits

1. Short-term employee benefits

Short-term employee benefits-related liabilities are measured at the undiscounted amount of the benefits expected to be paid in exchange for employee services.

2. Post-employment benefit

For defined contribution plans, pension contributions made by the Company over the course of employment are listed as expenses; net defined benefit liability is the deficit of contributions to defined benefit plans.

The cost of defined benefits (including service cost, net interest, and number of remeasurement) for defined benefit plans is calculated using the projected unit credit method. Service costs (including service costs in the current and previous periods) and net interest accrued on net defined benefit liabilities (assets) are recognized as employee benefit expenses when they occur. The number of remeasurement (including calculation of income and losses, changes in asset limit effects, return on assets of the plans less interest) is recognized in other comprehensive income when it occurs and listed in retained earnings, and is not reclassified to profit or loss.

(XVIII) Income tax

Income tax expense is the sum of current income tax and deferred income tax.

1. Current income tax

The Consolidated Entity determines current income (loss) according to the regulations enacted by each income tax reporting jurisdiction, and calculates the income tax payable (recoverable) on this basis.

Income tax on undistributed earnings is calculated in accordance with the Income Tax Act of the R.O.C. and recognized in the year the resolution is adopted by the shareholders' meeting.

An adjustment to the income tax payable in the previous year is listed as the current income tax.

2. Deferred income tax

Deferred income tax is calculated based on the temporary difference between the book value of assets and liabilities on the consolidated financial statements from the taxable income that was calculated.

Deferred income tax liabilities are generally recognized based on the taxable temporary difference, and deferred income tax assets are recognized when there is likely to be taxable income to offset the temporary difference and income tax deductibles from losses carried forward.

Taxable temporary differences relating to subsidiaries are recognized as deferred income tax liabilities, except in cases where the Consolidated Entity is able to control the timing of which temporary differences are reversed, and that such temporary differences are highly unlikely to reverse in the foreseeable future. Deductible temporary differences relating to these investments are recognized as deferred income tax assets only to the extent that sufficient taxable income can be earned to offset the temporary differences, and that reversal is expected to occur in the foreseeable future.

The book value of deferred income tax assets is reexamined on each balance sheet date, and the book value is reduced if it is not very likely there will be sufficient taxable income to recover all or a part of the assets. Those that were not recognized as deferred income tax assets are also reexamined on each balance sheet date, and the book value is increased if it is very likely there will be sufficient taxable income to recover all or a part of the assets.

Deferred income tax assets and liabilities are measured using the tax rate in the period in which liabilities are expected to be paid off or assets are expected to be realized. The tax rate is based on the tax rate and tax law that has been enacted or substantially enacted on the balance sheet date. The measurement of deferred income tax liabilities and assets reflects on the tax effects of the ways the Consolidated Entity expects to recover or pay off the book value of its assets or liabilities on the balance sheet date.

3. Current and deferred income tax

Current and deferred income tax are recognized in profit or loss, except for items that are bound to be recognized under other comprehensive income or directly as other equity items.

V. Significant Accounting Judgments, Estimates and Main Uncertainty Assumptions

When the Consolidated Entity adopts an accounting policy, management must make judgments, estimates, and assumptions based on historical experience and other factors for information that is difficult to obtain from other sources. Actual results may be different from estimates.

The Consolidated Entity took into the consideration the economic impact caused by COVID-19 into its major accounting estimates, and management will continue to examine the estimates and basic assumptions. If the adjustment to estimates only affects the current period, then the adjustment is recognized in the current period. If the adjustment to estimates affects the current period and future periods, then the adjustment is recognized in the current period and future periods.

(1) Income tax

The tax effect of subsidiaries and unused tax losses as well as deductible temporary differences not recognized as deferred income tax assets was NT$29,488 thousand and NT$28,091 thousand for the years ended December 31, 2020 and 2019. The realizability of deferred income tax assets mainly depends on whether or not there is sufficient profit or taxable temporary difference in the future. If actual profits exceed expectations, it may result in the recognition of significant deferred income tax assets and tax income.

With regard to taxable temporary differences related to investments in subsidiaries that were not recognized as deferred income tax liabilities, the effect on income tax was NT$473,349 thousand and NT$549,643 thousand for the years ended December 31, 2020 and 2019, respectively. If the taxable temporary difference is reversed in the future, it may result in major income tax liabilities, which are recognized as income tax expenses during the period that reversal occurs.

(2) Inventory impairments

Net realizable value of inventory is the estimated selling price during normal business operations, less the estimated cost of completion and selling expenses. The estimates are made based on the current market situation and previous sales experience of similar products. Changes in the market situation may have a material impact on the estimates.

VI. Cash and cash equivalents

	December 31, 2020	December 31, 2019
Cash on hand and working capital	$ 2,321	$ 3,939
Bank check and demand deposits	3,723,696	2,536,872
Cash equivalents		
Time deposits within 3 months of its original maturity date	1,435,139	1,220,645
Bonds issued under repurchase agreement	42,720	-
	$ 5,203,876	$ 3,761,456

The market interest rate range for cash in banks on the balance sheet date is as follows:

	December 31, 2020	December 31, 2019
Cash equivalents		
Time deposits within 3 months of its original maturity date (%)	0.1-3	1.9-2.45
Bonds issued under repurchase agreement	0.55	-

VII. Financial instruments assets at fair value through profit or loss – Only December 31, 2020

Financial liabilities at fair value through profit or loss	Amount
Financial liabilities held for trading	
Derivatives (not designated for hedging)	
Foreign exchange (FX) swaps	$ 4,843

The Consolidated Entity mainly engages in FX options and swaps to avoid the risk of exchange rate fluctuations to foreign currency-denominated assets and liabilities. See Note 22 for details on the profit or loss from financial instruments at fair value through profit or loss

FX swaps that did not use hedge accounting and have not matured as of the balance sheet date are as follows:

	Currency	Maturity date	Contract Amount
December 31, 2020			
Foreign exchange (FX) swaps	NTD to USD	2021.03.10	TWD147,350/USD5,000

VIII. Non-current financial assets at fair value through other comprehensive income

Investments in equity instruments measured at fair value through other comprehensive income	December 31, 2020	December 31, 2019
Listed stock in Taiwan	$ 51,618	$ 56,245
Unlisted stock in Taiwan	5,030	4,667
	$ 56,648	$ 60,912

IX. Notes and accounts receivable

	December 31, 2020	December 31, 2019
Notes receivable – unrelated parties		
Measured at amortized cost		
Total book value	$ 20,845	$ 34,351

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	December 31, 2020	December 31, 2019
Accounts receivable – unrelated parties		
Measured at amortized cost		
Total book value	$ 887,647	$ 956,861
Less: Loss provision	14,121	15,540
	$ 873,526	$ 941,321
Accounts receivable – related parties		
Measured at amortized cost		
Total book value	$ 282,899	$ 430,724

The Consolidated Entity's average credit period for sale of goods is open account 30-120 days. Designated personnel of the Consolidated Entity are responsible for deciding the credit limit, approval, and other monitoring procedures to mitigate credit risk and ensure that appropriate action has been taken to recover overdue receivables. Furthermore, the Consolidated Entity will verify the recoverable amount of receivables on the balance sheet date to ensure that unrecoverable receivables already properly listed as impairment losses. On this basis, management of the Consolidated Entity believes that its credit risk has significantly decreased.

The Consolidated Entity recognizes a loss provision for lifetime ECLs for accounts receivables. Lifetime ECL takes into consideration the customer's previous default record, current financial position, and industrial and economic trends. Past experience of the Consolidated Entity relating to credit loss showed no significant difference in loss patterns between different customer groups. Hence, customers are not further divided into groups, and expected credit loss rate is only set by the number of days receivables are overdue.

The Consolidated Entity measures the loss provision for receivables as follows:

December 31, 2020

	Not past due	1-90 days late	91-180 days late	181-360 days late	More than 361 days late	Total
Expected credit loss rate (%)	0.5	0.5	1	10	100	
Total book value	$ 956,572	$ 226,496	$ 1,393	$ -	$ 6,930	$1,191,391
Loss provision (lifetime ECL)	(5,883)	(1,293)	(15)	-	(6,930)	(14,121)
Amortized cost	$ 950,689	$ 225,203	$ 1,378	$ -	$ -	$1,177,270

December 31, 2019

	Not past due	1-90 days late	91-180 days late	181-360 days late	More than 361 days late	Total
Expected credit loss rate (%)	0.5	0.5	1	10	100	
Total book value	$1,204,464	$ 198,004	$ 9,025	$ 4,441	$ 6,002	$1,421,936
Loss provision (lifetime ECL)	(7,524)	(1,448)	(91)	(475)	(6,002)	(15,540)
Amortized cost	$1,196,940	$ 196,556	$ 8,934	$ 3,966	$ -	$1,406,396

Information on changes to loss provision for receivables is as follows:

	December 31, 2020	December 31, 2019
Opening balance	$ 15,540	$ 14,540
Plus: Allocated (reversed) in the current year	(1,478)	1,214
Net currency translation difference	59	(214)
Closing balance	$ 14,121	$ 15,540

X. Inventories

	December 31, 2020	December 31, 2019
Raw materials	$ 763,091	$ 926,173
Supplies	20,882	30,127
Work in process	446,143	609,883
Finished goods	207,520	270,553
Inventory in transit	160,975	218,179
	$ 1,598,611	$ 2,054,915

Losses on inventory devaluation for the years ended December 31, 2020 and 2019 were NT$218,238 thousand and NT$180,665 thousand, respectively.

Inventory-related operating costs amounted to NT$6,578,085 thousand in 2020 and NT$7,904,038 thousand in 2019, including:

	2020	2019
Loss on inventory devaluation	$ 37,640	$ 61,174
Loss on physical inventory	4,779	14,445
Income from sale of scraps	(19,505)	(31,400)
	$ 22,914	$ 44,219

XI. Other financial assets – current

	December 31, 2020	December 31, 2019
Time deposits more than 3 months from its original maturity date	$ 713,520	$ 899,420
Annual interest rate (%)	0.06-0.3	0.09-2.27

XII. Subsidiary

The consolidated financial statements mainly discloses on formation on the following entities:

Name of investment company	Name of subsidiary	Main Business Activities	Ownership (%) December 31, 2020	Ownership (%) December 31, 2019	Description
The Company	San Fang Development Co., Ltd.	Investment	100	100	-
	San Fang Financial Holdings Co., Ltd.	Investment	100	100	-
	Grand Capital Limited (GCL)	Investment	100	100	-
	Forich Advanced Materials Co., Ltd.	Manufacturing and sales of chemical products	100	100	-
	Bestac Advanced Material Co., Ltd.	Manufacturing and sales of chemical products	100	100	Note
San Fang Development	San Fang International Co., Ltd.	Investment	100	100	-
	Brave Business Holding Limited(BBH)	Investment	100	100	-
GCL	Grand International Investment Corporation Limited (GII)	Investment	100	100	-
	Java Ocean Business Limited(JOB)	Investment	100	100	-
San Fang International	Megatrade Profits Limited (MPL)	Investment	100	100	-
	Giant Tramp Limited (GTL)	Investment	100	100	-
MPL	Dongguan Baoliang Material Technology Co., Ltd.	Manufacturing and sales of artificial leather, synthetic resin, and other materials	36.84	36.84	-
GTL	Dongguan Baoliang	Manufacturing and sales of artificial leather, synthetic resin, and other materials	7.02	7.02	-
BBH	Dongguan Baoliang	Manufacturing and sales of artificial leather, synthetic resin, and other materials	56.14	56.14	-

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Name of investment company	Name of subsidiary	Main Business Activities	Ownership (%) December 31, 2020	Ownership (%) December 31, 2019	Description
GII	San Fang Vietnam Corporation Limited(SFV)	Material processing	100	100	-
JOB	PT. San Fang Indonesia(PTS)	Manufacturing and sales of artificial leather, synthetic resin, and other materials	99.99	99.99	-
GII	PTS	Manufacturing and sales of artificial leather, synthetic resin, and other materials	0.01	0.01	-

Note: The Board of Directors of the Consolidated Entity adopted the resolution to merge Foretrol Precision Materials Co., Ltd. and Bestac Advanced Material Co., Ltd. and set October 1, 2019 as the merger record date. Bestac Advanced Material Co., Ltd. is the surviving company and Foretrol Precision Materials Co., Ltd. is the merged company.

XIII. Property, plant and equipment

2020

	Self-owned land	Buildings and structures	Machinery and equipment	Other facilities	Construction in progress and equipment under acceptance	Total
Cost						
Balance as at January 1, 2020	$ 1,587,546	$ 3,213,561	$ 6,963,394	$ 2,395,098	$ 202,298	$14,361,897
Addition	-	21,479	281,894	175,397	63,125	541,895
Disposal	-	(34,462)	(114,745)	(94,675)	(559)	(244,441)
Net currency translation difference	(4,074)	(66,494)	(110,823)	(54,207)	(8,205)	(243,803)
Balance as at December 31, 2020	$ 1,583,472	$ 3,134,084	$ 7,019,720	$ 2,421,613	$ 256,659	$14,415,548
Accumulated depreciation						
Balance as at January 1, 2020	$ -	$ 1,644,956	$ 4,936,531	$ 1,576,619	$ -	$ 8,158,106
Disposal	-	(27,617)	(88,797)	(85,737)	-	(202,151)
Depreciation expense	-	136,940	427,763	187,191	-	751,894
Net currency translation difference	-	(30,358)	(82,182)	(40,822)	-	(153,362)
Balance as at December 31, 2020	$ -	$ 1,723,921	$ 5,193,315	$ 1,637,251	$ -	$ 8,554,487
Net amount as at December 31, 2020	$ 1,583,472	$ 1,410,163	$ 1,826,405	$ 784,362	$ 256,659	$ 5,861,061

2019

	Self-owned land	Buildings and structures	Machinery and equipment	Other facilities	Construction in progress and equipment under acceptance	Total
Cost						
Balance as at January 1, 2019	$ 1,677,121	$ 3,179,870	$ 6,830,897	$ 2,199,644	$ 429,824	$14,317,356
Addition	-	141,535	659,656	267,372	(221,532)	847,031
Disposal	-	(15,113)	(466,258)	(44,671)	-	(526,042)
Reclassified to investment properties	(87,579)	(52,894)	-	-	-	(140,473)
Net currency translation difference	(1,996)	(39,837)	(60,901)	(27,247)	(5,994)	(135,975)
Balance as at December 31, 2019	$ 1,587,546	$ 3,213,561	$ 6,963,394	$ 2,395,098	$ 202,298	$14,361,897

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	Self-owned land	Buildings and structures	Machinery and equipment	Other facilities	Construction in progress and equipment under acceptance	Total
Accumulated depreciation						
Balance as at January 1, 2019	$ -	$ 1,556,648	$ 5,037,602	$ 1,440,135	$ -	$ 8,034,385
Disposal	-	(13,016)	(464,355)	(33,118)	-	(510,489)
Reclassified to investment properties	-	(27,383)	-	-	-	(27,383)
Depreciation expense	-	147,211	409,406	191,880	-	748,497
Net currency translation difference	-	(18,504)	(46,122)	(22,278)	-	(86,904)
Balance as at December 31, 2019	$ -	$ 1,644,956	$ 4,936,531	$ 1,576,619	$ -	$ 8,158,106
Net amount as at December 31, 2019	$ 1,587,546	$ 1,568,605	$ 2,026,863	$ 818,479	$ 202,298	$ 6,203,791

The increase in property, plant and equipment and adjustments to payment amounts on the cash flow statement are as follows:

	2020	2019
Investing activities that affect both cash and non-cash items		
Increase in property, plant and equipment	$ 541,895	$ 847,031
Decrease in advance payments for equipment	(47,522)	(33,498)
Decrease (Increase) in payables on equipment	26,601	(24,352)
Capitalization of interest	(663)	(2,163)
Payments in cash for the acquisition of property, plant and equipment	$ 520,311	$ 787,018

Depreciation of the Consolidated Entity's property, plant and equipment is recognized on a straight-line method according to the following useful life in years:

Buildings and structures	
Factory and office building	30-50 years
Construction system and enclosure wall	15-28 years
Other	2-10 years
Machinery and equipment	
Embossing machine, grinding machine, and thermal oil boiler	20-30 years
Non-woven fabric machine and its auxiliary facilities	8-19 years
Other	1-9 years
Other facilities	
Pond and gardening	30-48 years
Pipelines	20-28 years
Other	1-15 years

Please refer to Note 28 for property, plant and equipment pledged by the Consolidated Entity as collateral for loans.

XIV. Lease agreement

(I) Right-of-use assets

	December 31, 2020	December 31, 2019
Book value of right-of-use assets		
Land	$ 157,667	$ 162,075
Buildings	4,512	5,957
Transportation equipment	5,419	9,953
	$ 167,598	$ 177,985

	2020	2019
Addition of right-of-use assets	$ 6,991	$ 14,689
Depreciation expense of right-of-use assets		
Land	$ 6,521	$ 6,742
Buildings	1,445	1,771
Transportation equipment	5,527	4,963
	$ 13,493	$ 13,476

(II) Lease liabilities

	December 31, 2020	December 31, 2019
Book value of lease liabilities		
Current	$ 6,936	$ 7,562
Noncurrent	$ 7,850	$ 9,153

The discount rate of lease liabilities is 1.2-1.4%.

(III) Important lease activities and clauses

Right-of-use assets include the land of the following subsidiaries, in which the right to use the land was obtained from the local government, details are as follows:

	Cost of land use rights thousand	Years	Maturity date
SFV	US$4,023	36-48 years	June 2051
Dongguan Baoliang	RMB19,373	50 years	January 2060

(IV) Other lease information

	2020	2019
Short term lease expenses	$ 2,827	$ 3,595
Lease expenses of low value assets	$ 867	$ 846
Total cash outflow from leases	$ 12,808	$ 13,421

XV. Investment properties

2020

Cost	Completed investment properties
Balance at January 1 and December 31, 2020	$ 140,473
Accumulated depreciation	
Balance at January 1, 2020	$ 27,816
Depreciation expense	867
Balance at December 31, 2020	$ 28,683
Net amount at December 31, 2020	$ 111,790

2019

Cost	Completed investment properties
Balance as at January 1, 2019	$ -
Transferred from property, plant and equipment	140,473
Balance as at December 31, 2019	$ 140,473
Accumulated depreciation	
Balance as at January 1, 2019	$ -
Transferred from property, plant and equipment	27,383
Depreciation expense	433
Balance as at December 31, 2019	$ 27,816
Net amount as at December 31, 2019	$ 112,657

The lease term of investment property is 10 years. The tenant does not have right of first refusal over the investment property when the lease term expires.

The Company's investment property are its own equity, and depreciation of buildings and structures is recognized on a straight-line basis over a useful life of 60 years. Please refer to Note 28 for investment property provided as collateral for loans.

The sum of future lease payments for operating leases of investment property is as follows:

	December 31, 2020	December 31, 2019
Year 1	$ 9,351	$ 9,351
Year 2	9,351	9,351
Year 3	9,351	9,351
Year 4	9,493	9,351
Year 5	9,634	9,493
Over 5 years	34,297	43,931
	$ 81,477	$ 90,828

The Consolidated Entity implements a general risk management policy to reduce the residual asset risk of buildings when the lease term expires.

The fair value of the Consolidated Entity's investment properties was approximately NT$340 million and NT$360 million for the years ended December 31, 2020 and 2019, in which the fair value was estimated by the Consolidated Entity's management after referring to transactions in the nearby housing market.

XVI. Borrowings

(I) Short-term borrowing

	December 31, 2020	December 31, 2019
Secured loans (Note 28)		
Bank borrowings	$ 470,000	$ 970,000
Unsecured loans		
Credit loans	980,000	730,000
	$ 1,450,000	$ 1,700,000
Annual interest rate (%)	0.40-1	0.86-0.98

(II) Short-term notes and bills payable

Details of commercial paper payable that have not yet matured are as follows:

December 31, 2020

Guarantor/Acceptance agency	Face value	Discounted amount	Book value	Interest Rate (%)
Mega Bills	$ 50,000	$ 28	$ 49,972	0.72

December 31, 2019

Guarantor/Acceptance agency	Face value	Discounted amount	Book value	Interest Rate (%)
Mega Bills	$ 100,000	$ 12	$ 99,988	0.71

(III) Long-term borrowings

	December 31, 2020	December 31, 2019
Secured loans (Note 28)		
Bank borrowings – Reaches maturity before September 2025	$ 1,861,000	$ 1,360,375
Unsecured loans		
Bank borrowings – Reaches maturity before August 2024	1,320,000	950,000
	3,181,000	2,310,375
Less: Current portion	744,000	553,500
	$ 2,437,000	$ 1,756,875
Annual interest rate (%)	1.03-1.4	1.25-1.68

XVII. Accounts payable

The Consolidated Entity's accounts payable are all derived from its business and transaction terms are separately negotiated. The Consolidated Entity established a financial risk management policy to ensure all payables are repaid within the credit period agreed to in advance.

XVIII. Other payables

	December 31, 2020	December 31, 2019
Wages and salaries payable	$ 298,494	$ 338,896
Payables on equipment	77,291	103,892
Commissions payable	47,407	27,179
Utilities and fuel costs payable	24,657	26,884
Import/export charges payable	22,679	23,625
Taxes payable	21,220	18,374
Compensated absences	17,630	17,834
Employee bonuses and director remuneration payable	16,594	31,101
Air pollution and waste disposal fees payable	12,294	20,678
Labor insurance and National Health Insurance premiums payable	11,824	13,610
Other	162,328	97,948
	$ 712,418	$ 720,021

XIX. Post-employment benefits plan

(I) Defined contribution plan

In the Consolidated Entity, the Company, Forich Advanced Materials Co., Ltd., and Bestac Advanced Material Co., Ltd. use the defined contribution plan managed by the government according to the Labor Pension Act, and contribute 6% of employees' monthly salaries to their individual pension account at the Bureau of Labor Insurance.

In the Consolidated Entity, Dongguan Baoliang, PTS, and SFV make pension contributions according to local laws and regulations, which are classified as a defined contribution plan.

(II) Defined benefit plan

The pension system applicable to the Company according to the Labor Standards Act of the

R.O.C. is the defined benefit plan managed by the government. Payment of employee pensions is calculated based on the employee's years of service and 6-month average wage before the approved date of retirement. The Company makes monthly contributions equal to 4% of employees' monthly salaries and wages to a dedicated account at the Bank of Taiwan under the name of the Supervisory Committee of Workers' Retirement Reserve Fund. Before the end of each year, if the balance in the dedicated account is insufficient to pay the retirement benefits of employees who are eligible for retirement in the following year, the deficit will be funded in one appropriation before the end of March in the following year. The dedicated account is managed by the Bureau of Labor Funds, Ministry of Labor. The Company does not have any right to influence its investment management strategy.

Our subsidiary PTS pays severance pay to qualified employees according to local laws and regulations, which is classified as a defined benefit plan.

The defined benefit plan amounts listed in the consolidated balance sheet is as follows:

	December 31, 2020	December 31, 2019
Present value of defined benefit liabilities	$ 133,888	$ 150,523
Fair value of assets of the plans	(23,001)	(26,056)
Net defined benefit liability	$ 110,887	$ 124,467

Changes in net defined benefit liabilities are as follows:

	Present value of defined benefit liabilities	Fair value of assets of the plans	Net defined benefit liability
Balance as at January 1, 2019	$ 193,641	($ 79,542)	$ 114,099
Service cost			
Service cost of the term	5,680	-	5,680
Interest expense (income)	3,503	(1,039)	2,464
Listed in income	9,183	(1,039)	8,144
Number of remeasurement			
Return on assets of the plans (except for amounts included in net interest)	-	(3,138)	(3,138)
Actuarial loss – Changes in demographic assumptions	6,799	-	6,799

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	Present value of defined benefit liabilities	Fair value of assets of the plans	Net defined benefit liability
Actuarial losses – experience adjustments	$ 3,435	$ -	$ 3,435
Recognized in other comprehensive income	10,234	(3,138)	7,096
Employer contributions	-	(4,427)	(4,427)
Benefits payment	(62,090)	62,090	-
Currency translation difference	(445)	-	(445)
Balance as at December 31, 2019	150,523	(26,056)	124,467
Service cost			
Service cost of the term	4,507	-	4,507
Service cost and settlement of benefits in the previous period	(2,375)	-	(2,375)
Interest expense (income)	2,508	(246)	2,262
Listed in income	4,640	(246)	4,394
Number of remeasurement			
Return on assets of the plans (except for amounts included in net interest)	-	(2,315)	(2,315)
Actuarial loss – Changes in financial assumption	5,862	-	5,862
Actuarial gains – experience adjustments	(16,246)	-	(16,246)
Recognized in other comprehensive income	(10,384)	(2,315)	(12,699)
Employer contributions	-	(2,946)	(2,946)
Benefits payment	(9,945)	8,562	(1,383)
Currency translation difference	(946)	-	(946)
Balance as at December 31, 2020	$ 133,888	($ 23,001)	$ 110,887

Summary of defined benefit plans recognized in income and loss by function:

	2020	2019
Operating costs	$ 2,703	$ 5,266
Selling expenses	504	620
Administrative expenses	848	1,828
Research and development expenses	339	430
	$ 4,394	$ 8,144

The Consolidated Entity is exposed to the following risks due to the pension system of the Labor Standards Act:

1. Investment risks

The Bureau of Labor Funds (BLF), Ministry of Labor (MOL) invests the labor pension fund in domestic (overseas) equity securities, bonds, and bank deposits at its own discretion and through mandated investments. However, the distributable amount of assets may not be lower than gains calculated using the interest rate for 2-year time deposits at local banks.

2. Interest rate risk

A decrease in bond interest rate will cause the present value of defined benefit liabilities to increase. However, the return on assets of defined benefit plans will also increase, and the effect of the two on defined benefit liabilities will offset each other.

3. Salary risk

Calculation of the present value of defined benefit liabilities takes into consideration the future salaries of members of defined benefit plans. Hence, an increase in salaries of members of defined benefit plans will increase the present value of defined benefit liabilities.

The present value of defined benefit liabilities of the Consolidated Entity is calculated by a qualified actuary, and major assumptions on the measurement date are as follows:

	December 31, 2020	December 31, 2019
Discount rate (%)	0.5-7.02	0.875-7.81
Estimated salary growth ratio (%)	2-8	2-8

If a reasonable change to a significant actuarial assumption occurs while all other assumptions remain the same, the amount of increase (decrease) in the present value of defined benefit liabilities is as follows:

	December 31, 2020	December 31, 2019
Discount rate		
Increased 0.25%	($ 4,749)	($ 5,266)
Decreased 0.25%	$ 4,974	$ 5,519
Estimated salary growth ratio		
Increased 0.25%	$ 4,833	$ 5,382
Decreased 0.25%	($ 4,639)	($ 5,163)

Since actuarial assumptions may be related, it is unlikely that only one assumption will change at a time, so the sensitivity analysis above might not reflect on actual changes in present value of defined benefit liabilities.

	December 31, 2020	December 31, 2019
Amount expected to be allocated within 1 year	$ 2,834	$ 4,179
Average time to maturity of defined benefit liabilities	14-24.93 years	14.4-25.57 years

XX. Equity

(I) Capital stock – common

	December 31, 2020	December 31, 2019
Authorized shares (thousand shares)	460,000	460,000
Authorized share capital	$ 4,600,000	$ 4,600,000
Current outstanding shares (thousand shares)	397,818	397,818
Issued capital	$ 3,978,181	$ 3,978,181

The Company's common shares have a face value of NT$10. Each share is entitled to one voting right and the right to receive dividends.

(II) Capital surplus

	December 31, 2020	December 31, 2019
Contributed capital in excess of par	$ 135,000	$ 135,000
Gains on the disposal of fixed assets	2,497	2,497
Donated assets received	369	369
Other – Dividends not claimed by shareholders before the deadline	4,572	3,235
	$ 142,438	$ 141,101

Pursuant to the Company Act, capital surplus is from contributed capital in excess of par and donated assets received. Besides using capital surplus to offset losses, companies may also use capital surplus for distribution of cash dividends or capitalization. However, capitalization of capital surplus is limited to once a year. Capital surplus from gains on the disposal of fixed assets and unclaimed dividends may only be used to offset losses.

(III) Retained earnings and divided policy

Pursuant to the earnings distribution policy set forth in the Company's Articles of Incorporation before amendment, if there is a profit after year-end closing, the Company shall first set aside ten percent of such profits as a legal reserve after losses have been covered and all taxes and dues have been paid, and then allowance or reversal of a special reserve should be made in accordance with the law or the Company's operational needs. If there is still a surplus, it should be distributed together with accumulated retained earnings after the board of directors makes a proposal of distribution and submits the proposal to the shareholders' meeting for approval. Please refer to Note 22(7) for the employee bonus and directors' remuneration policy set forth in the Articles of Incorporation.

The amended Articles of Incorporation was passed by the shareholders' meeting on June 12, 2019. If the earnings distribution proposed by the Board of Directors distributes all or a part of dividends and bonuses in new shares, the proposal must be approved by the shareholders' meeting before distribution. The Board of Directors is authorized to distribute all or a part of dividends and bonuses in cash by a majority vote in a Board meeting with at least two thirds of directors in attendance, and the decision shall be reported during a shareholders' meeting.

The Company's dividend policy takes into consideration the Company's current and future investment environment, funding requirements, and financial plans, as well as the interests of shareholders and balanced dividends. At least 10% of distributable earnings is allocated for distribution. However, if the dividend per share is lower than NT$0.5 when all distributable earnings is distributed, then the distributable earnings are retained and not distributed. Cash dividends may not be less than 10% of all dividends. However, cash dividends are not distributed when dividends per share is lower than NT$0.3 (inclusive), and stock dividends are distributed instead.

Pursuant to the Company Act, the amount of legal reserve must, at a minimum, equal the Company's total capital. The legal reserve may be used to offset losses. When the Company does not have any losses, the amount of legal reserve that surpasses 25% of paid-up capital may be capitalized and may also be distributed in cash.

The Company allocates and reverses special reserve according to Letter Jin-Guan-Zheng-Fa-Zi No. 1010012865, Letter Jin-Guan-Zheng-Fa-Zi No. 1010047490, and "Q&A for the allocation of special reserve after adopting the IFRSs."

The Company passed the 2019 and 2018 earnings distribution below in the Board meeting on March 6, 2020 and annual shareholders' meeting on June 12, 2019:

	Dividend distribution proposal		Dividends per share (NTD)	
	2019	2018	2019	2018
Legal reserve	$ 42,460	$ 30,293		
Cash dividends	318,254	198,909	$ 0.8	$ 0.5

The Company passed the 2020 earnings distribution below in the Board meeting on March 16, 2021:

	Dividend distribution proposal	Dividends per share (NTD)
Legal reserve	$ 22,811	
Special reserve	9,038	
Cash dividends	198,909	$ 0.5

The 2020 dividend distribution proposal will be resolved on in the annual general meeting in June 2021.

(IV) Special reserve

When the Consolidated Entity adopted the IFRSs for the first time, it allocated NT$505,112 thousand from unrealized upward revaluation and cumulative translation adjustments of retained earnings to special reserve due to the transition to IFRSs. The reason for allocation was eliminated due to the subsequent sale of property, plant and equipment and reversed NT$322 thousand of special reserve in 2013. Hence, the special reserve as at December 31, 2020 and 2019 were both NT$504,790 thousand.

(V) Other equity interests

1. Exchange differences arising from the translation of the financial statements of foreign operations

	2020	2019
Opening balance	($ 226,765)	($ 37,272)
Currency translation difference resulting from the translation of assets of foreign operations	(297,884)	(189,493)
Closing balance	($ 524,649)	($ 226,765)

2. Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income

	2020	2019
Opening balance	$ 15,085	$ 4,892
Generated in the current year		
Equity instruments – unrealized gains	(4,264)	10,193
Closing balance	$ 10,821	$ 15,085

XXI. Revenues

	2020	2019
Revenue from contracts with customers		
Revenue from merchandise sales	$ 8,441,531	$ 10,269,364
Service revenue	225	2,047
	$ 8,441,756	$ 10,271,411

(I) Contract balance

	December 31, 2020	December 31, 2019	January 1, 2019
Net notes and accounts receivable (Note 9)	$ 1,177,270	$ 1,406,396	$ 1,596,218
Contract liabilities			
Merchandise sales	$ 21,356	$ 6,103	$ 6,188

Changes to contract assets and contract liabilities are mainly from the difference between the time contractual obligations are fulfilled and the customer makes payment. There are no other material changes.

(II) Detailed revenues from contracts with customers: Please refer to Note 33.

XXII. Pre-tax profit

Net income from continuing operations includes the following item:

(I) Interest income

	2020	2019
Cash in banks	$ 27,107	$ 41,290
Other	58	-
	$ 27,165	$ 41,290

(II) Other income

	2020	2019
Rental income	$ 9,668	$ 5,206
Government grants revenue	10,283	1,392
Dividend income	334	5,328
Other	17,635	6,751
	$ 37,920	$ 18,677

(III) Other profits and losses

	2020	2019
Net foreign exchange losses	($ 129,187)	($ 29,393)
Net profit (loss) from financial liabilities at fair value through profit or loss	(4,784)	201
Net gains (losses) on disposal of property, plant and equipment	(27,420)	4,934
Other	(10,171)	(3,300)
	($ 171,562)	($ 27,558)

(IV) Financial costs

	2020	2019
Interest on bank borrowings	$ 48,090	$ 44,834
Interest on lease liabilities	194	182
Less: Costs of qualifying assets listed	(663)	(2,163)
	$ 47,621	$ 42,853

Information on capitalization of interest is as follows:

	2020	2019
Amount of interest capitalized	$ 663	$ 2,163
Interest capitalization rate (%)	0.99-1.16	1.09-1.16

(V) Depreciation and amortization

	2020	2019
Property, plant and equipment	$ 751,894	$ 748,497
Right-of-use assets	13,493	13,476
Investment properties	867	433
Computer software	7,923	4,120
	$ 774,177	$ 766,526
Summary of depreciation expenses by function		
Operating costs	$ 696,090	$ 674,829
Operating expenses	70,164	87,577
	$ 766,254	$ 762,406
Summary of amortization expenses by function		
Operating costs	$ 429	$ 141
Operating expenses	7,494	3,979
	$ 7,923	$ 4,120

(VI) Employee benefit expenses

	2020	2019
Short-term employee benefits	$ 1,203,535	$ 1,400,588

Post-employment benefit		
Defined contribution plan	42,780	55,356
Defined benefit plans (Note 19)	4,394	8,144
	47,174	63,500
Total employee benefit expenses	$ 1,250,709	$ 1,464,088
Summary by function		
Operating costs	$ 798,026	$ 937,064
Operating expenses	452,683	527,024
	$ 1,250,709	$ 1,464,088

(VII) Employee bonuses and directors' remuneration

Of the Company's pre-tax profit before distribution of employee bonuses and directors' remuneration, the Company allocates 3-5% as employee bonuses and no more than 3% as directors' remuneration in accordance with the Articles of Incorporation.

2020 and 2019 employee bonuses were estimated at 3.5% of pre-tax profit mentioned above. The potential amount of director remuneration is estimated based on past experience. Employee bonuses and directors' remuneration in 2020 and 2019 will be distributed in cash according to resolutions adopted by the Board of Directors on March 16, 2021 and March 6, 2020:

	2020	2019
Employee bonuses	$ 10,313	$ 19,369
Directors' remuneration	6,187	11,621

Any changes to amounts after the consolidated financial statements are passed and announced will be handled as changes to accounting estimates, and will be adjusted and recognized in the following year.

There were no deviations in the actual amount of employee bonuses and directors' remuneration distributed from the amounts recognized in the consolidated financial statements in 2019 and 2018.

For information on Board resolutions relating to employee bonuses and directors' remuneration, please go to the Market Observation Post System of the Taiwan Stock Exchange.

(VIII) Foreign exchange gains (losses)

	2020	2019
Total foreign exchange gains	$ 177,746	$ 285,130
Total foreign exchange losses	(306,933)	(314,523)
Net loss	($ 129,187)	($ 29,393)

XXIII. Income tax

(I) Income tax recognized in profit or loss

Main income tax expenses are as follows:

	2020	2019
Current income tax		
Generated in the current year	$ 124,331	$ 170,467
Additional surtax on undistributed earnings	-	217
Adjustments in the previous year	(15,622)	(6,269)
	108,709	164,415
Deferred income tax		
Generated in the current year	17,532	45,811
Income tax expense recognized in profit or loss	$ 126,241	$ 210,226

Adjustments to accounting income and income tax expense are as follows:

	2020	2019
Pre-tax profit from continuing operations	$ 344,253	$ 640,646
Income tax expense on pre-tax profit calculated at the statutory tax rate	$ 135,177	$ 207,675
Tax effect of adjustments		
Non-deductible tax expenses	780	8,971
Unrecognized (not deducted) losses carried forward and temporary difference	5,906	(368)
Additional surtax on undistributed earnings	-	217
Adjustments in the current year to current income tax expense of the previous year	(15,622)	(6,269)
Income tax expense recognized in profit or loss	$ 126,241	$ 210,226

The President of the R.O.C. promulgated an amendment to the Statute for Industrial Innovation in July 2019, which specified assets or technologies constructed or purchased using undistributed earnings that may be listed as deductibles of undistributed earnings starting in 2018. When the Consolidated Entity was calculating undistributed earnings in 2020 and 2019, the amount of capital expenditures invested using 2019 and 2018 undistributed earnings were deducted.

Overseas subsidiaries pay taxes according to the tax rate prescribed by the local government, the tax rates are as follows:

	2020	2019
SFV	15%	15%
PTS	25%	25%
Dongguan Baoliang	25%	25%

(II) Income tax recognized in other comprehensive income

	2020	2019
Deferred income tax expense (gain)		
Generated in the current year		
Remeasurements of the net defined benefit	$ 2,605	($ 1,284)

(III) Current income tax assets and liabilities

	December 31, 2020	December 31, 2019
Current income tax assets		
Tax refunds receivable	$ 54,897	$ 15,079
Current income tax liabilities		
Income tax payable	$ 125,670	$ 100,008

(IV) Deferred income tax assets and liabilities

Changes in deferred income tax assets and liabilities are as follows:

2020

Deferred income tax assets	Opening balance	Listed in income	Recognized in other comprehensive income	Closing balance
Temporary difference				
Defined benefit plan	$ 21,337	($ 299)	($ 2,605)	$ 18,433
Inventory loss	29,897	5,235	-	35,132
Unrealized gains from subsidiaries	17,167	(10,581)	-	6,586
Other	6,030	3,705	-	9,735
	$ 74,431	($ 1,940)	($ 2,605)	$ 69,886

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Deferred income tax liabilities	Opening balance	Listed in income	Recognized in other comprehensive income	Closing balance
Temporary difference				
Overseas investment gains recognized under the equity method	$ 701,220	$ 15,592	$ -	$ 716,812
Provision for land value increment tax	414,430	-	-	414,430
Other	9	-	-	9
	$1,115,659	$ 15,592	$ -	$1,131,251

2019

Deferred income tax assets	Opening balance	Listed in income	Recognized in other comprehensive income	Closing balance
Temporary difference				
Defined benefit plan	$ 20,103	($ 50)	$ 1,284	$ 21,337
Inventory loss	19,170	10,727	-	29,897
Unrealized gains from subsidiaries	18,426	(1,259)	-	17,167
Other	2,620	3,410	-	6,030
	$ 60,319	$ 12,828	$ 1,284	$ 74,431

Deferred income tax liabilities	Opening balance	Listed in income	Recognized in other comprehensive income	Closing balance
Temporary difference				
Overseas investment gains recognized under the equity method	$ 642,430	$ 58,790	$ -	$ 701,220
Provision for land value increment tax	414,430	-	-	414,430
Other	160	(151)	-	9
	$1,057,020	$ 58,639	$ -	$1,115,659

(V) Items and amounts of deferred income tax assets not recognized in the consolidated balance sheet

	December 31, 2020	December 31, 2019
Losses carried forward		
Matures in 2020	-	$ 23,504
Matures in 2021	17,747	17,747
Matures in 2022	17,508	17,508
Matures in 2023	22,934	22,934
Matures in 2025	8,564	8,564
Matures in 2026	8,040	8,040
Matures in 2027	297	297
Matures in 2028	102	102
Matures in 2029	7,171	6,216
Matures in 2030	25,058	-
	$ 107,421	$ 104,912

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	December 31, 2020	December 31, 2019
Deductible temporary differences		
International investment impairment losses	$ 31,369	$ 31,369
Other	8,648	4,174
	$ 40,017	$ 35,543

(VI) Information on unused losses carried forward

As of December 31, 2020, information on losses carried forward is as follows:

Unused balance	Final year for the carry forward
$ 17,747	2021
17,508	2022
22,934	2023
8,564	2025
8,040	2026
297	2027
102	2028
7,171	2029
25,058	2030
$ 107,421	

(VII) Temporary difference in unrecognized deferred income tax liabilities related to investments in subsidiaries

The taxable temporary difference of unrecognized deferred income tax liabilities related to investments in subsidiaries was NT$2,366,744 thousand and NT$2,748,214 thousand as at December 31, 2020 and 2019, respectively.

(VIII) Approval of income tax

The Company's income tax returns up to 2018 have been approved by the tax authority.

XXIV. EPS

EPS and weighted average ordinary shares are calculated below:

(I) Net profit for the year – Net income attributable to owners of the Company

	2020	2019
Net profit for the year	$ 218,012	$ 430,420

(II) Shares (thousand shares)

	2020	2019
Number of shares used to calculate basic EPS	397,818	397,818
Plus: Employee bonuses	626	922
Number of shares used to calculate diluted EPS	398,444	398,740

If the Company choses to distribute employee bonuses in shares or cash, then it is assumed that all distribution will be in shares, which will dilute ordinary shares, and the diluted EPS is calculated based on the weighted-average number of ordinary shares outstanding. When calculating the diluted EPS before deciding to distribute employee bonuses in the following year, the potential dilution of ordinary shares will continue to be taken into consideration.

XXV. Capital risk management

The Consolidated Entity engages in capital management to ensure that companies in the group can maximize return for shareholders by optimizing the balance of liabilities and equity, under the premise that they are able to continue as a going concern.

The Consolidated Entity's capital structure consists of net liabilities (i.e., loans less cash and cash equivalents) and equity attributable to owners of the Company (i.e., share capital, capital surplus, retained earnings, and other equity interests).

The Consolidated Entity's management periodically examines the group's capital structure, and takes into consideration the cost of various capital and related risks. The Consolidated Entity will balance its overall capital structure via dividend distribution, issuance of new shares, borrowing new debt, and repaying old debt according to recommendations of management.

The Consolidated Entity is not required to comply with other external capital related regulations.

XXVI. Financial instruments

(I) Information on fair value – Financial instruments not measured at fair value

Management of the Consolidated Entity believes that the book value of financial assets and financial liabilities not measured at fair value is near the fair value.

(II) Information on fair value – Financial instruments measured at fair value on a recurring basis

1. Fair value level

	Level 1	Level 2	Level 3	Total
December 31, 2020				
Financial assets at fair value through other comprehensive income				
Securities of public company in Taiwan	$ 51,618	$ -	$ -	$ 51,618
Securities of non-public company in Taiwan	-	-	5,030	5,030
	$ 51,618	$ -	$ 5,030	$ 56,648
Financial liabilities at fair value through profit or loss				
Derivatives (not designated for hedging)	$ -	$ 4,843	$ -	$ 4,843
December 31, 2019				
Financial assets at fair value through other comprehensive income				
Securities of public company in Taiwan	$ 56,245	$ -	$ -	$ 56,245
Securities of non-public company in Taiwan	-	-	4,667	4,667
	$ 56,245	$ -	$ 4,667	$ 60,912

There was no transfer of level 1 and level 2 fair value measurements in 2020 and 2019.

2. Financial instruments are adjusted at level 3 fair value measurement.

Financial assets at fair value through other comprehensive income	2020	2019
Opening balance	$ 4,667	$ 4,945
Recognized in other comprehensive income	363	(278)
Closing balance	$ 5,030	$ 4,667

3. Valuation technique and input values for level 2 fair value

Type of financial instrument	Valuation technique and input values
Derivatives – FX swap	Discounted cash flow method: Future cash flows are estimated based on the forward exchange rate at the end of period and the exchange rate specified in the contract, and are discounted using a rate that reflects on the credit risk of each counterparty.

4. Valuation technique and input values for level 3 fair value

When the Consolidated Entity is measuring the fair value of stocks without a quoted price, the fair value is determined by management after referencing the company's net worth.

(III) Financial instruments by category

	December 31, 2020	December 31, 2019
Financial assets		
Financial assets at amortized cost (Note 1)	$ 7,119,935	$ 6,093,166
Financial assets at fair value through other comprehensive income (investment in equity instruments)	56,648	60,912
Financial liabilities		
Measured at amortized cost (Note 2)	6,009,732	5,449,777
Financial liabilities at fair value through profit or loss (held for trading)	4,843	-

Note 1: The balance includes cash and cash equivalents, notes and accounts receivable (including related parties), other financial assets – current, refundable deposits, and other financial assets at amortized cost.

Note 2: The balance includes short-term borrowings, short-term notes and bills payable, accounts payable, other accounts payable, long-term borrowings (including those that mature within one year), deposit received, and other financial liabilities at amortized cost.

(IV) The purpose and policy of financial risk management

The Consolidated Entity's main financial instruments include cash and cash equivalents, notes and accounts receivable, other financial assets, accounts payable, short-term notes and bills payable, other payables, long-term and short-term borrowings, and lease liabilities. The Consolidated Entity's financial management department provides services to sales units, coordinates operations in domestic and international financial markets, and analyzes exposure based on the level and extent of risks, in order to supervise and manage financial risks related to the Consolidated Entity's operations. Risks include market risk (including foreign exchange risk, interest rate risk, and other price risk), credit risk, and liquidity risk.

1. Market Risk

The main financial risk of the Consolidated Entity due to business activities is the risk of changes in exchange rates (please refer to (1) below) and changes in interest rates (please refer to (2) below).

(1) Foreign exchange risk

The Company and several subsidiaries engage in sales and purchase of goods denominated in foreign currencies, which expose the Consolidated Entity to the risk of exchange rate changes. The Consolidated Entity manages its exposure to foreign exchange risk using FX options and swaps within the scope permitted by policy.

Please see Note 31 for the book value of the Consolidated Entity's monetary assets and liabilities not denominated in the functional currency on the balance sheet date (including monetary items not denominated in the functional currency on the consolidated financial statements).

Sensitivity analysis

The sensitivity analysis mainly calculates foreign currency-denominated monetary items during the financial reporting period. The Consolidated Entity is mainly affected by exchange rate fluctuations of USD, RMB, IDR, and VND.

The sensitivity ratio used in reports on foreign exchange risk for management of the Consolidated Entity is 1%, which also represents management's evaluation of the reasonable scope of fluctuations in exchange rates. The sensitivity analysis only includes outstanding foreign currency-denominated monetary items, and the conversion at the end of period is adjusted using 1% change in exchange rates. The positive number in the table below is the amount that pre-tax profit will increase (decrease) when the functional currency depreciates 1% against related currencies. The effect on pre-tax profit will be negative (positive) the same amount when the functional currency appreciates 1% against related currencies.

	Effect on income	
	2020	2019
USD	$ 34,926	$ 13,726
RMB	755	525
IDR	88	50
VND	1,998	(397)

(2) Interest rate risk

The Consolidated Entity is exposed to interest rate risk when companies finance using both fixed and floating interest rates at the same time. The Consolidated Entity manages its interest rate risk by maintaining an appropriate portfolio of fixed and floating interest rates.

The book value of the Consolidated Entity's financial assets and liabilities that are exposed to interest rate risk on the balance sheet date is as follows:

	December 31, 2020	December 31, 2019
Has interest rate risk for cash flow		
Financial assets	$ 3,707,705	$ 2,526,187
Financial liabilities	3,381,000	2,410,375

The Consolidated Entity has also determined that the fair value risk of its fixed interest rate time deposits, bonds issued under repurchase agreement, short-term borrowings, short-term notes and bills payable, and lease liabilities is not material.

Sensitivity analysis

The following sensitivity analysis is determined based on the interest rate exposure of non-derivatives on the balance sheet date. The method for analyzing floating interest rate assets and liabilities assumes that the amount of assets and liabilities outstanding on the balance sheet date were outstanding throughout the reporting period.

The sensitivity ratio used in reports on interest rate risk for management of the Consolidated Entity is an increase or decrease of 1%, which also represents management's evaluation of the reasonable scope of fluctuations in interest rates. If annual interest rate increases/decreases 1% while all other variables remain the same, the Consolidated Entity's pre-tax profit will increase/decrease NT$3,267 thousand and NT$1,158 thousand in 2020 and 2019, respectively, and is mainly due to the Consolidated Entity's floating interest rate bank deposits and loans.

(3) Other price risks

The Consolidated Entity is exposed to the risk of equity prices due to its investments in equity securities. The equity investments are strategic investments and not held for trading. The Consolidated Entity does not actively engage in such investments.

Sensitivity analysis

The following sensitivity analysis is conducted using the equity price on the balance sheet date.

If the price of equity increases/decreases by 1%, other comprehensive income in 2020 and 2019 will increase/decrease NT$566 thousand and NT$609 thousand, respectively, due to the increase/decrease in fair value of financial assets at fair value through other comprehensive income.

2. Credit risk

Credit risk refers to the risk of financial loss to the Group arising from default by counterparties. As of the balance sheet date, the Consolidated Entity's greatest credit risk exposure to financial losses caused by transaction counterparties failing to fulfill their obligations is in the book value of financial assets recognized on the consolidated balance sheet.

The Consolidated Entity's policy is to only engage in transactions with counterparties that have a good reputation, and also uses other financial information available to the public along with transaction records to evaluate major customers. The Consolidated Entity continues to monitor its exposure to credit risk and evaluates the credit of transaction counterparties, using annual credit limits with transaction counterparties to control credit risk exposure.

The Company's credit risk is mainly concentrated in accounts receivables of the following companies:

	December 31, 2020	December 31, 2019
Group A	$ 241,328	$ 358,284
Group B	128,683	127,685
Group C	89,633	146,395
	$ 459,644	$ 632,364

The abovementioned companies accounted for 39% and 46% of accounts receivable for the years ended December 31, 2020 and 2019, respectively.

3. Liquidity risk

The Consolidated Entity manages and maintains an adequate position of cash and cash equivalents to support the group's operations and mitigate the effect of cash flow fluctuations. Management of the Consolidated Entity supervises the usage of bank credit limit and ensures compliance with terms of loan agreements. Bank borrowings are an important source of the Consolidated Entity's liquidity. Unused long-term and short-term credit limits of the Consolidated Entity was NT$2,275,000 thousand and NT$2,045,000 thousand for the years ended December 31, 2020 and 2019, respectively.

Non-derivative financial liabilities and interest rate risk

Maturity analysis of remaining non-derivative financial liabilities is prepared based on the non-discounted cash flow (including principal and estimated interest) of financial liabilities up to the earliest date that the liabilities may need to be repaid by the Consolidated Entity. Hence, bank borrowings that the Consolidated Entity may be required to immediately repay are listed in the earliest period in the table below without considering the probability that the bank immediately exercises the right. Maturity analysis of other non-derivative financial liabilities is prepared according to the agreed repayment date.

For cash flow from interests paid using floating interest rates, the non-discounted amount of interest is estimated using the interest rate on the balance sheet date.

	Within 6 months	6 months to 1 year	1 year and above	Total
December 31, 2020				
Non-derivative financial liabilities				
No interest-bearing debt	$1,311,552	$ 1,940	$ 15,268	$1,328,760
Lease liabilities	4,160	2,920	7,954	15,034
Floating-rate tools	224,373	752,676	2,482,687	3,459,736
Fixed-rate tools	1,301,384	-	-	1,301,384
	$2,841,469	$ 757,536	$2,505,909	$6,104,914
December 31, 2019				
Non-derivative financial liabilities				
No interest-bearing debt	$1,308,715	$ 11,007	$ 19,692	$1,339,414
Lease liabilities	4,709	3,006	9,307	17,022
Floating-rate tools	117,578	566,130	1,793,903	2,477,611
Fixed-rate tools	1,701,707	-	-	1,701,707
	$3,132,709	$ 580,143	$1,822,902	$5,535,754

XXVII.Related Party Transactions

Transactions, account balances, gains, and losses between companies of the Consolidated Entity were eliminated and therefore not disclosed in this note. Transactions between the Consolidated Entity and related parties are as follows:

(I) Name and relationship of related parties

Name of related party	Relationship with the Consolidated Entity
Pou Chen Corporation	Parent company of investor with significant influence
Yue Yuen Industrial (Holdings) Ltd.	Investor with significant influence
Baoyuan Industrial (Group) Co., Ltd.	Subsidiary of investor with significant influence

(II) Operating revenue

General ledger account	Type/Name of related party	2020	2019
Sales revenue	Investor with significant influence		
	Yue Yuen Industrial (Holdings) Ltd.	$ 1,328,168	$ 1,803,716
	Parent company of investor with significant influence	315,936	407,280
		$ 1,644,104	$ 2,210,996

There are no significant differences in the prices of goods sold by the Consolidated Entity to the related parties above and terms of payment compared to other customers.

(III) Receivables from related parties (excluding loans to related parties)

General ledger account	Type/Name of related party	December 31, 2020	December 31, 2019
Accounts receivable – related parties	Investor with significant influence		
	Yue Yuen Industrial (Holdings) Ltd.	$ 241,328	$ 358,284
	Parent company of investor with significant influence	41,571	72,440
		$ 282,899	$ 430,724

(IV) Compensation for management

	2020	2019
Short-term employee benefits	$ 28,721	$ 36,884
Post-employment benefit	392	477
	$ 29,113	$ 37,361

Remuneration of directors and management is decided by the Remuneration Committee based on individual performance and market trends.

XXVIII. Pledged Assets

The Consolidated Entity provided the following assets as collateral for bank borrowings:

	December 31, 2020	December 31, 2019
Property, plant and equipment – net	$ 1,538,597	$ 1,548,665
Investment properties – net	111,790	112,657
	$ 1,650,387	$ 1,661,322

XXIX. Significant Contingent Liabilities and Unrecognized Contractual Commitments

The Consolidated Entity made the following major commitments on the balance sheet date:

(I) The Consolidated Entity's balance of issued but unutilized L/C for the purchase of raw materials is as follows:

Unit: Foreign currency (in thousands)

	December 31, 2020	December 31, 2019
JPY	$ -	$ 98,800
RMB	-	1,344

(II) Property, plant and equipment purchase contracts not listed by the Consolidated Entity are as follows:

	December 31, 2020	December 31, 2019
Acquisition of property, plant and equipment	$ 143,024	$ 318,842

XXX. Other Matters

The Consolidated Entity was impacted by the COVID-19 pandemic, some overseas subsidiaries suspended work in their factories and countries imposed lockdown, which resulted in a decrease in purchase orders placed by customers, and operating revenue in Q2 and Q3 2020 significantly decreased compared with the same period last year. As the pandemic has subsided and economic activity continues to pick up, operating revenue has stably increased in Q4 2020, and the Consolidated Entity expects business to gradually recover.

XXXI. Exchange Rate Information of on Foreign-Currency Financial Assets and Liabilities

The following information is a summary of foreign currencies that are not the functional currency of companies in the Consolidated Entity, and the exchange rate disclosed is the exchange rate for converting foreign currencies to the functional currency. Foreign currency assets and liabilities with a significant impact are as follows:

Unit: Foreign currencies (in thousands): Exchange rate: NTD

December 31, 2020	Foreign currencies	Exchange rate		Book value
Monetary financial assets				
USD	$ 111,066	28.48	(USD: NTD)	$ 3,163,160
USD	18,448	6.53061	(USD: RMB)	525,396
RMB	9,566	0.15313	(RMB: USD)	41,717
RMB	14,877	4.361	(RMB: NTD)	64,881
IDR	5,717,259	0.00007	(IDR: USD)	11,606
VND	216,511,920	0.00004	(VND: USD)	240,328
Monetary financial liabilities				
USD	3,427	28.48	(USD: NTD)	97,602
USD	3,455	6.53061	(USD: RMB)	98,390
RMB	7,135	0.15313	(RMB: USD)	31,114
IDR	1,381,775	0.00007	(IDR: USD)	2,805
VND	36,487,108	0.00004	(VND: USD)	40,501

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December 31, 2019	Foreign currencies	Exchange rate		Book value
Monetary financial assets				
USD	$ 62,082	29.98	(USD: NTD)	$ 1,861,232
USD	15,962	6.98997	(USD: RMB)	478,526
RMB	9,083	0.14306	(RMB: USD)	38,957
RMB	10,320	4.289	(RMB: NTD)	44,263
IDR	8,778,738	0.00007	(IDR: USD)	19,138
VND	8,186,078	0.00004	(VND: USD)	9,578
Monetary financial liabilities				
USD	28,355	29.98	(USD: NTD)	850,091
USD	3,904	6.98997	(USD: RMB)	117,052
RMB	7,153	0.14306	(RMB: USD)	30,679
IDR	6,492,356	0.00007	(IDR: USD)	14,153
VND	42,160,376	0.00004	(VND: USD)	49,327

The Consolidated mainly bears the foreign exchange risk above. The following information is a summary presented in the functional currency of individual companies that hold foreign currencies, and the exchange rate disclosed is the exchange rate for converting foreign currencies to the functional currency. Foreign exchange gain/loss (realized and unrealized) with a significant impact are as follows:

Functional currency	Functional currency to presentation currency		Net exchange gain (loss)
2020			
USD	29.549	(USD: NTD)	($ 5,102)
RMB	4.266	(RMB: NTD)	28,735
NTD	1	(NTD: NTD)	105,554
			($ 129,187)
2019			
USD	30.912	(USD: NTD)	$ 2,276
RMB	4.456	(RMB: NTD)	(7,028)
NTD	1	(NTD: NTD)	(24,641)
			($ 29,393)

XXXII. Additional Disclosures

(I) Information on major transactions and investees

1. Lending to others: See Table 1 for details.
2. Providing endorsements or guarantees to others: See Table 2 for details.
3. Holding of marketable securities at the end of the period (excluding investments in subsidiaries): See Table 3 for details.
4. Acquisition or sale of the same security with the accumulated cost exceeding NT$300 million or 20% of paid-in capital: None.
5. Acquisition of real estate reaching NT$300 million or 20% of paid-in capital or more: None.

6. Disposal of real estate reaching NT$300 million or 20% of paid-in capital or more: None.
7. Purchase or sale of goods from or to related parties reaching NT$100 million or 20% of paid-in capital or more: See Table 4 for details.
8. Receivables from related parties reaching NT$100 million or 20% of paid-in capital or more: See Table 5 for details.
9. Derivatives trading: See Note 7 for details.
10. Other: The business relationship and major transactions between intra-group companies: See Table 8 for details.
11. Information on the investee: See Table 6 and Table 7 for details.

(II) Information on Investments in China

1. Name of investee in China, main business items, paid-in capital, investment style, outward/inward remittance, shareholding ratio, income on investment, book value of investments at end of period, income on investment remitted back to Taiwan, and limit on investments in China: See Table 7 for details.
2. Direct or indirect material transactions with investees in China through a third region, and the price, terms of payment, and unrealized gains:
   (1) Amount and percentage of goods purchased and the ending balance and percentage of payables

	Purchase of goods		Accounts payable	
	Amount	As a percentage of the account (%)	Amount	As a percentage of the account (%)
Dongguan Baoliang	$ 56,493	1	$ 1,913	1

(2) Amount and percentage of goods sold and the ending balance and percentage of receivables

	Sales		Accounts receivable	
	Amount	As a percentage of the account (%)	Amount	As a percentage of the account (%)
Dongguan Baoliang	$ 502,688	7	$ 69,628	1

(3) Property transaction amount and the profit or loss amount: None.

(4) Ending balance and purpose of endorsements/guarantees or collateral: None.

(5) Highest balance, ending balance and interest rate range of financing and total interest in the current period: None.

(6) Other transactions, such as the providing or accepting services, that have a material impact on current profit or loss or financial position:

Purchased NT$111,178thousand (profit included) in raw materials for Dongguan Baoliang in 2020, and other receivables from Donguan Baoliang was NT$5,686 thousand as of December 31, 2020.

(III) Information on major shareholders: Name of shareholder with 5% shareholding or above, number of shares held, and ratio: See Table 9 for details.

XXXIII. Segment Information

Segment information is provided to the main decision-maker to allocate resources and assess segment performance. When preparing the consolidated financial statements, the Consolidated Entity considers region and products or services provided as factors for identifying operating segments, and views the operating segments as a single operating segment. The Consolidated Entity's operating segments are as follows, in which (I)-(IV) are reportable segments:

(I) San Fang Chemical Industry Co., Ltd. – Manufacturing and sales of artificial leather, synthetic resin, and other materials

(II) San Fang Development, BBH, San Fang International, and subsidiary MPL, Dongguan Baoliang, and GTL.

(III) GII and subsidiary SFV(GII).

(IV) JOB and subsidiary PTS (PTS).

(II)-(IV) above mainly engage in the production of PU synthetic leather and artificial leather, and the production and processing of synthetic resin and other materials.

(V) Foretrol Precision Materials Co., Ltd. and Bestac Advanced Material Co., Ltd.

(VI) Forich Advanced Materials Co., Ltd.

(V)-(VI) above is mainly in the business of chemical product manufacturing and sales.

(VII) San Fang Development, San Fang Financial Holdings, and GCL – Mainly in the financial holdings and investment business.

Department revenue and business results

The Consolidated Entity's revenue and operating results, as well as assets by reportable segment are analyzed below:

	San Fang Chemical Industry Co., Ltd.	San Fang Development	GII	PTS	Other	Adjustment and retired	Total
2020							
Revenue from customers other than the parent company and its subsidiaries	$ 5,446,912	$ 1,282,647	$ -	$ 1,585,484	$ 126,713	$ -	$ 8,441,756
Revenue from the parent company and its subsidiaries	1,339,934	47,393	752,319	96,537	158,810	(2,394,993)	-
Total revenue	$ 6,786,846	$ 1,330,040	$ 752,319	$ 1,682,021	$ 285,523	($ 2,394,993)	$ 8,441,756
Department income (loss)	$ 358,237	($ 3,815)	($ 107,369)	$ 269,491	($ 18,193)	$ -	$ 498,351
Interest income							27,165
Other income							37,920
Other profits and losses							(171,562)
Financial costs							(47,621)
Pre-tax profit							344,253
Income tax expense							126,241
Net profit after tax							$ 218,012
Identifiable assets	$ 8,064,904	$ 2,594,548	$ 3,681,012	$ 1,707,698	$ 704,222	($ 1,468,143)	$ 15,284,241
Non-current financial assets at fair value through other comprehensive income							56,648
Total assets							$ 15,340,889
2019							
Revenue from customers other than the parent company and its subsidiaries	$ 6,068,538	$ 2,110,921	($ 5,275)	$ 2,015,559	$ 81,668	$ -	$ 10,271,411
Revenue from the parent company and its subsidiaries	1,979,516	56,218	938,917	182,359	109,492	(3,266,502)	-
Total revenue	$ 8,048,054	$ 2,167,139	$ 933,642	$ 2,197,918	$ 191,160	($ 3,266,502)	$ 10,271,411
Department income (loss)	$ 291,428	$ 63,909	($ 45,525)	$ 349,378	($ 8,100)	$ -	$ 651,090
Interest income							41,290
Other income							18,677
Other profits and losses							(27,558)
Financial costs							(42,853)
Pre-tax profit							640,646
Income tax expense							210,226
Net profit after tax							$ 430,420
Identifiable assets	$ 7,670,232	$ 2,711,236	$ 3,981,827	$ 1,733,816	$ 403,787	($ 1,425,739)	$ 15,075,159
Non-current financial assets at fair value through other comprehensive income							60,912
Total assets							$ 15,136,071

Department income (loss) refers to the profits (losses) earned (generated) by each department, and does not include non-operating income and expenditure, as well as income tax expenses. This amount is mainly used by the primary business decision-maker for allocating resources to departments and evaluating their performance.

Furthermore, for the purpose of supervising segment performance and allocating resources to each segment, except for non-current financial assets at fair value through other comprehensive income, all assets are distributed to the department they should be reported by.

(I) Other segment information

	Depreciation and amortization	
	2020	2019
San Fang Chemical Industry Co., Ltd.	$ 414,324	$ 383,778
San Fang Development	79,661	79,164
GII	221,038	229,687
PTS	46,631	60,581
Other	12,523	13,316
	$ 774,177	$ 766,526

(II) Revenue from main products and services

Revenue from main products and services of the surviving company is analyzed below:

	2020	2019
Wet-processed synthetic leather	$ 4,703,136	$ 6,322,965
Dry-processed synthetic leather	1,944,070	2,206,301
Microfiber artificial leather	587,303	784,236
Other	1,207,247	957,909
	$ 8,441,756	$ 10,271,411

(III) Information by region

The Consolidated Entity's revenue from continuing operations of external customers is listed by the location of the customer's operations and the location of non-current assets:

	Revenue from external customers		Non-current assets	
	2020	2019	December 31, 2020	December 31, 2019
Taiwan	$ 828,038	$ 928,038	$ 4,000,877	$ 4,201,075
China and Hong Kong	1,470,370	2,415,425	339,774	407,233
Southeast Asia	5,850,215	6,850,765	1,853,387	1,993,750
Other	293,133	77,183	-	-
	$ 8,441,756	$ 10,271,411	$ 6,194,038	$ 6,602,058

Non-current assets include financial assets, deferred income tax assets, and goodwill.

(IV) Information on important customers

Individual customers that accounted for 10% and above of the Consolidated Entity's net operating revenues in 2020 and 2019 are as follows:

	2020		2019	
	Amount	As a percentage of net operating revenues (%)	Amount	As a percentage of net operating revenues (%)
Group A	$ 1,328,168	16	$ 1,803,716	18
Group B	1,128,261	13	1,226,332	12
	$ 2,456,429		$ 3,030,048	

San Fang Chemical Industry Co., Ltd. and Subsidiaries
Lending to others
From January 1 to December 31, 2020

Table1

Unit: All amounts are in thousand NTD, unless otherwise specified

No.	Lender	Borrower	General ledger account	Is it a related party	Highest balance in the current period	Closing balance	Actual amount drawn down	Interest rate range (%)	Nature of loan	Amount of transaction	Reason for short-term financing	Provision for doubtful debts	Collateral		Limit on loans granted to a single party	Limit on total lending	Remarks
													Name	Value			
1	GII	SFV	Long-term accounts receivable	Yes	$ 939,840	$ 939,840	$ 939,840	1	Short-term financing	$ -	Working capital	$ -	-	$ -	$ 3,239,546	$ 3,239,546	Note 1, Note 2, and Note 3

Note 1: Limit on lending to a single party: Lending due to business dealings may not exceed the total transaction amount in the most recent 1 year or in the current year up to the time the loan is approved. Lending to meet short-term financing needs may not exceed 10% of the company's net worth. If the Company directly or indirectly holds 100% of the overseas company's shares with voting rights, then the loan may not exceed the company's net worth.

Note 2: Limit on total lending: Total lending to a company may not exceed 40% of the company's net worth (lending due to business dealings may not exceed 30% of the company's net worth, short-term loans may not exceed 20% of the company's net worth). If the Company directly or indirectly holds 100% of the overseas company's shares with voting rights, then the loan may not exceed the company's net worth.

Note 3: Already written off when preparing the consolidated financial statements.

San Fang Chemical Industry Co., Ltd. and Subsidiaries
Providing endorsements/guarantees to others
From January 1 to December 31, 2020

Table 2

Unit: All amounts are in thousand NTD, unless otherwise specified

No.	Name of company	Entity for which the endorsement/guarantee is made		Limit on endorsements/ guarantees to a single enterprise	Maximum outstanding balance of endorsements/ guarantees during the current period	Closing balance of endorsements/ guarantees	Actual amount drawn down	Endorsed/ Guaranteed amount with property as collateral	Cumulative endorsed/ guaranteed amount as a percentage of the net worth in the most recent financial statements (%)	Maximum endorsed/ guaranteed amount	Endorsement/ Guarantee provided by parent company to subsidiary	Endorsement/ Guarantee provided by subsidiary to parent company	Endorsement/ Guarantee provided to China	Remarks
		Company name	Relationship											
0	San Fang Chemical Industry Co., Ltd.	Bestac Advanced Material Co., Ltd.	Subsidiary	$397,818	$ 50,000	$ 50,000	$ 10,000	$ -	0.60	$ 1,989,090	Y	N	N	Note 1, Note 2

Note 1: The limit on guarantee to a single enterprise is paid-in capital × 10%.
Note 2: The limit on guarantees is paid-in capital × 50%.

San Fang Chemical Industry Co., Ltd. and Subsidiaries
Detailed list of securities held at the end of period
December 31, 2020

Table 3

Unit: All amounts are in thousand NTD, unless otherwise specified

Securities held by	Type and name of security	Relationship with securities issuer	General ledger account	End of period				Remarks
				Number of shares or units	Book value	Shareholding ratio (%)	Market price (net value of equity)	
San Fang Chemical Industry Co., Ltd.	Stock							
	Yuanta Financial Holding Co., Ltd.	-	Non-current financial assets at fair value through other comprehensive income	534,834	$ 10,991	-	$ 10,991	
	Yeashin International Development Co., Ltd.	-	Non-current financial assets at fair value through other comprehensive income	1,688,042	28,190	0.48	28,190	
	Liyu Venture Capital	The Company is an institutional director of Liyu Venture Capital	Non-current financial assets at fair value through other comprehensive income	558,255	5,030	4.76	5,030	
					$ 44,211		$ 44,211	
San Fang Financial Holdings Co., Ltd.	Stock							
	Yentai Wanhua Microfibre Co., Ltd.	-	Noncurrent financial assets at fair value through profit or loss	4,000,000	$ -	8	$ -	
	Taihuangdao Fusheng Chemical and Leather-making Co., Ltd.	-	Noncurrent financial assets at fair value through profit or loss		-	7.29	-	
					$ -		$ -	
Forich Advanced Materials Co., Ltd.	Stock							
	Yeashin International Development Co., Ltd.	-	Non-current financial assets at fair value through other comprehensive income	744,684	$ 12,437	0.22	$ 12,437	

San Fang Chemical Industry Co., Ltd. and Subsidiaries
Purchase or sale of goods from or to related parties reaching NT$100 million or 20% of paid-in capital or more
From January 1 to December 31, 2020

Table 4

Unit: All amounts are in thousand NTD, unless otherwise specified

Purchaser/Seller	Counterparty	Relationship	Transaction				Differences in transaction terms compared to third party transactions		Notes/accounts receivable (payable)		Remarks
			Purchases (sales)	Amount	Percentage of total purchases (sales) (%)	Credit period	Unit price	Credit period	Balance	Percentage of total notes/accounts receivable (payable)	
San Fang Chemical Industry Co., Ltd.	PTS	Subsidiary	Sales	($ 805,274)	(12)	Open account 30-120 days	There are no general transaction terms for price comparison	The general transaction term is open account 120 days	$ 72,109	8	Note 1
	Dongguan Baoliang	Subsidiary	Sales	(502,688)	(7)	Open account 30-90 days	There are no general transaction terms for price comparison	The general transaction term is open account 60 days	69,628	8	Note 1
	Pou Chen (Group)	Parent company of investor with significant influence	Sales	(315,936)	(5)	Open account 30-90 days	General transaction terms	General transaction terms	41,571	5	-
	Yue Yuen (Group)	Investor with significant influence	Sales	(678,774)	(10)	Open account 30-90 days	General transaction terms	General transaction terms	97,274	11	-
Dongguan Baoliang	San Fang Chemical Industry Co., Ltd.	Parent company	Sales	613,866	72	Open account 30-90 days	There are no general transaction terms for price comparison	The general transaction term is open account 60 days	(75,314)	(19)	Note 1 and Note 2
	Yue Yuen (Group)	Investor with significant influence	Sales	(235,449)	(17)	Open account 30-60 days	General transaction terms	General transaction terms	38,511	24	-
PTS	San Fang Chemical Industry Co., Ltd.	Parent company	Sales	906,271	88	Open account 30-120 days	There are no general transaction terms for price comparison	The general transaction term is open account 120 days	(137,458)	(53)	Note 1 and Note 2
	Yue Yuen (Group)	Investor with significant influence	Sales	(413,945)	(26)	Open account 30-60 days	General transaction terms	General transaction terms	105,543	37	-
Forich Advanced Materials Co., Ltd.	San Fang Chemical Industry Co., Ltd.	Parent company	Sales	(114,497)	(98)	Open account 60 days	There are no general transaction terms for price comparison	General transaction terms	12,868	97	Note 1
Bestac Advanced Material Co., Ltd.	San Fang Chemical Industry Co., Ltd.	Parent company	Sales	100,493	98	Open account 120 days	There are no general transaction terms for price comparison	General transaction terms	(99,012)	(90)	Note 1 and Note 2

Note 1: Already written off when preparing the consolidated financial statements.
Note 2: Includes the amount of raw materials purchased.

San Fang Chemical Industry Co., Ltd. and Subsidiaries
Receivables from related parties reaching NT$100 million or 20% of paid-in capital or more
December 31, 2020

Table 5

Unit: All amounts are in thousand NTD, unless otherwise specified

Creditor	Counterparty	Relationship	Balance of receivables from related parties	Turnover rate	Overdue receivables from related parties		Amount of receivables from related parties collected subsequent to the balance sheet date	Provision for doubtful debts
					Amount	Action taken		
San Fang Chemical Industry Co., Ltd.	GCL	Subsidiary	$ 198,699 (Note 1 and Note 4)	-	$ -	-	$ -	$ -
	San Fang Development	Subsidiary	567,600 (Note 1 and Note 4)	-	-	-	567,600	-
	PTS	Subsidiary	137,458 (Note 2 and Note 4)	5.92	-	-	79,053	-
GII	SFV	Subsidiary	962,624 (Note 3 and Note 4)	-	-	-	783	-
PTS	Yue Yuen (Group)	Investor with significant influence	105,542	4.52	-	-	39,724	-
San Fang Development	San Fang International	Subsidiary	567,607 (Note 1 and Note 4)	-	-	-	567,607	-
GCL	GII	Subsidiary	198,697 (Note 1 and Note 4)	-	-	-	39,724	-

Note 1: Share subscriptions receivable.
Note 2: Includes NT$72,109,000 in accounts receivables and NT$65,349,000 in other receivables.
Note 3: Includes NT$939,840,000 in long-term accounts receivables and NT$22,784,000 in other receivables.
Note 4: Already written off when preparing the consolidated financial statements.

San Fang Chemical Industry Co., Ltd. and Subsidiaries
Information on the investee
From January 1 to December 31, 2020

Table 6 Unit: All amounts are in thousand NTD, unless otherwise specified

Name of investment company	Name of investee	Location	Main business items	Initial investment amount		Held at the end of period			Current profit (loss) of investee	Investment income (loss) recognized by the Company for the current period	Remarks
				End of current period	End of last year	Number of shares	Percentage (%)	Book value			
San Fang Chemical Industry Co., Ltd.	San Fang Development	British Virgin Islands	Investment	$ 687,435	$ 687,435	20,000,000	100.00	$ 1,709,387	($ 22,636)	($ 23,259)	Note 1 and Note 12
San Fang Chemical Industry Co., Ltd.	GCL	GCL	Investment	656,053	656,053	19,750,000	100.00	4,650,279	101,173	100,404	Note 1 and Note 12
San Fang Chemical Industry Co., Ltd.	San Fang Financial Holdings Co., Ltd.	British Virgin Islands	Investment	20,150	20,150	604,113	100.00	9,616	(577)	(577)	Note 12
San Fang Chemical Industry Co., Ltd.	Forich Advanced Materials Co., Ltd.	Taiwan	Manufacturing and sales of chemical products	76,985	76,985	7,698,545	100.00	97,647	5,525	5,525	Note 12
San Fang Chemical Industry Co., Ltd.	Bestac Advanced Material Co., Ltd.	Taiwan	Manufacturing and sales of chemical products	200,000	200,000	20,000,000	100.00	158,394	(46,416)	(46,416)	Note 12
San Fang Development	San Fang International	British Virgin Islands	Investment	717,696	755,496	25,200,010	100.00	964,470	(9,947)	(9,947)	Note 2 and Note 12
San Fang Development	BBH	Hong Kong	Investment	484,160	509,660	17,000,000	100.00	573,563	(4,018)	(4,018)	Note 3 and Note 12
San Fang International	MPL	British Virgin Islands	Investment	256,320	269,820	9,000,001	100.00	384,381	(640)	(640)	Note 4 and Note 12
San Fang International	GTL	British Virgin Islands	Investment	181,762	191,335	1	100.00	151,697	(16,645)	(16,645)	Note 5 and Note 12
GCL	GII	GCL	Investment	575,296	605,596	20,200,000	100.00	3,239,546	(96,165)	(96,165)	Note 6 and Note 12
GCL	JOB	GCL	Investment	1,039,449	1,094,195	36,497,500	100.00	1,421,395	197,813	197,813	Note 7 and Note 12
JOB	PTS	Indonesia	Manufacturing and sales of artificial leather, synthetic resin, and other materials	996,729	1,049,225	34,997,500	99.99	1,252,357	197,843	197,843	Note 8 and Note 12
GII	SFV	Vietnam	Material processing	256,320	269,820	-	100.00	582,616	(115,676)	(115,676)	Note 9 and Note 12
GII	PTS	Indonesia	Manufacturing and sales of artificial leather, synthetic resin, and other materials	71	75	2,500	0.01	69	197,843	-	Note 10 and Note 12

Note 1: Investment gains (losses) recognized in the current period include unrealized investment gains from upstream transactions and adjustment of unrealized sales between intra-group companies according to the buyer's tax rate.
Note 2: The original investment amount was both US$25,200,010 at the beginning and end of the current period.
Note 3: The original investment amount was both US$17,000,000 at the beginning and end of the current period.
Note 4: The original investment amount was both US$9,000,001 at the beginning and end of the current period.
Note 5: The original investment amount was both US$6,382,096 at the beginning and end of the current period.
Note 6: The original investment amount was both US$20,200,000 at the beginning and end of the current period.
Note 7: The original investment amount was both US$36,497,500 at the beginning and end of the current period.
Note 8: The original investment amount was both US$34,997,500 at the beginning and end of the current period.
Note 9: The original investment amount was both US$9,000,000 at the beginning and end of the current period.
Note 10: The original investment amount was both US$2,500 at the beginning and end of the current period.
Note 11: Please see Table 7 for information on investees in China.
Note 12: Already written off when subsidiaries were preparing the consolidated financial statements.

San Fang Chemical Industry Co., Ltd. and Subsidiaries
Information on Investments in China
From January 1 to December 31, 2020

Table 7

Unit: All amounts are in thousand NTD, unless otherwise specified

Name of investee in China	Main business items	Paid-in capital	Investment method	Accumulated investment amount remitted from Taiwan at the beginning of the period	Investment amount remitted from/to Taiwan in the current period		Accumulated investment amount remitted from Taiwan at the end of the period	Current profit (loss) of investee	Percentage of shares held directly or indirectly by the Company (%)	Investment income (loss) recognized by the Company for the current period	Closing book value of investments	Investment gains remitted back to Taiwan as of the end of the period	Remarks
					Remitted from Taiwan	Remitted back to Taiwan							
Taihuangdao Fusheng Chemical and Leather-making Co., Ltd.	Manufacturing and sales of artificial leather, synthetic resin, and other materials	$ 371,379	2	$ 33,020	$ -	$ -	$ 33,020	$ -	7.29	$ -	$ -	$ -	
Yentai Wanhua Microfibre Co., Ltd.	Production and sales of microfiber synthetic leather, PU synthetic leather, PU resin, and additives	218,050	2	21,174	-	-	21,174	-	8.00	-	-	-	
Dongguan Huangjiang Baoliang Shoe Factory	Material processing	54,970	2	62,893	-	-	62,893	-	-	-	-	-	Note 1, Note 2, and Note 4
Dongguan Baoliang Material Technology Co., Ltd.	Manufacturing and sales of artificial leather, synthetic resin, and other materials	768,960	2	-	-	-	-	(7,291)	100.00	(7,291)	869,010	-	Note 3 and Note 4

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Name of investment company	Accumulated investment amount remitted from Taiwan to China at the end of the current period	Investment amount approved by the Investment Commission, MOEA	The Company's limit on investments in China (Note 8)
San Fang Chemical Industry Co., Ltd.	$ 117,087	$ 1,075,685	$ -

Note 1: The Company reported in 2010 that Megatrade Profits Limited, its investee in the British Virgin Islands, has provided non-price setting machinery and equipment worth HKD14,966,000 to Dongguan Huangjiang Baoliang Shoes Material Factory since 1996, and gained approval from the Investment Commission, Ministry of Economic Affairs in March 2010.

Note 2: Megatrade Profits Limited holds 100% shares of Dongguan Huangjiang Baoliang Shoe Factory for its processing business, but it has not registered its shares.

Note 3: Megatrade Profits Limited (MPL) is an investee of San Fang International Co., Ltd., and then MPL invested US$3,484 thousand in cash and US$5,516 thousand in machinery to establish Dongguan Baoliang Material Technology Co., Ltd. Dongguan Baoliang acquired Dongguan Yuguo Shoe Materials Co., Ltd. in Q2 2018. San Fang International then invested US$6,182 thousand in cash in Giant Tramp Limited (GTL), and indirectly obtained 100% shares of Dongguan Yuguo in China. The Investment Commission, MOEA approved the additional investment of US$16,000 thousand in Dongguan Baoliang in October 2019.

Note 4: Investment gains and losses are recognized in the Company's financial statements that were audited by a CPA.

Note 5: Pursuant to the amendment to Article 3 of the Regulations Governing the Examination of Investment or Technical Cooperation in Mainland China, which was announced in Order Shen-Zi No. 0970460680 from the MOEA dated August 29, 2008, the Company obtained documentation of its head office's scope of business (Letter Jing-Shou-Gong-Zi No. 1072042010 dated July 19, 2018) issued by the Industrial Development Bureau, MOEA, and therefore has no limit on investments in China.

San Fang Chemical Industry Co., Ltd. and Subsidiaries
Business Relationship and Major Transactions between the Parent Company and Subsidiaries
From January 1 to December 31, 2020

Table 8

Unit: All amounts are in thousand NTD, unless otherwise specified

No.	Company name	Counterparty	Relationship	Transactions status: Item	Transactions status: Amount	Transactions status: Transaction terms	Transactions status: Percentage of consolidated total operating revenues or total assets (%)
0	San Fang Chemical Industry Co., Ltd.	Dongguan Baoliang	1	Sales revenue	$ 502,688	There are no general transaction terms for price comparison	(6.00)
0	San Fang Chemical Industry Co., Ltd.	Dongguan Baoliang	1	Accounts receivable	69,628	Open account 30-90 days	-
0	San Fang Chemical Industry Co., Ltd.	Dongguan Baoliang	1	Other receivables	5,686	Open account 30-90 days	-
0	San Fang Chemical Industry Co., Ltd.	PTS	1	Sales revenue	805,274	There are no general transaction terms for price comparison	(10.00)
0	San Fang Chemical Industry Co., Ltd.	PTS	1	Accounts receivable	72,109	Open account 30-120 days	-
0	San Fang Chemical Industry Co., Ltd.	PTS	1	Other receivables	65,349	Open account 30-120 days	-
0	San Fang Chemical Industry Co., Ltd.	Bestac Advanced Material Co., Ltd.	1	Sales revenue	71,523	There are no general transaction terms for price comparison	1.00
0	San Fang Chemical Industry Co., Ltd.	Bestac Advanced Material Co., Ltd.	1	Other income	18,616	There are no general transaction terms for price comparison	-
0	San Fang Chemical Industry Co., Ltd.	Bestac Advanced Material Co., Ltd.	1	Accounts receivable	40,365	Open account 30-120 days	-
0	San Fang Chemical Industry Co., Ltd.	Bestac Advanced Material Co., Ltd.	1	Other receivables	58,647	Open account 30-120 days	-
0	San Fang Chemical Industry Co., Ltd.	Forich Advanced Materials Co., Ltd.	1	Sales revenue	4,762	There are no general transaction terms for price comparison	-
0	San Fang Chemical Industry Co., Ltd.	Forich Advanced Materials Co., Ltd.	1	Other receivables	1,121	Open account 30-90 days	-
2	San Fang International	Dongguan Baoliang	3	Other receivables	34,367	Open account 30-90 days	-
3	GII	SFV	3	Interest income	9,623	According to the contract	-
3	GII	SFV	3	Other receivables	22,784	According to the contract	-
3	GII	SFV	3	Long-term accounts receivable	939,840	Lending, according to the contract	6.00

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				Transactions status			
No.	Company name	Counterparty	Relationship	Item	Amount	Transaction terms	Percentage of consolidated total operating revenues or total assets (%)
4	SFV	San Fang Chemical Industry Co., Ltd.	2	Revenue from processing	$ 752,319	There are no general transaction terms for price comparison	(9.00)
5	Forich Advanced Materials Co., Ltd.	San Fang Chemical Industry Co., Ltd.	2	Sales revenue	114,497	There are no general transaction terms for price comparison	(1.00)
5	Forich Advanced Materials Co., Ltd.	San Fang Chemical Industry Co., Ltd.	2	Accounts receivable	12,868	Open account 60 days	-
6	PTS	San Fang Chemical Industry Co., Ltd.	2	Sales revenue	69,633	There are no general transaction terms for price comparison	(1.00)
6	PTS	Dongguan Baoliang	3	Sales revenue	26,904	There are no general transaction terms for price comparison	-
7	Dongguan Baoliang	San Fang Chemical Industry Co., Ltd.	2	Sales revenue	47,393	There are no general transaction terms for price comparison	(1.00)
7	Dongguan Baoliang	San Fang Chemical Industry Co., Ltd.	2	Other receivables	1,711	Open account 30-90 days	-
7	Dongguan Baoliang	MPL	3	Other receivables	37,002	Open account 30-90 days	-

San Fang Chemical Industry Co., Ltd.
Information on Major Shareholders
December 31, 2020

Table 9

Name of major shareholder	Shareholding	
	Shares Held (share)	Shareholding ratio (%)
i-Tech. Sporting Enterprise Ltd.	38,980,000	9.79
Pou Chien Enterprise Co., Ltd.	38,501,504	9.67
Yue Dean Technology Corporation	37,298,876	9.37
Pou Chien Technology Co., Ltd.	36,549,118	9.18
Beevest Securities Limited under the custody of CTBC Bank	26,578,577	6.68
Mun-Jin Lin	26,239,427	6.59
Meng-Yang Lin	19,935,265	5.01

Note 1: Information on major shareholders in this table is based data from Taiwan Depository and Clearing Corporation, which calculated shareholders with 5% or more of the Company's non-physical ordinary shares on the last business day of the quarter. The share capital specified on the Company's consolidated financial statements may be different from the actual number of non-physical shares due to different calculation basis.

Note 2: If the shareholder in the data above put shares into a trust, it is listed as a separate trust account of the shareholder opened by the trustee. For shareholders who are reported as insiders in accordance with Securities and Exchange Act for holding more than 10% of shares, the shareholdings include the shares held by the shareholder plus shares placed in a trust in which the shareholder has control over trust assets. Please refer to the Market Observation Post System for data on reporting insider shareholding.

V. Financial statements of the Company for the most recent year audited by the CPA

Independent Auditor's Report

To San Fang Chemical Industry Co., Ltd.:

Audit Opinion

We have audited the balance sheet, statement of comprehensive income, statement of changes in equity, cash flow statement, and notes to financial statements (including a summary of major accounting policies) of San Fang Chemical Industry Co., Ltd. (hereinafter referred to as the "Company") for the years ended December 31, 2020 and 2019.

In our opinion, the standalone financial statements above were prepared, in all material aspects, in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and therefore are sufficient to present the financial position of the Company as at December 31, 2020 and 2019, as well as its financial performance and cash flow for the years ended December 31, 2020 and 2019.

Basis of Audit Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and generally accepted auditing standards. We will further explain our responsibilities under the regulations in the section on the independent auditor's responsibilities relating to consolidated financial statements. Personnel of our firm who are required to maintain independence according to the Code of Professional Ethics have maintained independence from the Company, and also fulfill other responsibilities set forth by the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

Key audit matters are the most important matters in the 2020 standalone financial statements of the Company determined based on our professional judgment. We have already responded to the matters in the process of auditing the standalone financial statements and forming an audit opinion, and will not express opinions on individual matters.

Key audit matters in the 2020 standalone financial statements of the Company are as follows:

Authenticity of sales revenue from specific products

According to Note 20 of the standalone financial statements, the Company's revenue is mainly from the sale of artificial leather, in which the unit price of some items had a relatively large difference from the average unit price of the product category. Hence, the default is to set the high risk according to the Statement of Auditing Standards, and the authenticity of sales revenue from above specific products was thus listed as a key audit matter.

We have carried out the following audit procedures in response to the specific aspect described in Key Audit Matters above, including:

I. Understanding and testing internal controls related to the authenticity of revenue recognition, including whether or not purchase order and delivery related internal controls are effective, and if operating revenue is recognized accordingly.

II. We conducted a sampling inspection to see if operating revenue details were consisted with finished product shipping orders and the customers and amounts on invoices, and also checked if finished product shipping orders were signed by customers or are attached with documentation of delivery, such as export customs declaration.

III. We conducted a sampling inspection to see if operating revenue details matched the amount of accounts receivables, and if the customers are the same.

Management and the Governance Department's Responsibility for the Standalone Financial Statements

The responsibility of management is to prepare fairly presented standalone financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and to maintain necessary internal controls related to the preparation of standalone financial statements, in order to ensure that the standalone financial statements are free of material misstatements, whether due to fraud or error.

When preparing the standalone financial statements, it is also the responsibility of management to evaluate the Company's ability to continue as a going concern, disclosures, and going concern basis of accounting, unless management intends to liquidate or permanently shut down the Company, or there are no feasible options other than liquidation or termination.

The governance department (including Audit Committee) of the Company is responsible for supervising the financial reporting process.

The Independent Auditor's Responsibility when Auditing the Standalone Financial Statements

The purpose for auditing the standalone financial statements is to obtain reasonable assurance about whether the standalone financial statements are free of material misstatement, whether due to fraud or error, and to issue an audit report. Reasonable assurance means high level of assurance. However, audits conducted according to generally accepted auditing standards do not guarantee the detection of material misstatements in the standalone financial statements. Material misstatements may be due to fraud or error. A misstatement is deemed material if the individual amount or total amount can be reasonably expected to affect the economic decision made by users of the standalone financial statements.

We utilized our professional judgment and maintained professional skepticism during the audit according to the generally accepted auditing standards. We also performed the following work:

I. Identified and evaluated material misstatements in the standalone financial statements, whether due to fraud or error. Designed and implemented appropriate countermeasures for the risks that we have evaluated. Obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion. Since fraud may involve conspiracy, falsification, intentional omission, false statements, or overriding internal controls, the risk of failing to detect material misstatements due to fraud is higher than the risk of failing to detect material misstatements due to error.

II. Designed appropriate audit procedures to gain necessary understanding of internal controls for the audit. However, the purpose is not to express any opinions on the effectiveness of the Company's internal controls.

III. Evaluated the appropriateness of management policies adopted by management, as well as the reasonableness of accounting estimates and related disclosures.

IV. Based on the audit evidence we obtained, we reached a conclusion on the appropriateness of management's going concern basis of accounting, and whether or not there are material uncertainties that will lead to events or situations that are cause for serious concern about the Company's ability to continue as a going concern. If we believe there are material uncertainties about such events or situations, we are required to provide a reminder in the audit report for users of the standalone financial statements to pay attention to related disclosures, or modify our audit opinion when the disclosures are inappropriate. Our conclusion is based on the audit evidence we obtained as of the the audit report date. However, future events or situations may cause the Company to no longer be able to continue as a going concern.

V. Evaluated the overall presentation, structure, and contents of the standalone financial statements (including related notes), and whether or not the standalone financial statements fairly present related transactions and events.

VI. Obtained sufficient and appropriate audit evidence of financial information on the Company, and expressed our opinion on the standalone financial statements. We are responsible for guidance, supervision, and implementation of the audit, and for forming an audit opinion on the Company.

Matters we communicated with the governance department include the scope and time of the audit, as well as major findings in the audit (including significant deficiencies in internal control identified in the audit process).

We also provided the governance department with a statement that personnel of our firm who are required to maintain independence according to the Code of Professional Ethics have maintained independence, and communicated all relationships and other matters (including related preventive measures) that may affect the independence of auditors with the governance department.

Among the matters we communicated with the governance department, we decided on key audit matters in the 2020 standalone consolidated financial statements of the Company. The matters are described in the audit report, unless they are specifically prohibited by law from being disclosed, or, under extremely rare circumstances, we decided not to disclose the matters in the audit report because the negative impact can reasonably be expected to be greater than the public benefit it will provide.

Deloitte Taiwan

CPA	CPA
Chiu-Yen Wu	Chia-Ling Chiang
Securities and Futures Commission Approval No.	Securities and Futures Commission Approval No.
Tai-Cai-Zheng(6)-Zi No. 0920123784	Tai-Cai-Zheng(6)-Zi No. 0920123784

Marhc 16, 2021

San Fang Chemical Industry Co., Ltd.
Balance Sheet
December 31, 2020 and 2019

Unit: Thousand NTD

Code	Assets	December 31, 2020 Amount	%	December 31, 2019 Amount	%
	Current assets				
1100	Cash and cash equivalents (Note 4, 6)	$ 965,233	7	$ 624,921	4
1150	Net notes receivable (Note 4, 9)	20,845	-	33,910	-
1170	Net accounts receivable (Note 4, 9)	552,500	4	564,052	4
1180	Net accounts receivable – related parties (Note 4, 9, 26)	321,289	2	374,636	3
1200	Net other receivables	20,541	-	1,969	-
1210	Other receivables - related parties (Note 26)	897,883	6	373,382	2
1220	Current income tax assets (Note 22)	23,102	-	15,079	-
130X	Inventories (Note 4, 5, 10)	1,194,504	8	1,476,489	10
1410	Advance payments (Note 26)	172,250	1	35,710	-
1479	Other current assets	7,167	-	55,310	-
11XX	Total current assets	4,175,314	28	3,555,458	23
	Non-current assets				
1517	Non-current financial assets at fair value through other comprehensive income (Note 4, 8)	44,211	-	46,874	-
1550	Investments recognized under the equity method (Note 4, 11)	6,625,323	45	7,619,812	50
1600	Property, plant and equipment (Note 4, 12, 27)	3,648,880	25	3,851,004	25
1755	Right-of-use assets (Note 4, 13)	9,932	-	15,910	-
1760	Investment properties (Note 4, 14, 27)	111,790	1	112,657	1
1801	Computer software – net (Note 4)	27,441	-	32,967	-
1840	Deferred income tax assets (Note 4, 22)	68,301	1	71,630	1
1915	Advance payments for equipment	10,464	-	17,671	-
1920	Refundable deposits	12,782	-	12,935	-
15XX	Total non-current assets	10,559,124	72	11,781,460	77
1XXX	Total assets	$ 14,734,438	100	$ 15,336,918	100

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Code	Liabilities and equity interests						
	Current liabilities						
2100	Short-term borrowing (Note 15, 27)	$	1,440,000	10	$	1,700,000	11
2110	Short-term notes and bills payable (Note 15)		49,972	1		99,988	1
2120	Financial liabilities at fair value through profit or loss – current (Note 4, 7)		4,843	-		-	-
2130	Current contract liabilities (Note 4, 20)		17,414	-		5,104	-
2170	Accounts payable (Note 16)		554,937	4		536,766	4
2180	Accounts payable - related parties (Note 16, 26)		15,651	-		499,849	3
2219	Other payables (Note 17, 26)		334,998	2		471,397	3
2230	Current income tax liabilities (Note 22)		45,135	-		-	-
2280	Current lease liabilities (Note 4, 13)		4,951	-		6,714	-
2320	Current portion of long-term liabilities (Note 15, 27)		730,000	5		536,000	4
2365	Refund liabilities - related parties (Note 26)		-	-		198,068	1
2399	Other current liabilities		41,427	-		48,872	-
21XX	Total current liabilities		3,239,328	22		4,102,758	27
	Non-current liabilities						
2540	Long-term borrowings (Note 15, 27)		2,390,000	16		1,735,000	11
2570	Deferred income tax liabilities (Note 4, 5, 22)		1,131,251	8		1,115,659	7
2580	Non-current lease liabilities (Note 4, 13)		4,990	-		9,154	-
2640	Net defined benefit liability (Note 4, 18)		92,165	1		106,684	1
2645	Guarantee deposits received		3,578	-		3,578	-
25XX	Total non-current liabilities		3,621,984	25		2,970,075	19
2XXX	Total liabilities		6,861,312	47		7,072,833	46
	Equity (Note 19)						
3110	Capital stock – common		3,978,181	27		3,978,181	26
3200	Capital surplus		142,438	1		141,101	1
	Retained earnings						
3310	Legal reserve		1,454,758	10		1,412,298	9
3320	Special reserve		504,790	3		504,790	3
3350	Undistributed earnings		2,306,787	16		2,439,395	16
3300	Total retained earnings		4,266,335	29		4,356,483	28
3400	Other equity interest		(513,828)	(4)		(211,680)	(1)
3XXX	Total equity		7,873,126	53		8,264,085	54
	Total liabilities and equity interests	$	14,734,438	100	$	15,336,918	100

The accompanying notes are an integral part of these financial statements.

（參閱勤業眾信聯合會計師事務所民國2021年3月16日查核報告）

Chairperson: Meng-Jing Lin Manager: Chih-I Lin Head of accounting: Hua-Hsing Wang

San Fang Chemical Industry Co., Ltd.
Statement of Comprehensive Income
Years ended December 31, 2020 and 2019

Unit: Thousand NTD, EPS in NTD

		2020		2019	
Code		Amount	%	Amount	%
4000	Net operating revenues (Note 4, 20, 26)	$ 6,786,846	100	$ 8,048,054	100
5000	Operating costs (Note 10, 21, 26)	5,609,712	83	6,714,007	84
5900	Operating margin	1,177,134	17	1,334,047	16
5910	Realized gains from subsidiaries	45,951	1	35	-
5950	Realized operating margin	1,223,085	18	1,334,082	16
	Operating expenses (Note 9, 21)				
6100	Selling expenses	294,424	4	363,011	5
6200	Administrative expenses	311,141	5	281,493	3
6300	Research and development expenses	263,568	4	398,114	5
6450	Expected credit impairment loss (gain)	(4,285)	-	36	-
6000	Total operating expenses	864,848	13	1,042,654	13
6900	Operating net profit	358,237	5	291,428	3
	Non-operating income and expenses (Note 21, 26)				
7100	Interest income	2,261	-	1,234	-
7010	Other income	51,230	1	11,408	-
7020	Other profits and losses	(125,208)	(2)	(22,644)	-
7050	Financial costs	(46,683)	(1)	(43,236)	(1)
7070	Share of profits (losses) of subsidiaries accounted for using equity method	35,677	1	297,382	4
7000	Total non-operating income and expenses	(82,723)	(1)	244,144	3

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Code		2020 Amount	2020 %	2019 Amount	2019 %
7900	Pre-tax profit	$ 275,514	4	$ 535,572	6
7950	Income tax expense (Note 4, 22)	57,502	1	105,152	1
8200	Net profit for the year	218,012	3	430,420	5
	Other comprehensive income				
	Components of other comprehensive income that will not be reclassified to profit or loss				
8311	Remeasurements of the net defined benefit (Note 18)	13,024	-	(6,418)	-
8316	Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income (Note 19)	(2,663)	-	7,735	-
8330	Share of other comprehensive income of subsidiaries accounted for using equity method	(1,926)	-	1,780	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss (Note 22)	(2,605)	-	1,284	-
8310		5,830	-	4,381	-
8360	Components of other comprehensive income that will be reclassified to profit or loss				
8380	Share of other comprehensive income of subsidiaries accounted for using equity method (Note 19)	(297,884)	(4)	(189,493)	(2)
8300	Other consolidated income (net income after tax)	(292,054)	(4)	(185,112)	(2)
8500	Total comprehensive income	($ 74,042)	(1)	$ 245,308	3
	EPS (Note 23)				
9710	Basic	$ 0.55		$ 1.08	
9810	Diluted	$ 0.55		$ 1.08	

The accompanying notes are an integral part of these financial statements.

（參閱勤業眾信聯合會計師事務所民國 2021 年 3 月 16 日查核報告）

Chairperson: Meng-Jing Lin Manager: Chih-I Lin Head of accounting: Hua-Hsing Wang

San Fang Chemical Industry Co., Ltd.
Statement of Changes in Equity
Years ended December 31, 2020 and 2019

Unit: Thousand NTD, dividend per share is in NTD

Code		Capital stock – common	Capital surplus	Retained earnings: Legal reserve	Retained earnings: Special reserve	Retained earnings: Undistributed earnings	Other equity interests: Exchange differences arising from the translation of the financial statements of foreign operations	Other equity interests: Unrealized gains (losses) on financial instruments measured at fair value through other comprehensive income	Other equity interests: Subtotal	Total equity
A1	Balance as at January 1, 2019	$ 3,978,181	$ 140,028	$ 1,382,005	$ 504,790	$ 2,243,989	($ 37,272)	$ 4,892	($ 32,380)	$ 8,216,613
	Appropriation and distribution of 2018 earnings (Note 19)									
B1	Legal reserve	-	-	30,293	-	(30,293)	-	-	-	-
B5	Cash dividend – NT$0.5 per share	-	-	-	-	(198,909)	-	-	-	(198,909)
		-	-	30,293	-	(229,202)	-	-	-	(198,909)
C17	Dividends not collected by shareholders before the deadline	-	1,073	-	-	-	-	-	-	1,073
D1	Net profit - 2019	-	-	-	-	430,420	-	-	-	430,420
D3	Other comprehensive income after tax - 2019	-	-	-	-	(5,812)	(189,493)	10,193	(179,300)	(185,112)
D5	Total comprehensive income - 2019	-	-	-	-	424,608	(189,493)	10,193	(179,300)	245,308
Z1	Balance as at December 31, 2019	3,978,181	141,101	1,412,298	504,790	2,439,395	(226,765)	15,085	(211,680)	8,264,085
	Appropriation and distribution of 2019 earnings (Note 19)									
B1	Legal reserve	-	-	42,460	-	(42,460)	-	-	-	-
B5	Cash dividend – NT$0.8 per share	-	-	-	-	(318,254)	-	-	-	(318,254)
		-	-	42,460	-	(360,714)	-	-	-	(318,254)
C17	Dividends not collected by shareholders before the deadline	-	1,337	-	-	-	-	-	-	1,337
D1	Net profit - 2020	-	-	-	-	218,012	-	-	-	218,012
D3	Other comprehensive income after tax - 2020	-	-	-	-	10,094	(297,884)	(4,264)	(302,148)	(292,054)
D5	Total comprehensive income - 2020	-	-	-	-	228,106	(297,884)	(4,264)	(302,148)	(74,042)
Z1	Balance as at December 31, 2020	$ 3,978,181	$ 142,438	$ 1,454,758	$ 504,790	$ 2,306,787	($ 524,649)	$ 10,821	($ 513,828)	$ 7,873,126

The accompanying notes are an integral part of these financial statements.

（參閱勤業眾信聯合會計師事務所民國 2021 年 3 月 16 日查核報告）

Chairperson: Meng-Jing Lin Manager: Chih-I Lin Head of accounting: Hua-Hsing Wang

San Fang Chemical Industry Co., Ltd.

Cash Flow Statement

Years ended December 31, 2020 and 2019

Unit: Thousand NTD

Code		2020	2019
	Cash flow from operating activities		
A10000	Net profit before tax	$ 275,514	$ 535,572
A20010	Revenues and expenses		
A20100	Depreciation expense	406,443	390,909
A20200	Amortization expense	7,881	4,088
A20300	Expected credit impairment loss (gain)	(4,285)	36
A20400	Net losses (gains) on financial liabilities at fair value through profit or loss	4,784	(201)
A20900	Financial costs	46,683	43,236
A21200	Interest income	(2,261)	(1,234)
A21300	Dividend income	(334)	(3,839)
A22400	Share of profits (losses) of subsidiaries accounted for using equity method	(35,677)	(297,382)
A22500	Net losses (gains) on disposal of property, plant and equipment	27,162	(4,560)
A24100	Realized gains from subsidiaries	(45,951)	(35)
A29900	Loss on physical inventory	7,203	10,014
A29900	Loss on inventory devaluation	26,024	54,148
A29900	Other	-	3
A30000	Net changes in operating assets and liabilities		
A31130	Notes receivable	13,065	44,031
A31150	Accounts receivable	15,837	28,176
A31160	Accounts receivable – related parties	53,347	259,611
A31180	Other receivables	(8,949)	3,570
A31190	Other receivables - related parties	241,798	45,358
A31200	Inventories	248,758	(13,908)
A31230	Advance payments	(136,540)	(13,517)
A31240	Other current assets	48,143	(6,748)
A32110	Financial liabilities held for trading	59	201
A32125	Contract liabilities	12,310	5,104
A32150	Accounts payable	18,171	(56,684)
A32160	Accounts payable - related parties	(484,198)	369
A32180	Other payables	(91,409)	25,905
A32230	Refund liabilities - related parties	(198,068)	(4,856)
A32230	Other current liabilities	(7,445)	24,322

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Code		2020	2019
A32240	Net defined benefit liability	($ 1,495)	($ 247)
A33000	Cash generated from operating activities	436,570	1,071,442
A33100	Interest received	2,261	1,234
A33200	Dividend received	10,342	3,839
A33300	Interest paid	(47,121)	(45,089)
A33500	Income tax paid	(4,074)	(158,605)
AAAA	Net cash inflow from operating activities	397,978	872,821
	Cash flow from investing activities		
B02700	Acquisition of property, plant and equipment	(275,625)	(505,195)
B02800	Proceeds from disposal of property, plant and equipment	4,999	19,102
B03800	Decrease in refundable deposits	153	3
B04500	Acquisition of intangible assets	(2,355)	(34,310)
BBBB	Net cash outflow from investing activities	(272,828)	(520,400)
	Cash flow from financing activities		
C00100	Decrease in short-term borrowings	(260,000)	(528,940)
C00500	Decrease in short-term notes and bills payable	(50,000)	-
C01600	Increase in long-term borrowing	1,470,000	900,000
C01700	Repayment of long-term borrowing	(621,000)	(231,000)
C03000	Increase in guarantee deposits	-	1,636
C04020	Repayments of lease liabilities	(6,921)	(6,779)
C04500	Distribution of cash dividends	(318,254)	(198,909)
C09900	Returned unclaimed dividends	1,337	1,073
CCCC	Net cash inflow (outflow) from financing activities	215,162	(62,919)
EEEE	Net increase in cash and cash equivalents	340,312	289,502
E00100	Cash and cash equivalents at beginning of period	624,921	335,419
E00200	Cash and cash equivalents at end of period	$ 965,233	$ 624,921

The accompanying notes are an integral part of these financial statements.

（參閱勤業眾信聯合會計師事務所民國2021年3月16日查核報告）

Chairperson: Meng-Jing Lin Manager: Chih-I Lin Head of accounting: Hua-Hsing Wang

San Fang Chemical Industry Co., Ltd.
Notes to Financial Statements
Years ended December 31, 2020 and 2019
(All amounts are in thousand NTD, unless otherwise specified)

I. Company History

San Fang Chemical Industry Co., Ltd. (hereinafter referred to as the "Company") was established in June 1973, and main business items include the manufacturing and sales of artificial leather, synthetic resin, and other materials.

The Company was approved to be listed on the Taiwan Stock Exchange in November 1985.

The standalone financial statements are presented in the Company's functional currency NTD.

II. The Authorization of Financial Statements

The standalone financial statements were approved by the Board of Directors on March 16, 2021.

III. Application of New Standards, Amendments, and Interpretations

(I) Application of the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations, and SIC Interpretations (hereinafter collectively referred to as the "IFRSs") as endorsed and announced by the Financial Supervisory Commission (hereinafter referred to as the " FSC") for the first time

The application of the IFRSs endorsed and announced by the FSC will not result in any major changes to the Company's accounting policy.

(II) Application of the IFRSs as endorsed by the FSC in 2021

New, Revised or Amended Standards and Interpretations	Effective date of the IASB
Extension of the temporary exemption from applying IFRS 9 (amendments to IFRS 4)	Effective on the date of announcement
Interest rate benchmark reform – Phase 2 (amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16)	Effective at the beginning of the annual reporting period after January 1, 2021
Leases regarding COVID-19-related rent concessions (amendment to IFRS 16)	Effective at the beginning of the annual reporting period after June 1, 2020

As of the date the standalone financial statements were passed, the Company has determined that the abovementioned amendments to standards and interpretations will not have a material impact on its financial position and financial performance.

(III) New standards, interpretations, and amendments were issued by IASB but not yet included in the IFRSs as endorsed and announced by the FSC

New, Revised or Amended Standards and Interpretations	Effective date of the IASB (Note 1)
"Annual Improvements to IFRSs 2018-2020 Cycle"	January 1, 2022 (Note 2)
Amendments to references to the conceptual framework (amendments to IFRS 3)	January 1, 2022 (Note 3)
Sale or contribution of assets between an investor and its associate or joint venture (amendments to IFRS 10 and IAS 28)	Not determined
IFRS 17 Insurance Contracts	January 1, 2023
Amendments to IFRS 17	January 1, 2023
Classification of Liabilities as Current or Non-current (Amendments to IAS 1)	January 1, 2023
Disclosure of Accounting Policies (Amendments to IAS 1)	January 1, 2023 (Note 6)
Definition of Accounting Estimates (Amendments to IAS 8)	January 1, 2023 (Note 7)
Property, Plant and Equipment: Proceeds before Intended Use (Amendments IAS 16)	January 1, 2022 (Note 4)
Onerous Contracts—Cost of Fulfilling a Contract (Amendments to IAS 37)	January 1, 2022 (Note 5)

Note 1: Unless otherwise specified, the new, revised or amended standards and interpretations are effective at the beginning of the annual reporting period after the dates above.

Note 2: The amendment to IFRS 9 is applicable to the exchange or revision of clauses for financial liabilities that occur in the annual reporting period beginning after January 1, 2022. The amendment to IAS 41 Agriculture is applicable to fair value measurement in the annual reporting period beginning after January 1, 2022. The amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards is applicable to the annual reporting period beginning after January 1, 2022.

Note 3: The amendment to acquisition date is applicable to mergers during annual reporting periods that begin after January 1, 2022.

Note 4: The amendment is applicable to property, plant and equipment that reach the required location and status expected by management after January 1, 2021.

Note 5: The amendment is applicable to contracts that have not been fully performed as of January 1, 2022.

Note 6: Prospective application of the amendment in the annual reporting period starting after January 1, 2023.

Note 7: The amendment is applicable to changes in accounting estimates that occur after the beginning of the annual reporting period after January 1, 2023.

As of the date the standalone financial statements were passed, the Company has determined that other amendments to standards and interpretations will not have a material impact on its financial position and financial performance.

IV. Summary on Significant Accounting Policies

(I) Statement of compliance

The consolidated financial statements were prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers."

(II) Basis of preparation

Except for financial instruments measured at fair value and net defined benefit liability recognized at defined benefit liabilities less fair value of assets of the defined benefit plans, these standalone financial statements have been prepared based on historical cost.

Fair value measurement can be divided into levels 1 to 3 based on the observability and importance of input values:

1. Level 1 input values: Refers to quoted prices (unadjusted) in active markets for identical assets or liabilities on the measurement date.
2. Level 2 input values: Refers to directly (i.e., prices) or indirectly (i.e., derived from prices) observable input values of assets or liabilities other than level 1 quoted prices.
3. Level 3 input values: Refers to unobservable input values of assets or liabilities.

The Company used the equity method for subsidiaries when preparing the standalone financial statements. For profit/loss, other comprehensive income, and equity in the current year in the standalone financial statements to match the profit/loss, other comprehensive income, and equity attributable to owners of the Company in the consolidated financial statements, "investments recognized under the equity method," "share of profits/losses of subsidiaries under the equity method," "share of other comprehensive income of subsidiaries under the equity method," and related equity items were adjusted for several accounting differences between the standalone and consolidated basis.

(III) Classification of current and non-current assets and liabilities

Current assets include:

1. Assets that are held mainly for trading purposes;
2. Assets that are expected to be realized within twelve months from the balance sheet date; and

3. Cash (except those that are restricted as they will be swapped or used to repay liabilities more than 12 months after the balance sheet date)

Current liabilities include:

1. Liabilities that are held mainly for trading purposes;
2. Liabilities that are to be paid off within twelve months from the balance sheet date; and
3. Liabilities for which the repayment term cannot be extended unconditionally beyond 12 months after the balance sheet date.

Assets and liabilities that are not classified as current assets or current liabilities above are classified as non-current assets or non-current liabilities.

(IV) Foreign currencies

When the Company was preparing the standalone financial statements, transactions denominated in currencies other than the functional currency (i.e., foreign currencies) are recorded after conversion into the functional currency using the exchange rate on the transaction date.

Foreign currency-denominated monetary items are converted by using the closing rate on each balance sheet date. The currency translation difference resulting from settlement or conversion of monetary items is recognized as income or loss in the current period.

Foreign currency-denominated non-monetary items carried at fair value are converted at exchange rates on the date of fair value measurement. Currency translation differences are also recognized in current profit or loss; for items that have fair value changes recognized in other comprehensive income, currency translation differences are recognized in other comprehensive income.

Foreign currency-denominated non-monetary items carried at historical costs are converted on the transaction date and are not re-converted.

When preparing the standalone financial statements, assets and liabilities of overseas operations (including country of operations and subsidiaries that use different currencies than the Company) are converted to NTD using the exchange rate on each balance sheet date. Revenues and expenses/losses are converted using average exchange rate of the current period, with currency translation differences recognized in other comprehensive income.

(V) Inventories

Inventory includes raw materials, other materials, work in process, and finished goods. Inventories are measured at cost and net realizable value, whichever is lower. Unless the inventories are in the same category, the cost and net realizable value is compared for each individual item. Net realizable value is the estimated selling price under normal circumstances, less the estimated cost of completion and expenses for selling. Inventories are usually calculated at standard cost, and then adjusted to its weighted average cost when settling accounts.

(VI) Investment subsidiary

The Company handles investments in subsidiaries using the equity method. A subsidiary refers to an entity in which the Company exercises control.

Under the equity method, investments are originally recognized at cost, and then its book value increases or decreses along with the Company's share of profits, losses and other comprehensive income of subsidiaries and profit distribution. Furthermore, changes to other equity interests of subsidiaries are recognized according to the Company's shareholding ratio.

Changes in the Company's ownership interest in a subsidiary that do not result in the loss of control over the subsidiary are regarding as equity transactions. The difference between the book value of investments and the fair value of the consideration paid or received is directly recognized in equity.

Unrealized gains from downstream transactions between the Company and subsidiaries are eliminated from the standalone financial statements. Gains/losses arising from upstream transactions between the Company and subsidiaries and transactions among subsidiaries were not within the scope of control exercised by the Company over subsidiaries, and were thus recognized in the standalone financial statements.

(VII) Property, plant and equipment

Property, plant and equipment are recognized at cost after accumulated depreciation.

Property, plant and equipment under construction are recognized at cost after accumulated impairment losses. Costs include professional service fees and borrowing costs that meet the conditions for capitalization. When assets are completed and reach the expected state of use, they are classified to a suitable category under property, plant and equipment, and depreciation expenses are recognized.

Depreciation is not recognized for self-owned land

Depreciation is separately recognized for each major part of property, plant and equipment on a straight line basis over its useful life. The Company reviews methods for estimating useful life in years, residual value, and depreciation, at a minimum, on the last day of each year, as well as the effect of prospective application of changes to accounting estimates.

When derecognizing property, plant and equipment, the difference between net disposal proceeds and the book value is recognized as gains or losses.

(VIII) Investment properties

Investment properties are real estate properties held for rental income or capital gain, or both.

Self-owned investment property is initially measured at cost (including transaction cost), and is subsequently measured at cost less accumulated depreciation and accumulated impairment loss. Depreciation of investment property is recognized on a straight-line basis.

When real estate properties under property, plant and equipment is no longer for self-use, its book value is transferred to investment property.

When derecognizing investment property, the difference between net disposal proceeds and the book value is recognized as gains or losses.

(IX) Intangible assets

1. Independently acquired

Independently acquired intangible assets (i.e., computer software) with a limited useful life is initially measured at cost, and subsequently measured at cost less accumulated amortization. Intangible assets are amortized on a straight-line basis during their useful life. The Company reviews methods for estimating useful life in years, residual value, and amortization, at a minimum, on the last day of each year, as well as the effect of prospective application of changes to accounting estimates.

2. Internal production – R&D expenses

Research expenses are recognized as expenses when incurred.

3. Derecognition

When derecognizing intangible assets, the difference between net disposal proceeds and the book value is recognized as gains or losses in the current period.

(X) Impairment of property, plant and equipment, right-of-use assets, and intangible assets

The Company evaluates if there are any signs of impairment of property, plant and equipment, right-of-use assets, and intangible assets on each balance sheet date. If any signs of impairment exist, then estimate the asset's recoverable amount. If the recoverable amount cannot be estimated on an individual basis, the Company will instead estimate recoverable amounts for the entire cash-generating unit. Depreciation of corporate assets is allocated to the smallest identifiable cash-generating group with a reasonable and consistent basis.

Recoverable amounts are determined as the higher of "fair value less cost to sell" or the "utilization value." If the recoverable amount of an individual asset or cash-generating unit is expected to be lower than its book value, the Company will reduce the book value of the asset or cash-generating unit down to the recoverable amount and recognize impairment loss.

When impairment losses are reversed, the book value of the asset, cash-generating unit, or contract cost related asset is increased to the revised recoverable amount. However, the increased book value may not exceed the asset, cash-generating unit, or contract cost related asset's book value in the previous year before impairment loss was recognized (less depreciation and amortization). Reversal of impairment losses is listed in income.

(XI) Financial instruments

When the Company is a party to the contract, financial assets and financial liabilities are recognized in the standalone balance sheet.

If financial assets and financial liabilities being recognized for the first time are not measured at fair value through profit or loss, then they are measured at fair value plus transaction costs that can be directly attributed to the acquisition or issuance of financial assets or financial liabilities. Transaction costs that can be directly attributed to the acquisition or issuance of financial assets or financial liabilities are immediately recognized as profit or loss.

1. Financial assets

Regular transactions of financial assets are recognized and derecognized using transaction date accounting.

(1) Type of measurement

Financial assets held by the Company include financial assets at fair value through profit or loss, financial assets at amortized cost, and equity instruments measured at fair value through other comprehensive income.

A. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets for which the fair value is required to be measured through profit or loss.

For "financial assets at fair value through profit or loss," any profit or loss from the remeasurement of fair value is listed in income.

B. Financial assets at amortized cost

Financial assets that the Company invests in are classified as financial assets at amortized cost if they meet both of the conditions as below:

a. Held under a certain business model that aims to collect cash flow from the financial asset; and

b. The contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After recognizing financial assets at amortized cost (including cash and cash equivalents, notes and accounts receivable at amortized cost, other receivables, and refundable deposits), they are measured at book value determined using the effective interest rate method less any impairment losses. Any foreign exchange gains/losses are recognized in profit and loss. Interest income is calculated by multiplying the effective interest rate with the financial asset's total book value.

Cash equivalents include highly liquid time deposits and bonds issued under repurchase agreement that can be converted into a specific amount of cash with low risk of value change within 3 months after being acquired. Cash equivalents are used to meet short-term cash commitments.

Credit-impaired financial assets mean that the debtor has encountered major financial difficulties, defaulted, may most likely declare bankruptcy or other financial restructuring, or an active market for the financial asset has disappeared due to financial difficulties.

C. Investments in equity instruments measured at fair value through other comprehensive income

The Company could make an irreversible decision during initial recognition to measure equity instruments, which are not held for trading and not recognized from mergers and acquisitions, at fair value through other comprehensive income.

Investments in equity instruments measured at fair value through other comprehensive income are measured at fair value, and subsequent changes to fair value are listed in other comprehensive income and accumulated in other equity. When disposing of investments, accumulated gains is directly transferred to retained earnings and not reclassified as income.

Dividends from equity instruments measured at fair value through other comprehensive income are recognized in income when the Company is determined to have the right to receive the dividends, unless the dividends clearly represent the recovery of partial investment costs.

(2) Impairment of financial assets

The Company evaluates the impairment loss of financial assets at amortized cost (including accounts receivable) using ECL on each balance sheet date.

A loss provision is recognized for lifetime ECL for accounts receivables. For other financial assets, whether or not credit risk has significantly increased after the financial asset was recognized is first evaluated. If it has not significantly increased, then a loss provision is recognized for 12-month ECL. If it has significantly increased, then a loss provision is recognized for lifetime ECL.

ECL is the weighted average credit loss using the risk of default as weights. 12-Month ECL is the ECL from potential default on the financial instrument within 12 months after the reporting date. Lifetime ECL is the ECL from potential default during the expected lifetime of the financial instrument.

For the purpose of internal credit risk management, the Company may deem a financial asset to be in default in the event of any one of the following situations without considering collateral:

A. There is internal or external information showing that the debtor is no longer able to repay deb ts.
B. More than 180 days late, unless there is reasonable information with evidence supporting that it is better to extend the deadline for determining default.

The impairment loss on all financial assets is recognized by lowering the book value of the loss provision.

(3) Derecognition of financial assets

The Company derecognizes financial assets when the contractual rights to the cash inflow from the financial asset are terminated or when the Company transfers the financial assets with substantially all the risks and rewards of ownership to other enterprises.

When derecognizing a financial asset at amortized cost, the difference between book value and consideration received is recognized in gains or losses. When derecognizing investments in equity instruments at fair value through other comprehensive income, accumulated gains is directly transferred to retained earnings and not reclassified as income.

2. Equity instruments

Equity instruments issued by the Company are recognized at the price amount obtained less the direct flotation costs.

3. Financial liabilities

(1) Subsequent measurement

Financial liabilities are measured at amortized cost using the effective interest rate method.

(2) Derecognition of financial liabilities

When a financial liability is derecognized, any difference between its carrying amount and the paid consideration (including any transferred non-cash assets or liabilities assumed) is recognized in income or loss.

4. Derivatives

Contracts for derivatives signed by the Company include contracts for the purchase of foreign exchange options and FX swaps, and are used to manage the risk of Company's foreign exchange.

When a contract is signed for derivatives, the derivatives are initially recognized at fair value, and then remeasured at fair value on the balance sheet date. Any gains or losses from the remeasurement are directly listed in income or loss. For derivatives that are designated as effective hedging tools, however, the time point for recognizing income or loss will be determined based on the nature of the hedging relationship. Derivatives are listed as financial assets when their fair value is positive; Derivatives are listed as financial liabilities when their fair value is negative.

(XII) Revenue recognition

After the Company identifies its contractual obligations with each customer, it allocates the transaction price to each contractual obligation, and then recognizes revenue when each contractual obligation is fulfilled.

1. Income from sale of merchandise

   Income from sale of merchandise comes from the sale of synthetic leather, etc. According to the contract, when synthetic leather is delivered to customers, customers have the right to set prices and use the products, and bear the responsibility of resales and risk of products becoming obsolete. The Company recognizes accounts receivable upon delivery. Unearned revenues from sale of goods is recognized as contract liabilities.

2. Service revenue

   Service revenues from leather processing for customers are recognized when the provision of services is completed.

(XIII) Lease

On the date a contract is formed, the Company evaluates if the contract is (or includes) a lease.

1. Where the Company is the lessor

   A lease arrangement is classified as a finance lease if the terms involve a transfer of virtually all risks and returns associated with ownership to the lessee. All other lease arrangements are classified as operating lease.

   When the Company is sub-leasing right-of-use assets, the sub-lease category is determined based on the right-of-use asset (and not the underlying asset). However, if the primary lease is a short-term lease that the Company is exempted from recognition, then the sub-lease is classified as an operating lease.

   Under an operating lease arrangement, the proceeds received are recognized as income on a straight-line basis over the lease tenor.

2. Where the Company is the lessee

   Except for low value asset leases and short-term leases, for which lease payments are recognized as expenses on a straight-line basis over the lease tenor, other leases are all recognized as right-of-use assets and lease liabilities from the start date of the lease.

   Right-of-use assets are initially measured at cost, and are subsequently measured at cost less accumulated depreciation and accumulated impairment loss, with adjustments made to the remeasurement of lease liabilities. Right-of-use assets are independently presented in the standalone balance sheet.

Depreciation of right-of-use assets is recognized on a straight-line basis from the start date of the lease until the expiry of its useful life or lease tenor, whichever is earlier.

Lease liabilities are initially measured at the present value of lease payments. If the interest rate implicit in a lease is easy to determine, then lease payments will be discounted using the interest rate. If the interest rate is not easy to determine, then the lessee's incremental borrowing rate of interest is used.

In subsequent periods, lease liabilities are measured at amortized cost using the effective interest rate method, and interest expense is recognized during the lease term. Lease liabilities are independently presented in the standalone balance sheet.

(XIV) Borrowing costs

Borrowing costs that can be directly attributed to the acquisition, construction, or production of qualified assets shall be recognized as a part of asset costs, until almost all necessary activities for the asset to reach its expected state of use or sale.

If a specific loan is used for a temporary investment and obtains investment gains before a qualified capital expenditure occurs, the gains shall be deducted from borrowing costs that qualify for capitalization.

All other borrowing costs are recognized as losses in the period they occur.

(XV) Government subsidies

Government grants shall not be recognized until there is reasonable assurance that the Company will comply with the attached conditions and that the grants will be received.

If income-related government subsidies are provided in the period that the costs they intend to cover are recognized by the Company as expenses, they are systematically recognized by reducing of the related costs or recognized in other income.

If the government subsidies are compensation for expenses or losses that have already occurred, or aim to provide the Company with immediate financial support and do not have any related costs in the future, then they are recognized as income in the period they are received.

(XVI) Employee benefits

1. Short-term employee benefits

Short-term employee benefits-related liabilities are measured at the undiscounted amount of the benefits expected to be paid in exchange for employee services.

2. Post-employment benefit

For defined contribution plans, pension contributions made by the Company over the course of employment are listed as expenses; net defined benefit liability is the deficit of contributions to defined benefit plans.

The cost of defined benefits (including service cost, net interest, and number of remeasurement) for defined benefit plans is calculated using the projected unit credit method. Service costs (including service costs in the current period) and net interest accrued on net defined benefit liabilities (assets) are recognized as employee benefit expenses when they occur. The number of remeasurement (including calculation of income and losses, changes in asset limit effects, return on assets of the plans less interest) is recognized in other comprehensive income when it occurs and listed in retained earnings, and is not reclassified to profit or loss.

(XVII) Income tax

Income tax expense is the sum of current income tax and deferred income tax.

1. Current income tax

Income tax on undistributed earnings is calculated in accordance with the Income Tax Act of the R.O.C. and recognized in the year resolution is adopted by the shareholders' meeting.

An adjustment to the income tax payable in the previous year is listed as the current income tax.

2. Deferred income tax

Deferred income tax is calculated based on the temporary difference between the book value of assets and liabilities on the standalone financial statements from the taxable income that was calculated.

Deferred income tax liabilities are generally recognized based on the taxable temporary difference, and deferred income tax assets are recognized when there is likely to be taxable income to offset the temporary difference.

Taxable temporary differences relating to subsidiaries are recognized as deferred income tax liabilities, except in cases where the Company is able to control the timing of which temporary differences are reversed, and that such temporary differences are highly unlikely to reverse in the foreseeable future. Deductible temporary differences relating to these investments and equity are recognized as deferred income tax assets only to the extent that sufficient taxable income can be earned to offset the temporary differences, and that reversal is expected to occur in the foreseeable future.

The book value of deferred income tax assets is reexamined on each balance sheet date, and the book value is reduced if it is not very likely there will be sufficient taxable income to recover all or a part of the assets. Those that were not recognized as deferred income tax assets are also reexamined on each balance sheet date, and the book value is increased if it is very likely there will be sufficient taxable income to recover all or a part of the assets.

Deferred income tax assets and liabilities are measured using the tax rate in the period in which liabilities are expected to be paid off or assets are expected to be realized. The tax rate is based on the tax rate and tax law that has been enacted or substantially enacted on the balance sheet date. The measurement of deferred income tax liabilities and assets reflects on the tax effects of the consequences of the Company expects to recover or pay off the book value of its assets or liabilities on the balance sheet date.

3. Current and deferred income tax

Current and deferred income tax are recognized in profit or loss, except for items that are bound to be recognized under other comprehensive income or directly as other equity items.

V. Significant Accounting Judgments, Estimates and Main Uncertainty Assumptions

When the Company adopts an accounting policy, management must make judgments, estimates, and assumptions based on historical experience and other factors for information that is difficult to obtain from other sources. Actual results might be different from estimates.

The Company took into the consideration the economic impact caused by COVID-19 into its major accounting estimates, and management will continue to examine the estimates and basic assumptions. If the adjustment to estimates only affects the current period, then the adjustment is recognized in the current period. If the adjustment to estimates affects the current period and future periods, then the adjustment is recognized in the current period and future periods.

(I) Income tax

With regard to taxable temporary differences related to investments in subsidiaries that were not recognized as deferred income tax liabilities, the effect on income tax was NT$473,349,000 and NT$549,643,000 for the years ended December 31, 2020 and 2019, respectively. If the taxable temporary difference is reversed in the future, it may result in major income tax liabilities, which are recognized as income tax expenses during the period that reversal occurs.

(II) Inventory impairments

Net realizable value of inventory is the estimated selling price during normal business operations, less the estimated cost of completion and selling expenses. The estimates are made based on the current market situation and previous sales experience of similar products. Changes in the market situation may have a material impact on the estimates.

VI. Cash and cash equivalents

	December 31, 2020	December 31, 2019
Cash on hand and working capital	$ 815	$ 709
Bank check and demand deposits	908,594	624,212
Cash equivalents		
Time deposits within 3 months of its original maturity date	13,104	-
Bonds issued under repurchase agreement	42,720	-
	$ 965,233	$ 624,921

VII. Financial instruments at fair value through profit or loss – Only December 31, 2020

Financial liabilities at fair value through profit or loss	Amount
Financial liabilities held for trading	
Derivatives (not designated for hedging)	
Foreign exchange (FX) swaps	$ 4,843

The Company mainly engages in FX options and swaps to avoid the risk of exchange rate fluctuations to foreign currency-denominated assets and liabilities. See Note 21 for details on the profit or loss from financial instruments at fair value through profit or loss.

FX swaps that did not use hedge accounting and have not matured as of the balance sheet date are as follows:

	Currency	Maturity date	Contract Amount
December 31, 2020			
Foreign exchange (FX) swaps	NTD to USD	2021.03.10	TWD147,350/USD5,000

VIII. Non-current financial assets at fair value through other comprehensive income

Investments in equity instruments measured at fair value through other comprehensive income	December 31, 2020	December 31, 2019
Listed stock in Taiwan	$ 39,181	$ 42,207
Unlisted stock in Taiwan	5,030	4,667
	$ 44,211	$ 46,874

IX. Notes and accounts receivable

	December 31, 2020	December 31, 2019
Notes receivable – unrelated parties		
Measured at amortized cost		
Total book value	$ 20,845	$ 33,910
Accounts receivable – unrelated parties		
Measured at amortized cost		
Total book value	$ 557,409	$ 573,246
Less: Loss provision	4,909	9,194
	$ 552,500	$ 564,052
Accounts receivable – related parties		
Measured at amortized cost		
Total book value	$ 321,289	$ 374,636

The Company's average credit period for sale of goods is open account 30-60 days. Designated personnel of the Company are responsible for deciding the credit limit, approval, and other monitoring procedures to mitigate credit risk and ensure that appropriate action has been taken to recover overdue receivables. Furthermore, the Company will verify the recoverable amount of all receivables on the balance sheet date to ensure that unrecoverable receivables already properly listed as impairment losses. On this basis, management of the Company believes that its credit risk has decreased significantly.

The Company recognizes a loss provision for lifetime ECLs for accounts receivables. Lifetime ECL takes into consideration the customer's previous default record, current financial position, and industrial and economic trends. Past experience of the Company relating to credit loss showed no significant difference in loss patterns between different customer groups. Hence, customers are not further divided into groups, and expected credit loss rate is only set by the number of days receivables are overdue.

The Company measures the loss provision for receivables as follows:

2020

	Not past due	1-90 days late	91-180 days late	181-360 days late	More than 361 days late	Total
Expected credit loss rate (%)	0.5	0.5	1	10	100	
Total book value	$ 766,319	$ 133,111	$ 27	$ -	$ 86	$ 899,543
Loss provision (lifetime ECL)	(4,153)	(669)	(1)	-	(86)	(4,909)
Amortized cost	$ 762,166	$ 132,442	$ 26	$ -	$ -	$ 894,634

2019

	Not past due	1-90 days late	91-180 days late	181-360 days late	More than 361 days late	Total
Expected credit loss rate (%)	0.5	0.5	1	10	100	
Total book value	$ 864,628	$ 111,100	$ 702	$ 2,239	$ 3,123	$ 981,792
Loss provision (lifetime ECL)	(4,987)	(838)	(8)	(238)	(3,123)	(9,194)
Amortized cost	$ 859,641	$ 110,262	$ 694	$ 2,001	$ -	$ 972,598

Information on changes to loss provision for receivables is as follows:

	2020	2019
Opening balance	$ 9,194	$ 9,158
Plus: Impairment loss recognized (reversed) in the current year	(4,285)	36
Closing balance	$ 4,909	$ 9,194

X. Inventories

	December 31, 2020	December 31, 2019
Raw materials	$ 589,114	$ 754,118
Supplies	15,494	14,534
Work in process	372,175	475,857
Finished goods	123,567	136,958
Inventory in transit	94,154	95,022
	$ 1,194,504	$ 1,476,489

Losses on inventory devaluation which recognized as deduction of cost for the years ended December 31, 2020 and 2019 were NT$174,255,000 and NT$148,231,000, respectively.

Inventory-related operating costs amounted to NT$5,609,712,000 in 2020 and NT$6,714,007,000 in 2019, including:

	2020	2019
Loss on physical inventory	$ 7,203	$ 10,014
Recognized loss on inventory devaluation	26,024	54,148
Income from sale of scraps	(20,355)	(26,418)
	$ 12,872	$ 37,744

XI. Investments recognized under the equity method

Investment subsidiary

	December 31, 2020		December 31, 2019	
	Amount	Shareholding ratio (%)	Amount	Shareholding ratio (%)
San Fang Development Co., Ltd.	$ 1,709,387	100	$ 2,330,642	100
Grand Capital Limited (GCL)	4,650,279	100	4,970,436	100
San Fang Financial Holdings Co., Ltd.	9,616	100	10,193	100
Forich Advanced Materials Co., Ltd.	97,647	100	103,731	100
Bestac Advanced Material Co., Ltd.	158,394	100	204,810	100
	$ 6,625,323		$ 7,619,812	

See Table 6 and Table 7 for a brief description of long-term investments, changes in the past two years are explained below:

(I) San Fang Development and GCL resolved to distribute NT$567,600,000 and NT$198,699,000 of earnings in 2020. The accounts were listed under other receivables - related parties as of the end of 2020.

(II) Forich Advanced Materials Co., Ltd. distributed NT$10,008,000 of earnings in 2020.

(III) The Board of Directors of the Company adopted the resolution to merge Foretrol Precision Materials Co., Ltd. and Bestac Advanced Material Co., Ltd. and set October 1, 2019 as the merger record date. Bestac Advanced Material Co., Ltd. is the surviving company and Foretrol Precision Materials Co., Ltd. is the merged company.

Share of profits/losses and other comprehensive income of subsidiaries under the equity method were recognized based on the subsidiaries' 2020 and 2019 financial statements audited by auditors.

XII. Property, plant and equipment

	December 31, 2020	December 31, 2019
Self-use	$ 3,530,054	$ 3,851,004
Operating lease	118,826	-
	$ 3,648,880	$ 3,851,004

(I) Self-use

2020

	Self-owned land	Buildings and structures	Machinery and equipment	Other facilities	Construction in progress and equipment under acceptance	Total
Cost						
Balance as at January 1, 2020	$ 1,467,428	$ 1,454,572	$ 4,409,404	$ 1,171,401	$ 107,283	$ 8,610,088
Addition	-	19,086	143,576	121,045	(45,443)	238,264
Disposal	-	(34,462)	(112,959)	(92,300)	(559)	(240,280)
Transferred to assets leased under an operating lease	-	(128,273)	(456,411)	(105,321)	-	(690,005)
Balance as at December 31, 2020	$ 1,467,428	$ 1,310,923	$ 3,983,610	$ 1,094,825	$ 61,281	$ 7,918,067
Accumulated depreciation						
Balance as at January 1, 2020	$ -	$ 915,056	$ 3,133,309	$ 710,719	$ -	$ 4,759,084
Disposal	-	(27,617)	(87,238)	(83,641)	-	(198,496)
Transferred to assets leased under an operating lease	-	(94,709)	(384,417)	(73,592)	-	(552,718)
Depreciation expense	-	49,685	237,400	93,058	-	380,143
Balance as at December 31, 2020	$ -	$ 842,415	$ 2,899,054	$ 646,544	$ -	$ 4,388,013
Net amount as at December 31, 2020	$ 1,467,428	$ 468,508	$ 1,084,556	$ 448,281	$ 61,281	$ 3,530,054

2019

	Self-owned land	Buildings and structures	Machinery and equipment	Other facilities	Construction in progress and equipment under acceptance	Total
Cost						
Balance as at January 1, 2019	$ 1,555,007	$ 1,457,624	$ 4,379,465	$ 1,065,513	$ 201,715	$ 8,659,324
Addition	-	64,955	494,867	144,658	(94,432)	610,048
Disposal	-	(15,113)	(464,928)	(38,770)	-	(518,811)
Reclassified to investment properties	(87,579)	(52,894)	-	-	-	(140,473)
Balance as at December 31, 2019	$ 1,467,428	$ 1,454,572	$ 4,409,404	$ 1,171,401	$ 107,283	$ 8,610,088
Accumulated depreciation						
Balance as at January 1, 2019	$ -	$ 903,302	$ 3,366,121	$ 637,571	$ -	$ 4,906,994
Disposal	-	(13,016)	(463,273)	(27,980)	-	(504,269)
Reclassified to investment properties	-	(27,383)	-	-	-	(27,383)
Depreciation expense	-	52,153	230,461	101,128	-	383,742
Balance as at December 31, 2019	$ -	$ 915,056	$ 3,133,309	$ 710,719	$ -	$ 4,759,084
Net amount as at December 31, 2019	$ 1,467,428	$ 539,516	$ 1,276,095	$ 460,682	$ 107,283	$ 3,851,004

The increase in property, plant and equipment and adjustments to payment amounts on the cash flow statement are as follows:

	2020	2019
Investing activities that affect both cash and non-cash items		
Increase in property, plant and equipment	$ 238,264	$ 610,048

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	2020	2019
Decrease (Increase) in payables on equipment	$ 45,231	($ 43,177)
Increase (Decrease) in advance payments for equipment	(7,207)	(59,513)
Capitalization of interest	(663)	(2,163)
Payments in cash for the acquisition of property, plant and equipment	$ 275,625	$ 505,195

Depreciation of the Company's property, plant and equipment is recognized on a straight-line basis according to the following useful life in years:

Buildings and structures	
Factory and office building	30-50 years
Construction system and enclosure wall	15-28 years
Other	7-10 years
Machinery and equipment	
Embossing machine, grinding machine, and thermal oil boiler	20-30 years
Non-woven fabric machine and its auxiliary facilities	8-19 years
Other	3-9 years
Other facilities	
Pond and gardening	30-34 years
Pipelines	20-28 years
Other	1-15 years

Please refer to Note 27 for property, plant and equipment pledged by the Company as collateral for loans.

(II) Operating lease – only 2020

	Buildings and structures	Machinery and equipment	Other facilities	Total
Cost				
Balance as at January 1, 2020	$ -	$ -	$ -	$ -
From self-use assets	128,273	456,411	105,321	690,005
Balance as at December 31, 2020	$ 128,273	$ 456,411	$ 105,321	$ 690,005

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Accumulated depreciation	Buildings and structures	Machinery and equipment	Other facilities	Total
Balance as at January 1, 2020	$ -	$ -	$ -	$ -
From self-use assets	94,709	384,417	73,592	552,718
Depreciation expense	2,432	12,383	3,646	18,461
Balance as at December 31, 2020	$ 97,141	$ 396,800	$ 77,238	$ 571,179
Net amount as at December 31, 2020	$ 31,132	$ 59,611	$ 28,083	$ 118,826

The Company leased buildings, machinery and equipment, other equipment, and right-of-use assets – transportation equipment to related parties under operating leases (Note 26) with a lease term of July 2020 to December 2021. The lessor does not have preemptive rights over the asset when the lease term expires. The sum of lease payments for operating leases in the coming year is NT$32,819,000.

Depreciation expenses is calculated on a straight-line basis over the useful years below:

Buildings and structures	
Plant	7-35 years
Machinery and equipment	6-15 years
Other facilities	3-28 years

Please refer to Note 27 for property, plant and equipment pledged by the Company as collateral for loans.

XIII. Lease agreement

(I) Right-of-use assets

2020

Cost	Buildings and structures	Transportation equipment	Total
Balance as at January 1, 2020	$ 7,728	$ 13,740	$ 21,468
Addition	-	994	994
Disposal	(1,231)	(1,529)	(2,760)
Balance as at December 31, 2020	$ 6,497	$ 13,205	$ 19,702

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	Buildings and structures	Transportation equipment	Total
Accumulated depreciation			
Balance as at January 1, 2020	$ 1,771	$ 3,787	$ 5,558
Disposal	(1,231)	(1,529)	(2,760)
Depreciation expense	1,445	5,527	6,972
Balance as at December 31, 2020	$ 1,985	$ 7,785	$ 9,770
Net amount as at December 31, 2020	$ 4,512	$ 5,420	$ 9,932

2019

	Buildings and structures	Transportation equipment	Total
Cost			
Balance as at January 1, 2019	$ 1,230	$ 8,173	$ 9,403
Addition	6,498	8,191	14,689
Disposal	-	(2,624)	(2,624)
Balance as at December 31, 2019	$ 7,728	$ 13,740	$ 21,468
Accumulated depreciation			
Balance as at January 1, 2019	$ -	$ -	$ -
Disposal	-	(1,176)	(1,176)
Depreciation expense	1,771	4,963	6,734
Balance as at December 31, 2019	$ 1,771	$ 3,787	$ 5,558
Net amount as at December 31, 2019	$ 5,957	$ 9,953	$ 15,910

(II) Lease liabilities

	December 31, 2020	December 31, 2019
Book value of lease liabilities		
Current	$ 4,951	$ 6,714
Noncurrent	$ 4,990	$ 9,154

The discount rate of lease liabilities is 1.2%.

(III) Sub-lease: See Note 12 for details.

(IV) Other lease information

	2020	2019
Short term lease expenses	$ 944	$ 884
Lease expenses of low value assets	$ 616	$ 641
Total cash outflow from leases	$ 8,635	$ 8,466

The Company chooses not to recognize right-of-use assets and lease liabilities from short-term leases and low value asset leases that the Company is exempted from recognizing.

XIV. Investment properties

2020

	Completed investment properties
Cost	
Balance as at January 1 and December 31, 2020	$ 140,473
Accumulated depreciation	
Balance as at January 1, 2020	$ 27,816
Depreciation expense	867
Balance as at December 31, 2020	$ 28,683
Net amount as at December 31, 2020	$ 111,790

2019

	Completed investment properties
Cost	
Balance as at January 1, 2019	$ -
Transferred from property, plant and equipment	140,473
Balance as at December 31, 2019	$ 140,473
Accumulated depreciation	
Balance as at January 1, 2019	$ -
Transferred from property, plant and equipment	27,383
Depreciation expense	433
Balance as at December 31, 2019	$ 27,816
Net amount as at December 31, 2019	$ 112,657

The lease term of investment property is 10 years. The tenant does not have right of first refusal over the investment property when the lease term expires.

The Company's investment property is its own equity, and depreciation of buildings is recognized on a straight-line basis over a useful life of 60 years. Please refer to Note 27 for investment property provided as collateral for loans.

The sum of future lease payments for operating leases of investment property is as follows:

	December 31, 2020	December 31, 2019
Year 1	$ 9,351	$ 9,351
Year 2	9,351	9,351
Year 3	9,351	9,351
Year 4	9,493	9,351
Year 5	9,634	9,493
Over 5 years	34,297	43,931
	$ 81,477	$ 90,828

The Company implements a general risk management policy to reduce the residual asset risk of buildings when the lease term expires.

The fair value of the Company's investment properties was approximately NT$340 million and NT$360 million for the years ended December 31, 2020 and 2019, in which the fair value was estimated by the Company's management after referring to transactions in the nearby housing market.

XV. Borrowings

(I) Short-term borrowing

	December 31, 2020	December 31, 2019
Secured loans (Note 27)		
Bank borrowings	$ 460,000	$ 970,000
Unsecured loans		
Credit loans	980,000	730,000
	$ 1,440,000	$ 1,700,000
Annual interest rate (%)	0.40-0.93	0.86-0.98

(II) Short-term notes and bills payable

Details of commercial paper payable that have not yet matured are as follows:

December 31, 2020

Guarantor/Acceptance agency	Face value	Discounted amount	Book value	Interest Rate (%)
Mega Bills	$ 50,000	$ 28	$ 49,972	0.72

December 31, 2019

Guarantor/Acceptance agency	Face value	Discounted amount	Book value	Interest Rate (%)
Mega Bills	$ 100,000	$ 12	$ 99,988	0.71

(III) Long-term borrowings

	December 31, 2020	December 31, 2019
Secured loans (Note 27)		
Bank borrowings – Reaches maturity before September 2025	$ 1,800,000	$ 1,321,000
Unsecured loans		
Bank borrowings – Reaches maturity before August 2024	1,320,000	950,000
	3,120,000	2,271,000
Less: Current portion	730,000	536,000
	$ 2,390,000	$ 1,735,000
Annual interest rate (%)	1.03-1.3017	1.25-1.44

XVI. Accounts payable

The Company's accounts payables are all derived from its business and transaction terms are separately negotiated. The Company established a financial risk management policy to ensure all payables are repaid within the credit period agreed to in advance.

XVII. Other payables

	December 31, 2020	December 31, 2019
Wages and salaries payable	$ 146,449	$ 158,579
Commissions payable	44,397	24,010
Payables on equipment	32,487	77,718
Employee bonuses and director remuneration payable	16,500	30,990
Compensated absences	11,222	11,998
Labor insurance and National Health Insurance premiums payable	8,104	10,379
Air pollution and waste disposal fees payable	3,926	7,695
Processing expenses payable	497	81,429
Other	71,416	68,599
	$ 334,998	$ 471,397

XVIII. Post-employment benefits plan

(I) Defined contribution plan

The Company uses the defined contribution plan managed by the government according to the Labor Pension Act, and contributes 6% of employees' monthly salaries to their individual pension account at the Bureau of Labor Insurance.

(II) Defined benefit plan

The pension system implemented by the Company according to the Labor Standards Act of the R.O.C. is the defined benefit plan managed by the government. Payment of employee pensions is calculated based on the employee's years of service and 6-month average wage before the approved date of retirement. The Company makes monthly contributions equal to 4% of employees' monthly salaries and wages to the pension fund, which is then deposited into to a dedicated account at the Bank of Taiwan under the name of the Supervisory Committee of Workers' Retirement Reserve Fund. Before the end of each year, if the balance in the dedicated account is insufficient to pay the retirement benefits of employees who are eligible for retirement in the following year, the deficit will be funded in one appropriation before the end of March in the following year. The dedicated account is managed by the Bureau of Labor Funds, Ministry of Labor. The Company does not have any right to influence its investment management strategy.

The defined benefit plan amounts listed in the standalone balance sheet is as follows:

	December 31, 2020	December 31, 2019
Present value of defined benefit liabilities	$ 115,166	$ 132,740
Fair value of assets of the plans	(23,001)	(26,056)
Net defined benefit liability	$ 92,165	$ 106,684

Changes in net defined benefit liabilities are as follows:

	Present value of defined benefit liabilities	Fair value of assets of the plans	Net defined benefit liability
Balance as at January 1, 2019	$ 180,055	($ 79,542)	$ 100,513
Service cost			
Service cost of the term	2,967	-	2,967
Interest expense (income)	2,251	(1,039)	1,212
Listed in income	5,218	(1,039)	4,179
Number of remeasurement			
Return on assets of the plans (except for amounts included in net interest)	-	(3,139)	(3,139)
Actuarial loss – Changes in financial assumption	6,799	-	6,799
Actuarial losses – experience adjustments	2,758	-	2,758
Recognized in other comprehensive income	9,557	(3,139)	6,418
Employer contributions	-	(4,426)	(4,426)
Benefits payment	(62,090)	62,090	-
Balance as at December 31, 2019	132,740	(26,056)	106,684

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	Present value of defined benefit liabilities	Fair value of assets of the plans	Net defined benefit liability
Service cost			
Service cost of the term	$ 1,925	$ -	$ 1,925
Interest expense (income)	1,155	(246)	909
Listed in income	3,080	(246)	2,834
Number of remeasurement			
Return on assets of the plans (except for amounts included in net interest)	-	(2,315)	(2,315)
Actuarial loss – Changes in financial assumption	5,862	-	5,862
Actuarial gains – experience adjustments	(16,571)	-	(16,571)
Recognized in other comprehensive income	(10,709)	(2,315)	(13,024)
Employer contributions	-	(2,946)	(2,946)
Benefits payment	(9,945)	8,562	(1,383)
Balance as at December 31, 2020	$ 115,166	($ 23,001)	$ 92,165

Summary of defined benefit plans recognized in income and loss by function:

	2020	2019
Operating costs	$ 1,750	$ 2,691
Selling expenses	228	395
Administrative expenses	571	714
Research and development expenses	285	379
	$ 2,834	$ 4,179

The Company is exposed to the following risks due to the pension system of the Labor Standards Act:

1. Investment risks

The Bureau of Labor Funds (BLF) in Ministry of Labor (MOL) invests the labor pension fund in domestic (overseas) equity securities, bonds, and bank deposits at its own discretion and through mandated investments. However, the distributable amount of assets may not be lower than gains calculated using the interest rate for 2-year time deposits at local banks.

2. Interest rate risk

A decrease in bond interest rate will cause the present value of defined benefit liabilities to increase. However, the return on assets of defined benefit plans will also increase, and the effect of the two on defined benefit liabilities will offset each other.

3. Salary risk

Calculation of the present value of defined benefit liabilities takes into consideration the future salaries of members of defined benefit plans. Hence, an increase in salaries of members of defined benefit plans will increase the present value of defined benefit liabilities.

The present value of defined benefit liabilities of the Company is calculated by a qualified actuary, and major assumptions on the measurement date are as follows:

	December 31, 2020	December 31, 2019
Discount rate (%)	0.5	0.875
Estimated salary growth ratio (%)	2	2

If a reasonable change to a significant actuarial assumption occurs while all other assumptions remain the same, the amount of increase (decrease) in the present value of defined benefit liabilities is as follows:

	December 31, 2020	December 31, 2019
Discount rate		
Increased 0.25%	($ 3,952)	($ 4,584)
Decreased 0.25%	$ 4,135	$ 4,801
Estimated salary growth ratio		
Increased 0.25%	$ 4,003	$ 4,667
Decreased 0.25%	($ 3,847)	($ 4,481)

Since actuarial assumptions may be related, it is unlikely that only one assumption will change at a time, so the sensitivity analysis above might not reflect on actual changes in present value of defined benefit liabilities.

	December 31, 2020	December 31, 2019
Amount expected to be allocated within 1 year	$ 2,834	$ 4,179
Average time to maturity of defined benefit liabilities	14 years	14.4 years

XIX. Equity

(I) Capital stock – common

	December 31, 2020	December 31, 2019
Authorized shares (thousand shares)	460,000	460,000
Authorized share capital	$ 4,600,000	$ 4,600,000
Current outstanding shares (thousand shares)	397,818	397,818
Issued capital	$ 3,978,181	$ 3,978,181

The Company's common shares have a face value of NT$10. Each share is entitled to one voting right and the right to receive dividends.

(II) Capital surplus

	December 31, 2020	December 31, 2019
Contributed capital in excess of par	$ 135,000	$ 135,000
Gains on the disposal of fixed assets	2,497	2,497
Donated assets received	369	369
Other – Dividends not claimed by shareholders before the deadline	4,572	3,235
	$ 142,438	$ 141,101

Pursuant to the Company Act, capital surplus is from contributed capital in excess of par and donated assets received. Besides using capital surplus to offset losses, companies may also use capital surplus for distribution of cash dividends or capitalization. However, capitalization of capital surplus is limited to fixed percent in each year. Capital surplus from gains on the disposal of fixed assets and unclaimed dividends may only be used to offset losses.

(III) Retained earnings and dividend policy

Pursuant to the earnings distribution policy set forth in the Company's Articles of Incorporation before amendment, if there is a profit after year-end closing, the Company shall first set aside ten percent of such profits as a legal reserve after losses have been covered and all taxes and dues have been paid, and then allowance or reversal of a special reserve should be made in accordance with the law or the Company's operational needs. If there is still a surplus, it should be distributed together with accumulated retained earnings after the board of directors makes a proposal of distribution and submits the proposal to the shareholders' meeting for approval. Please refer to Note 21(7) for the policies of employee bonus and directors' remuneration set forth in the Articles of Incorporation.

The amended Articles of Incorporation was passed by the shareholders' meeting on June 12, 2019. If the earnings distribution proposed by the Board of Directors distributes all or a part of dividends and bonuses in new shares, the proposal must be approved by the shareholders' meeting before distribution. The Board of Directors is authorized to distribute all or a part of dividends and bonuses in cash by a majority vote in a Board meeting with at least two thirds of directors in attendance, and the decision shall be reported during a shareholders' meeting.

The Company's dividend policy takes into consideration the Company's current and future investment environment, funding requirements, and financial plans, as well as the interests of shareholders and balanced dividends. At least 10% of distributable earnings is allocated for distribution. However, if the dividend per share is lower than NT$0.5 when all distributable earnings is distributed, then the distributable earnings are retained and not distributed. Cash dividends may not be less than 10% of all dividends. However, cash dividends are not distributed when dividends per share is lower than NT$0.3 (inclusive), and stock dividends are distributed instead.

Pursuant to the Company Act, the amount of legal reserve must, at a minimum, equal the Company's total capital. The legal reserve may be used to offset losses. When the Company does not have any losses, the amount of legal reserve that surpasses 25% of paid-up capital may be capitalized and may also be distributed in cash.

The Company allocates and reverses special reserve according to Letter Jin-Guan-Zheng-Fa-Zi No. 1010012865, Letter Jin-Guan-Zheng-Fa-Zi No. 1010047490, and "Q&A for the allocation of special reserve after adopting the IFRSs."

The Company passed the 2019 and 2018 earnings distribution below in the Board meeting on March 6, 2020 and annual shareholders' meeting on June 12, 2019:

	Dividend distribution proposal		Dividends per share (NTD)	
	2019	2018	2019	2018
Legal reserve	$ 42,460	$ 30,293		
Cash dividends	318,254	198,909	$ 0.8	$ 0.5

The Company passed the 2020 earnings distribution below in the Board meeting on March 16, 2021:

	Dividend distribution proposal	Dividends per share (NTD)
Legal reserve	$ 22,811	
Special reserve	9,038	
Cash dividends	198,909	$ 0.5

The 2020 dividend distribution proposal will be resolved on in the annual general meeting in June 2021.

(IV) Special reserve

When the Company adopted the IFRSs for the first time, it allocated NT$505,112,000 from unrealized upward revaluation and cumulative translation adjustments of retained earnings to special reserve due to the transition to IFRSs. The reason for allocation was eliminated due to the subsequent sale of property, plant and equipment and reversed NT$322,000 of special reserve in 2013. Hence, the special reserve as at December 31, 2020 and 2019 were both NT$504,790,000.

(V) Other equity interests

1. Exchange differences arising from the translation of the financial statements of foreign operations

	2020	2019
Opening balance	($ 226,765)	($ 37,272)
Share of translation difference of subsidiaries accounted for using equity method	(297,884)	(189,493)
Closing balance	($ 524,649)	($ 226,765)

2. Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income

	2020	2019
Opening balance	$ 15,085	$ 4,892
Generated in the current year		
Equity instruments – unrealized gains	(2,663)	7,735
Share of subsidiaries accounted for using equity method	(1,601)	2,458
Closing balance	$ 10,821	$ 15,085

XX. Revenues

	2020	2019
Revenue from contracts with customers		
Revenue from merchandise sales	$ 6,786,736	$ 8,048,041
Service revenue	110	13
	$ 6,786,846	$ 8,048,054

(I) Contract balance

	December 31, 2020	December 31, 2019	January 1, 2019
Net notes and accounts receivable (Note 9)	$ 894,634	$ 972,598	$ 1,304,452
Contract liabilities			
Merchandise sales	$ 17,414	$ 5,104	$ -

Changes to contract liabilities are mainly from the difference between the time contractual obligations are fulfilled and the customer makes payment. There are no other material changes.

(II) Detailed revenues from contracts with customers

	2020	2019
Revenue from main products and services		
Wet-processed synthetic leather	$ 2,749,302	$ 3,520,720
Dry-processed synthetic leather	1,418,605	1,469,354
Leather work in progress	796,640	1,082,296
Resin	515,283	848,274
Other	1,307,016	1,127,410
	$ 6,786,846	$ 8,048,054

XXI. Pre-tax profit

Net income from continuing operations includes the following item:

(I) Interest income

	2020	2019
Cash in banks	$ 2,203	$ 1,234
Other	58	-
	$ 2,261	$ 1,234

(II) Other income

	2020	2019
Rental income (Note 26)	$ 28,208	$ 5,046
Government grants revenue	10,095	1,372
Dividend income	334	3,839
Other	12,593	1,151
	$ 51,230	$ 11,408

(III) Other profits and losses

	2020	2019
Net foreign exchange losses	($ 92,655)	($ 25,664)
Net profit (loss) from financial liabilities at fair value through profit or loss	(4,784)	201
Gains (losses) on disposal of property, plant and equipment	(27,162)	4,560
Other	(607)	(1,741)
	($ 125,208)	($ 22,644)

(IV) Financial costs

	2020	2019
Interest on bank borrowings	$ 47,192	$ 45,237
Interest on lease liabilities	154	162
Less: Costs of qualifying assets listed	(663)	(2,163)
	$ 46,683	$ 43,236

Information on capitalization of interest is as follows:

	2020	2019
Amount of interest capitalized	$ 663	$ 2,163
Interest capitalization rate (%)	0.99-1.16	1.09-1.16

(V) Depreciation and amortization

	2020	2019
Property, plant and equipment	$ 398,604	$ 383,742
Right-of-use assets	6,972	6,734
Investment properties	867	433
Computer software	7,881	4,088
	$ 414,324	$ 394,997
Summary of depreciation expenses by function		
Operating costs	$ 367,348	$ 343,434
Operating expenses	39,095	47,475
	$ 406,443	$ 390,909

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	2020	2019
Summary of amortization expenses by function		
Operating costs	$ 417	$ 141
Operating expenses	7,464	3,947
	$ 7,881	$ 4,088

(VI) Employee benefit expenses

	2020	2019
Short-term employee benefits	$ 657,360	$ 769,216
Post-employment benefit		
Defined contribution plan	21,863	21,099
Defined benefit plan (Note 18)	2,834	4,179
	$ 682,057	$ 794,494
Summary by function		
Operating costs	$ 386,298	$ 461,857
Operating expenses	295,759	332,637
	$ 682,057	$ 794,494

(VII) Employee bonuses and directors' remuneration

The Company allocates 3-5% as employee bonuses and no more than 3% as directors' remuneration of pre-tax profit before distribution of employee bonuses and directors' remuneration.

2020 and 2019 employee bonuses were estimated at 3.5% of pre-tax profit mentioned above. The potential amount of director remuneration is estimated based on past experience. Employee bonuses and directors' remuneration in 2020 and 2019 will be distributed in cash according to resolutions adopted by the Board of Directors on March 16, 2021 and March 6, 2020:

	2020	2019
Employee bonuses	$ 10,313	$ 19,369
Directors' remuneration	6,187	11,621

If there are any changes to amounts after the standalone financial statements are passed and announced will be handled as changes to accounting estimates, and will be adjusted and recognized in the following year.

There were no deviations in the actual amount of employee bonuses and directors' remuneration distributed from the amounts recognized in the standalone financial statements in 2019 and 2018.

For information on Board resolutions relating to employee bonuses and directors' remuneration, please go to the Market Observation Post System of the Taiwan Stock Exchange.

(VIII) Foreign exchange gains (losses)

	2020	2019
Total foreign exchange gains	$ 118,396	$ 220,322
Total foreign exchange losses	(211,051)	(245,986)
Net loss	($ 92,655)	($ 25,664)

XXII. Income tax

(I) Main income tax expenses recognized in profit or loss

	2020	2019
Current income tax		
Generated in the current year	$ 45,259	$ 61,110
Adjustments in the previous year	(4,073)	(615)
	41,186	60,495
Deferred income tax		
Generated in the current year	16,316	44,657
Income tax expense recognized in profit or loss	$ 57,502	$ 105,152

Adjustments to accounting income and income tax expense are as follows:

	2020	2019
Pre-tax profit from continuing operations	$ 275,514	$ 535,572
Income tax expense on pre-tax profit calculated at the statutory tax rate	$ 55,103	$ 107,114
Tax effect of adjustments		
Non-taxable income	(67)	(768)
Effect of profits of domestic subsidiaries on income tax	8,178	(936)
Other	(1,639)	357
Adjustments in the current year to current income tax expense of the previous year	(4,073)	(615)
Income tax expense recognized in profit or loss	$ 57,502	$ 105,152

The President of the R.O.C. promulgated an amendment to the Statute for Industrial Innovation in July 2019, which specified assets or technologies constructed or purchased using undistributed earnings that may be listed as deductibles of undistributed earnings starting in 2018. The amount of capital expenditures invested are deducted when the Company is calculating undistributed earnings.

(II) Income tax recognized in other comprehensive income

	2020	2019
Deferred income tax expense (gain)		
Generated in the current year		
Remeasurements of the net defined benefit	$ 2,605	($ 1,284)

(III) Current income tax assets and liabilities

	December 31, 2020	December 31, 2019
Current income tax assets		
Tax refunds receivable	$ 23,102	$ 15,079
Current income tax liabilities		
Income tax payable	$ 45,135	$ -

(IV) Deferred income tax assets and liabilities

Changes in deferred income tax assets and liabilities are as follows:

2020

	Opening balance	Listed in income	Recognized in other comprehensive income	Closing balance
Deferred income tax assets				
Temporary difference				
Defined benefit plan	$ 21,337	($ 299)	($ 2,605)	$ 18,433
Inventory loss	29,647	5,205	-	34,852
Unrealized gains from subsidiaries	14,734	(9,190)	-	5,544
Other	5,912	3,560	-	9,472
	$ 71,630	($ 724)	($ 2,605)	$ 68,301
Deferred income tax liabilities				
Temporary difference				
Overseas investment gains recognized under the equity method	$ 701,220	$ 15,592	$ -	$ 716,812
Provision for land value increment tax	414,430	-	-	414,430
Other	9	-	-	9
	$1,115,659	$ 15,592	$ -	$1,131,251

2019

Deferred income tax assets	Opening balance	Listed in income	Recognized in other comprehensive income	Closing balance
Temporary difference				
Defined benefit plan	$ 20,103	($ 50)	$ 1,284	$ 21,337
Inventory loss	18,817	10,830	-	29,647
Unrealized gains from subsidiaries	14,741	(7)	-	14,734
Other	2,553	3,359	-	5,912
	$ 56,214	$ 14,132	$ 1,284	$ 71,630

Deferred income tax liabilities	Opening balance	Listed in income	Recognized in other comprehensive income	Closing balance
Temporary difference				
Overseas investment gains recognized under the equity method	$ 642,429	$ 58,791	$ -	$ 701,220
Provision for land value increment tax	414,430	-	-	414,430
Other	11	(2)	-	9
	$1,056,870	$ 58,789	$ -	$1,115,659

(V) Items and amounts of deferred income tax assets not recognized in the balance sheet

	December 31, 2020	December 31, 2019
Deductible temporary differences – International investment impairment losses	$ 31,369	$ 31,369

(VI) Temporary difference in unrecognized deferred income tax liabilities related to investments in subsidiaries

The taxable temporary difference of unrecognized deferred income tax liabilities related to investments in subsidiaries was NT$2,366,744,000 and NT$2,748,214,000 as at December 31, 2020 and 2019, respectively.

(VII) Approval of income tax

The Company's profit-seeking income tax returns up to 2018 have been approved by the tax authority.

XXIII. EPS

EPS and weighted average ordinary shares are calculated below:

(I) Net profit for the year

	2020	2019
Basic and diluted EPS		
Net profit for the year	$ 218,012	$ 430,420

(II) Shares (thousand shares)

	2020	2019
Number of shares used to calculate basic EPS	397,818	397,818
Plus: Employee bonuses	626	922
Number of shares used to calculate diluted EPS	398,444	398,740

If the Company choses to distribute employee bonuses in shares or cash, then it is assumed that all distribution will be in shares, which will dilute ordinary shares, and the diluted EPS is calculated based on the weighted-average number of ordinary shares outstanding. When calculating the diluted EPS before deciding to distribute employee bonuses in the following year, the potential dilution of ordinary shares will continue to be taken into consideration.

XXIV. Capital risk management

The Company engages in capital management to ensure that it can maximize return for shareholders by optimizing the balance of liabilities and equity, under the premise that it is able to continue as a going concern.

The Company's capital structure consists of net liabilities (means loans less cash and cash equivalents) and equity attributable to owners of the Company (summarized by share capital, capital surplus, retained earnings, and other equity interests).

The Company's management periodically examines the group's capital structure, and takes into consideration the cost of various capital and related risks. The Company will balance its overall capital structure via dividend distribution, issuance of new shares, borrowing new debt, and repaying old debt according to recommendations of management.

The Company is not required to comply with other external capital related regulations.

XXV. Financial instruments

(I) Information on fair value – Financial instruments not measured at fair value

Management of the Company believes that the book value of financial assets and financial liabilities not measured at fair value is near the fair value.

(II) Information on fair value – Financial instruments measured at fair value on a recurring basis

1. Fair value level

	Level 1	Level 2	Level 3	Total
December 31, 2020				
Financial assets at fair value through other comprehensive income (all equity investments)				
Securities of public company in Taiwan	$39,181	$ -	$ -	$39,181
Securities of non-public company in Taiwan	-	-	5,030	5,030
	$39,181	$ -	$ 5,030	$44,211
Financial liabilities at fair value through profit or loss				
Derivatives (not designated for hedging)	$ -	$ 4,843	$ -	$ 4,843
December 31, 2019				
Financial assets at fair value through other comprehensive income (all equity investments)				
Securities of public company in Taiwan	$42,207	$ -	$ -	$42,207
Securities of non-public company in Taiwan	-	-	4,667	4,667
	$42,207	$ -	$ 4,667	$46,874

There was no transfer of level 1 and level 2 fair value measurements in 2020 and 2019.

2. Financial assets are adjusted at level 3 fair value measurement.

At fair value through other comprehensive income	2020	2019
Opening balance	$ 4,667	$ 4,945
Recognized in other comprehensive income	363	(278)
Closing balance	$ 5,030	$ 4,667

3. Valuation technique and input values for level 2 fair value

Type of financial instrument	Valuation technique and input values
Derivatives – FX swap	Discounted cash flow method: Future cash flows are estimated based on the forward exchange rate at the end of period and the exchange rate specified in the contract, and are discounted using a rate that reflects on the credit risk of each counterparty.

4. Valuation technique and input values for level 3 fair value

When the Company is measuring the fair value of stocks without a quoted price, the fair value is determined by management after referencing observable market prices or the company's net worth.

(III) Financial instruments by category

	December 31, 2020	December 31, 2019
Financial assets		
Financial assets at amortized cost (Note 1)	$ 2,791,073	$ 1,985,805
Financial assets at fair value through other comprehensive income (investment in equity instruments)	44,211	46,874
Financial liabilities		
Measured at amortized cost (Note 2)	5,519,136	5,582,578
Financial liabilities at fair value through profit or loss (held for trading)	4,843	-

Note 1: The balance includes cash and cash equivalents, notes and accounts receivable (including related parties), other receivables (including related parties), refundable deposits, and other financial assets at amortized cost.

Note 2: The balance includes short-term borrowings, short-term notes and bills payable, accounts payable (including related parties), other accounts payable, long-term borrowings (including those that mature within one year), deposit received, and other financial liabilities at amortized cost.

(IV) The purpose and policy of financial risk management

The Company's main financial instruments include cash, notes and accounts receivable, other receivables, accounts payable, short-term notes and bills payable, other payables, long-term and short-term borrowings, and lease liabilities. The Company's financial management department provides services to sales units, coordinates operations in domestic and international financial markets, and analyzes exposure based on the level and extent of risks, in order to supervise and manage financial risks related to the Company's operations. Risks include market risk (including foreign exchange risk, interest rate risk, and other price risk), credit risk, and liquidity risk.

1. Market Risk

The main financial risk of the Company due to business activities is the risk of changes in exchange rates (please refer to (1) below) and changes in interest rates (please refer to (2) below).

(1) Foreign exchange risk

The Company engages in sales and purchase of goods denominated in foreign currencies, which expose the Company to the risk of exchange rate changes. The Company manages its exposure to foreign exchange risk using FX options and swaps within the scope permitted by policy.

Please see Note 30 for the book value of the Company's monetary assets and liabilities not denominated in the functional currency on the balance sheet date.

Sensitivity analysis

The sensitivity analysis mainly calculates foreign currency-denominated monetary items during the financial reporting period. The Company is mainly affected by exchange rate fluctuations of USD.

The sensitivity ratio used in reports on foreign exchange risk for management of the Company is 1%, which also represents management's evaluation of the reasonable scope of fluctuations in exchange rates. The sensitivity analysis only includes outstanding foreign currency-denominated monetary items, and the conversion at the end of the year is adjusted using 1% change in exchange rates.

When NTD (functional currency) appreciates (depreciates)1% against USD, the Company's 2020 and 2019 pre-tax profit will decrease (increase) NT$21,156,000 and NT$10,027,000.

(2) Interest rate risk

The Company is exposed to interest rate risk when it finances using both fixed and floating interest rates at the same time. The Company manages its interest rate risk by maintaining an appropriate portfolio of fixed and floating interest rates.

The book value of the Company's financial assets and liabilities that are exposed to interest rate risk on the balance sheet date is as follows:

	December 31, 2020	December 31, 2019
Has interest rate risk for cash flow		
Financial assets	$ 892,603	$ 613,526
Financial liabilities	3,320,000	2,371,000

The Company has also determined that the fair value risk of its fixed interest rate time deposits, bonds issued under repurchase agreement, short-term borrowings, short-term notes and bills payable, and lease liabilities is not material.

Sensitivity analysis

The following sensitivity analysis is determined based on the interest rate exposure of non-derivatives on the balance sheet date. The method for analyzing floating interest rate assets and liabilities assumes that the amount of assets and liabilities outstanding on the balance sheet date were outstanding throughout the reporting period.

The sensitivity ratio used in reports on interest rate risk for management of the Company is an increase or decrease of 1%, which also represents management's evaluation of the reasonable scope of fluctuations in interest rates.

If annual interest rate increases/decreases 1% while all other variables remain the same, the Company's pre-tax profit will increase/decrease NT$24,274,000 and NT$17,575,000 in 2020 and 2019, respectively, and is mainly due to the Company's floating interest rate bank deposits and loans.

(3) Other price risks

The Company is exposed to the risk of equity prices due to its investments in equity securities. The equity investments are strategic investments and not held for trading. The Company does not actively engage in such investments.

Sensitivity analysis

The following sensitivity analysis is conducted using the equity price on the balance sheet date.

If the price of equity increases/decreases by 1%, other comprehensive income in 2020 and 2019 will increase/decrease NT$442,000 and NT$469,000, respectively, due to the increase/decrease in fair value of financial assets at fair value through other comprehensive income.

2. Credit risk

Credit risk refers to the risk of financial loss to the Company arising from default by counterparties. As of the balance sheet date, the Company's greatest credit risk exposure to financial losses caused by transaction counterparties failing to fulfill their obligations is mainly from:

(1) Book value of financial assets recognized on the standalone balance sheet.

(2) Amount of contingent liabilities from guarantees provided by the Company.

The Company's policy is to only engage in transactions with counterparties that have a good reputation, and also uses other financial information available to the public along with transaction records to evaluate major customers. The Company continues to monitor its exposure to credit risk and evaluates the credit of transaction counterparties, using annual credit limits with transaction counterparties to control credit risk exposure.

The Company's credit risk is mainly concentrated in accounts receivables of the following companies:

	December 31, 2020	December 31, 2019
Group A	$ 97,274	$ 102,895
Group B	89,543	146,395
	$ 186,817	$ 249,290

The abovementioned groups accounted for 21% and 26% of accounts receivable for the years ended December 31, 2020 and 2019, respectively.

3. Liquidity risk

The Company manages and maintains an adequate position of cash to support the group's operations and mitigate the effect of cash flow fluctuations. Management of the Company supervises the usage of bank credit limit and ensures compliance with terms of loan agreements. Bank borrowings are an important source of the Company's liquidity. Unused long-term and short-term credit limits of the Company was NT$2,255,000,000 and NT$2,015,000,000 for the years ended December 31, 2020 and 2019, respectively.

Non-derivative financial liabilities and interest rate risk

Maturity analysis of remaining non-derivative financial liabilities is prepared based on the non-discounted cash flow (including principal and estimated interest) of financial liabilities up to the earliest date that the liabilities may need to be repaid by the Company. Hence, bank borrowings that the Company may be required to immediately repay are listed in the earliest period in the table below without considering the probability that the bank immediately exercises the right. Maturity analysis of other non-derivative financial liabilities is prepared according to the agreed repayment date.

For cash flow from interests paid using floating interest rates, the non-discounted amount of interest is estimated using the interest rate on the balance sheet date.

	Within 6 months	6 months to 1 year	1 year and above	Total
December 31, 2020				
Non-derivative financial liabilities				
No interest-bearing debt	$ 905,586	$ -	$ 3,578	$ 909,164
Lease liabilities	3,139	1,900	5,064	10,103
Floating-rate tools	216,958	745,310	2,434,499	3,396,767
Fixed-rate tools	1,291,366	-	-	1,291,366
Guarantee liabilities	10,000	-	-	10,000
	$2,427,049	$ 747,210	$2,443,141	$5,617,400
December 31, 2019				
Non-derivative financial liabilities				
No interest-bearing debt	$1,508,012	$ -	$ 3,578	$1,511,590
Lease liabilities	3,859	3,006	9,307	16,172
Floating-rate tools	108,083	457,546	1,871,777	2,437,406
Fixed-rate tools	1,701,707	-	-	1,701,707
	$3,321,661	$ 460,552	$1,884,662	$5,666,875

XXVI. Related Party Transactions

Transactions between the Company and related parties are as follows:

(I) Name and relationship of related parties

Name of related party	Relationship with the Company
Pou Chen Corporation	Parent company of investor with significant influence
Yue Yuen Industrial (Holdings) Ltd.	Investor with significant influence
San Fang Development Co., Ltd.	Subsidiary

(Continued on the next page)

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Name of related party	Relationship with the Company
Grand Capital Limited (GCL)	Subsidiary
San Fang International Co., Ltd.	Subsidiary
Dongguan Baoliang Material Technology Co., Ltd.	Subsidiary
Grand International Investment Co., Ltd. (GII)	Subsidiary
San Fang Vietnam Corporation Limited(SFV)	Subsidiary
PT. San Fang Indonesia(PTS)	Subsidiary
Foretrol Precision Materials Co., Ltd.	Subsidiary (Merged with Bestac Advanced Material Co., Ltd. in October 2019)
Forich Advanced Materials Co., Ltd.	Subsidiary
Bestac Advanced Material Co., Ltd.	Subsidiary

(II) Business transaction

1. Operating revenue

General ledger account	Type/Name of related party	2020	2019
Sales revenue	Subsidiary		
	PTS	$ 805,274	$ 1,021,375
	Dongguan Baoliang	502,688	925,432
	Other	76,285	32,709
	Investor with significant influence		
	Yue Yuen Industrial (Holdings) Ltd.	678,774	750,021
	Parent company of investor with significant influence		
	Pou Chen Corporation	315,936	407,280
		$ 2,378,957	$ 3,136,817

The Company sells goods to the related parties mentioned above. Except for the fact that prices cannot be compared because subsidiaries do not sell the same types of goods to non-related parties, there are no significant differences when compared with non-related parties. The terms of payment for related parties is open account 30-120 days, and for regular customers it is open account 30-60 days.

2. Purchase of goods

Type/Name of related party	2020	2019
Subsidiary		
Forich Advanced Materials Co., Ltd.	$ 114,497	$ 109,492
PTS	71,890	155,366
Dongguan Baoliang	56,493	56,218
	$ 242,880	$ 321,076

The Company purchases goods from subsidiaries, but does not purchase the same types of goods from non-related parties, so prices cannot be compared. There are no significant differences in terms of payment compared with regular vendors.

3. Contracted processing

The Company commissions subsidiary SFV to process artificial leather, and processing expenses were NT$752,319,000 and NT$938,917,000 in 2020 and 2019, respectively, and are listed under operating costs. Prices cannot be compared because the Company does not engage in similar transactions with non-related parties, and the terms of payment is open account 60 days. The Company began making advance payments for processing in December 2020.

4. Purchase of raw materials

The amounts of raw materials purchased by the Company on for subsidiaries in 2020 and 2019 are as follows:

Type/Name of related party	2020	2019
Subsidiary		
Dongguan Baoliang	$ 111,178	$ 234,456
PTS	100,997	200,105
Bestac Advanced Material Co., Ltd.	28,970	-
Forich Advanced Materials Co., Ltd.	3,830	7,238
	$ 244,975	$ 441,799

The Company's profit from purchasing raw materials for subsidiaries was NT$6,319,000 and NT$18,993,000 in 2020 and 2019, and the profits are listed as a contra item for cost of goods sold.

The credit period for the transactions above is 30-120 days, and is open account 60-120 days for sale of goods to regular customers.

5. Receivables from related parties

General ledger account	Type/Name of related party	December 31, 2020	December 31, 2019
Accounts receivable – related parties	Subsidiary		
	PTS	$ 72,109	$ 92,190
	Dongguan Baoliang	69,628	92,862
	Other	40,707	14,249
	Investor with significant influence		
	Yue Yuen Industrial (Holdings) Ltd.	97,274	102,895
	Parent company of investor with significant influence		
	Pou Chen Corporation	41,571	72,440
		$ 321,289	$ 374,636
Other receivables - related parties	Subsidiary		
	San Fang Development	$ 567,600	$ -
	GCL	198,699	-
	PTS	65,349	172,112
	Bestac Advanced Material Co., Ltd.	58,647	-
	GII	-	182,881
	Other	7,588	18,389
		$ 897,883	$ 373,382

Other receivables are mainly purchases of raw materials and payments on behalf of subsidiaries, as well as cash dividends receivable from subsidiaries.

No collateral was collected for outstanding receivables from related parties.

6. Payables to related parties (excluding loans from related parties)

General ledger account	Type/Name of related party	December 31, 2020	December 31, 2019
Accounts payable - related parties	Subsidiary		
	GII	$ -	$ 468,188
	Forich Advanced Materials Co., Ltd.	12,868	11,221
	Other	2,783	20,440
		$ 15,651	$ 499,849
Other payables	Subsidiary		
	SFV	$ -	$ 77,442
Refund liabilities - related parties	Subsidiary – GII	$ -	$ 198,068

No collateral was provided for outstanding payables to related parties.

7. Advance payments

Type/Name of related party	December 31, 2020	December 31, 2019
Subsidiary		
SFV	$ 74,277	$ -

(III) Lease agreements

The Company leased buildings, machinery and equipment, and other equipment, and leased right-of-use assets – transportation equipment to subsidiary Bestac Advanced Material Co., Ltd. under an operating lease (Note 12) with a lease term of July 2020 to December 2021. Rental income of NT$18,616,000 was recognized in 2020.

(IV) Loans from related parties

The unsecured loan from subsidiary GII for the period September 2018 to September 2019 accrues interest at a rate of 1%, and interest expenses paid in 2019 was NT$1,746,000.

(V) Providing endorsements/guarantees to others

Type/Name of related party	December 31, 2020	December 31, 2019
Subsidiary		
Guarantee amount	$ 50,000	$ 50,000
Actual amount drawn down	$ 10,000	$ -

(VI) Compensation for management

	2020	2019
Short-term employee benefits	$ 27,237	$ 34,536
Post-employment benefit	344	433
	$ 27,581	$ 34,969

Remuneration of directors and management is decided by the Remuneration Committee based on individual performance and market trends.

XXVII. Pledged Assets

The Company provided the following assets as collateral for bank borrowings:

	December 31, 2020	December 31, 2019
Property, plant and equipment – net	$ 1,367,941	$ 1,374,060
Investment properties – net	111,790	112,657
	$ 1,479,731	$ 1,486,717

XXVIII. Significant Contingent Liabilities and Unrecognized Contractual Commitments

In addition to those described in Note 26(5), the Company also has the following major commitments on the balance sheet date:

(I) The Company's balance of issued but unutilized L/C for the purchase of raw materials is as follows:

Unit: Foreign currency (in thousands)

	December 31, 2020	December 31, 2019
JPY	$ -	$ 98,800
RMB	-	1,344

(II) Property, plant and equipment purchase contracts not listed by the Company are as follows:

	December 31, 2020	December 31, 2019
Acquisition of property, plant and equipment	$ 67,641	$ 82,590

XXIX. Other Matters

The Company was impacted by the COVID-19 pandemic as countries imposed lockdown, which resulted in a decrease in purchase orders placed by customers, and operating revenue significantly decreased in Q2 and Q3 2020 compared with the same period last year. As the pandemic has subsided and economic activity continues to pick up, operating revenue has stably increased in Q4 2020, and the Company expects business to gradually recover.

XXX. Exchange Rate Information of Foreign Currency Financial Assets and Liabilities

Information on non-functional currency-denominated financial assets and liabilities that have a significant impact on the Company is provided below:

Unit: Foreign currencies (in thousands): Exchange rate: NTD

	Foreign currencies	Exchange rate	Book value
December 31, 2020			
Monetary financial assets			
USD	$ 80,452	28.48	$ 2,291,270
Monetary financial liabilities			
USD	6,169	28.48	175,693
December 31, 2019			
Monetary financial assets			
USD	58,402	29.98	1,750,898
Monetary financial liabilities			
USD	24,957	29.98	748,208

The Company's foreign exchange net loss (including realized and unrealized) was NT$92,655,000 and NT$25,664,000 in 2020 and 2019, respectively. Due to the large number of foreign currencies used for transactions, foreign exchange gain/loss cannot be individually disclosed for foreign currencies with a material impact.

XXXI. Additional Disclosures

(I) Information on major transactions and investees

1. Lending to others: See Table 1 for details.
2. Providing endorsements or guarantees to others: See Table 2 for details.
3. Holding of marketable securities at the end of the period (excluding investments in subsidiaries): See Table 3 for details.
4. Acquisition or sale of the same security with the accumulated cost exceeding NT$300 million or 20% of paid-in capital: None.
5. Acquisition of real estate reaching NT$300 million or 20% of paid-in capital or more: None.
6. Disposal of real estate reaching NT$300 million or 20% of paid-in capital or more: None.
7. Purchase or sale of goods from or to related parties reaching NT$100 million or 20% of paid-in capital or more: See Table 4 for details.
8. Receivables from related parties reaching NT$100 million or 20% of paid-in capital or more: See Table 5 for details.
9. Derivatives trading: See Note 7 for details.
10. Information on the investee: See Table 6 and Table 7 for details.

(II) Information on Investments in China

1. Name of investee in China, main business items, paid-in capital, investment style, outward/inward remittance, shareholding ratio, income on investment, book value of investments at end of period, income on investment remitted back to Taiwan, and limit on investments in China: See Table 7 for details.
2. Direct or indirect material transactions with investees in China through a third region, and the price, terms of payment, and unrealized gains:

(1) Amount and percentage of goods purchased and the ending balance and percentage of payables

	Purchase of goods		Accounts payable	
	Amount	As a percentage of the account (%)	Amount	As a percentage of the account (%)
Dongguan Baoliang	$ 56,493	1	$ 1,913	1

(2) Amount and percentage of goods sold and the ending balance and percentage of receivables

	Sales		Accounts receivable	
	Amount	As a percentage of the account (%)	Amount	As a percentage of the account (%)
Dongguan Baoliang	$ 502,688	7	$ 69,628	1

(3) Amount of property transaction and related profit or loss: None.

(4) Ending balance and purpose of endorsements/guarantees or collateral: None.

(5) Highest balance, ending balance and interest rate range of financing and total interest in the current period: None.

(6) Other transactions, such as the providing or accepting services, that have a material impact on current profit or loss or financial position:

Purchased NT$111,178,000 (profit included) in raw materials for Dongguan Baoliang in 2020, and other receivables from Donguan Baoliang was NT$5,686,000 as of December 31, 2020.

(III) Information on major shareholders: Name of shareholder with 5% shareholding or above, number of shares held, and ratio: See Table 8 for details.

San Fang Chemical Industry Co., Ltd. and Subsidiaries

Lending to others

From January 1 to December 31, 2020

Table1

Unit: All amounts are in thousand NTD, unless otherwise specified

No.	Lender	Borrower	General ledger account	Is it a related party	Highest balance in the current period	Closing balance	Actual amount drawn down	Interest rate range (%)	Nature of loan	Amount of transaction	Reason for short-term financing	Provision for doubtful debts	Collateral		Limit on loans granted to a single party	Limit on total lending	Remarks
													Name	Value			
1	GII	SFV	Long-term accounts receivable	Yes	$ 939,840	$ 939,840	$ 939,840	1	Short-term financing	$ -	Working capital	$ -	-	$ -	$ 3,239,546	$ 3,239,546	Note 1 and Note 2

Note 1: Limit on lending to a single party: Lending due to business dealings may not exceed the total transaction amount in the most recent 1 year or in the current year up to the time the loan is approved. Lending to meet short-term financing needs may not exceed 10% of the company's net worth. If the Company directly or indirectly holds 100% of the overseas company's shares with voting rights, then the loan may not exceed the company's net worth.

Note 2: Limit on total lending: Total lending to a company may not exceed 40% of the company's net worth (lending due to business dealings may not exceed 30% of the company's net worth, short-term loans may not exceed 20% of the company's net worth). If the Company directly or indirectly holds 100% of the overseas company's shares with voting rights, then the loan may not exceed the company's net worth.

San Fang Chemical Industry Co., Ltd. and Subsidiaries
Providing endorsements/guarantees to others
From January 1 to December 31, 2020

Table 2 Unit: All amounts are in thousand NTD, unless otherwise specified

No.	Name of company	Entity for which the endorsement/guarantee is made		Limit on endorsements/ guarantees to a single enterprise	Maximum outstanding balance of endorsements/ guarantees during the current period	Closing balance of endorsements/ guarantees	Actual amount drawn down	Endorsed/ Guaranteed amount with property as collateral	Cumulative endorsed/ guaranteed amount as a percentage of the net worth in the most recent financial statements (%)	Maximum endorsed/ guaranteed amount	Endorsement/ Guarantee provided by parent company to subsidiary	Endorsement/ Guarantee provided by subsidiary to parent company	Endorsement/ Guarantee provided to China	Remarks
		Company name	Relationship											
0	San Fang Chemical Industry Co., Ltd.	Bestac Advanced Material Co., Ltd.	Subsidiary	$ 397,818	$ 50,000	$ 50,000	$ 10,000	$ -	0.60	$ 1,989,090	Y	N	N	Note 1 and Note 2

Note 1: The limit on guarantee to a single enterprise is paid-in capital × 10%.
Note 2: The limit on guarantees is paid-in capital × 50%.

San Fang Chemical Industry Co., Ltd. and Subsidiaries
Detailed list of securities held at the end of period
December 31, 2020

Table 3

Unit: All amounts are in thousand NTD, unless otherwise specified

Securities held by	Type and name of security	Relationship with securities issuer	General ledger account	End of period				Remarks
				Number of shares or units	Book value	Shareholding ratio (%)	Market price (net value of equity)	
San Fang Chemical Industry Co., Ltd.	Stock							
	Yuanta Financial Holding Co., Ltd.	-	Non-current financial assets at fair value through other comprehensive income	534,834	$ 10,991		$ 10,991	
	Yeashin International Development Co., Ltd.	-	Non-current financial assets at fair value through other comprehensive income	1,688,042	28,190	0.48	28,190	
	Liyu Venture Capital	The Company is an institutional director of Liyu Venture Capital	Non-current financial assets at fair value through other comprehensive income	558,255	5,030	4.76	5,030	
					$ 44,211		$ 44,211	
San Fang Financial Holdings Co., Ltd.	Stock							
	Yentai Wanhua Microfibre Co., Ltd.	-	Noncurrent financial assets at fair value through profit or loss	4,000,000	$ -	8	$ -	
	Taihuangdao Fusheng Chemical and Leather-making Co., Ltd.	-	Noncurrent financial assets at fair value through profit or loss		-	7.29	-	
					$ -		$ -	
Forich Advanced Materials Co., Ltd.	Stock							
	Yeashin International Development Co., Ltd.	-	Non-current financial assets at fair value through other comprehensive income	744,684	$ 12,437	0.22	$ 12,437	

San Fang Chemical Industry Co., Ltd. and Subsidiaries

Purchase or sale of goods from or to related parties reaching NT$100 million or 20% of paid-in capital or more

From January 1 to December 31, 2020

Table 4

Unit: All amounts are in thousand NTD, unless otherwise specified

Purchaser/Seller	Counterparty	Relationship	Transaction				Differences in transaction terms compared to third party transactions		Notes/accounts receivable (payable)		Remarks
			Purchases (sales)	Amount	Percentage of total purchases (sales) (%)	Credit period	Unit price	Credit period	Balance	Percentage of total notes/accounts receivable (payable)	
San Fang Chemical Industry Co., Ltd.	PTS	Subsidiary	Sales	($ 805,274)	(12)	Open account 30-120 days	There are no general transaction terms for price comparison	The general transaction term is open account 120 days	$ 72,109	8	
	Dongguan Baoliang	Subsidiary	Sales	(502,688)	(7)	Open account 30-90 days	There are no general transaction terms for price comparison	The general transaction term is open account 60 days	69,628	8	
	Pou Chen (Group)	Parent company of investor with significant influence	Sales	(315,936)	(5)	Open account 30-90 days	General transaction terms	General transaction terms	41,571	5	
	Yue Yuen (Group)	Investor with significant influence	Sales	(678,774)	(10)	Open account 30-90 days	General transaction terms	General transaction terms	97,274	11	
Dongguan Baoliang	San Fang Chemical Industry Co., Ltd.	Parent company	Purchase of goods	613,866	72	Open account 30-90 days	There are no general transaction terms for price comparison	The general transaction term is open account 60 days	(75,314)	(19)	Note
	Yue Yuen (Group)	Investor with significant influence	Sales	(235,449)	(17)	Open account 30-60 days	General transaction terms	General transaction terms	38,512	24	
PTS	San Fang Chemical Industry Co., Ltd.	Parent company	Purchase of goods	906,271	88	Open account 30-120 days	There are no general transaction terms for price comparison	The general transaction term is open account 120 days	(137,458)	(53)	Note
	Yue Yuen (Group)	Investor with significant influence	Sales	(413,945)	(26)	Open account 30-60 days	General transaction terms	General transaction terms	105,543	37	
Forich Advanced Materials Co., Ltd.	San Fang Chemical Industry Co., Ltd.	Parent company	Sales	(114,497)	(98)	Open account 60 days	There are no general transaction terms for price comparison	General transaction terms	12,868	97	
Bestac Advanced Material Co., Ltd.	San Fang Chemical Industry Co., Ltd.	Parent company	Purchase of goods	100,493	98	Open account 120 days	There are no general transaction terms for price comparison	General transaction terms	(99,012)	(90)	Note

Note: Includes the amount of raw materials purchased.

San Fang Chemical Industry Co., Ltd. and Subsidiaries
Receivables from related parties reaching NT$100 million or 20% of paid-in capital or more
December 31, 2020

Table 5

Unit: All amounts are in thousand NTD, unless otherwise specified

Creditor	Counterparty	Relationship	Balance of receivables from related parties	Turnover rate	Overdue receivables from related parties: Amount	Overdue receivables from related parties: Action taken	Receivables from related parties Amount collected subsequent to the balance sheet date	Provision for doubtful debts
San Fang Chemical Industry Co., Ltd.	GCL	Subsidiary	$198,699 (Note 1)	-	$ -	-	$ -	$ -
	San Fang Development	Subsidiary	567,600 (Note 1)	-	-	-	567,600	-
	PTS	Subsidiary	137,458 (Note 2)	5.92	-	-	79,053	-
GII	SFV	Subsidiary	962,624 (Note 3)	-	-	-	783	-
PTS	Yue Yuen (Group)	Investor with significant influence	105,542	4.52	-	-	39,724	-
San Fang Development	San Fang International	Subsidiary	567,607 (Note 1)	-	-	-	567,607	-
GCL	GII	Subsidiary	198,697 (Note 1)	-	-	-	39,724	-

Note 1: Share subscriptions receivable.
Note 2: Includes NT$72,109,000 in accounts receivables and NT$65,349,000 in other receivables.
Note 3: Includes NT$939,840,000 in long-term accounts receivables and NT$22,784,000 in other receivables.

San Fang Chemical Industry Co., Ltd. and Subsidiaries
Information on the investee
From January 1 to December 31, 2020

Table 6

Unit: All amounts are in thousand NTD, unless otherwise specified

Name of investment company	Name of investee	Location	Main business items	Initial investment amount		Shareholding at the end of period			Current profit (loss) of investee	Investment income (loss) recognized by the Company for the current period	Remarks
				End of the current year	End of last year	Number of shares	Percentage (%)	Book value			
San Fang Chemical Industry Co., Ltd.	San Fang Development	British Virgin Islands	Investment	$ 687,435	$ 687,435	20,000,000	100.00	$ 1,709,387	($ 22,636)	($ 23,259)	Note 1
San Fang Chemical Industry Co., Ltd.	GCL	GCL	Investment	656,053	656,053	19,750,000	100.00	4,650,279	101,173	100,404	Note 1
San Fang Chemical Industry Co., Ltd.	San Fang Financial Holdings Co., Ltd.	British Virgin Islands	Investment	20,150	20,150	604,113	100.00	9,616	(577)	(577)	-
San Fang Chemical Industry Co., Ltd.	Forich Advanced Materials Co., Ltd.	Taiwan	Manufacturing and sales of chemical products	76,985	76,985	7,698,545	100.00	97,647	5,525	5,525	-
San Fang Chemical Industry Co., Ltd.	Bestac Advanced Material Co., Ltd.	Taiwan	Manufacturing and sales of chemical products	200,000	200,000	20,000,000	100.00	158,394	(46,416)	(46,416)	-
San Fang Development	San Fang International	British Virgin Islands	Investment	717,696	755,496	25,200,010	100.00	964,470	(9,947)	(9,947)	Note 2
San Fang Development	BBH	Hong Kong	Investment	484,160	509,660	17,000,000	100.00	573,563	(4,018)	(4,018)	Note 3
San Fang International	MPL	British Virgin Islands	Investment	256,320	269,820	9,000,001	100.00	384,381	(640)	(640)	Note 4
San Fang International	GTL	British Virgin Islands	Investment	181,762	191,335	1	100.00	151,697	(16,645)	(16,645)	Note 5
GCL	GII	GCL	Investment	575,296	605,596	20,200,000	100.00	3,239,546	(96,165)	(96,165)	Note 6
GCL	JOB	GCL	Investment	1,039,449	1,094,195	36,497,500	100.00	1,421,395	197,813	197,813	Note 7
JOB	PTS	Indonesia	Manufacturing and sales of artificial leather, synthetic resin, and other materials	996,729	1,049,225	34,997,500	99.99	1,252,357	197,843	197,843	Note 8
GII	SFV	Vietnam	Material processing	256,320	269,820	-	100.00	582,616	(115,676)	(115,676)	Note 9
GII	PTS	Indonesia	Manufacturing and sales of artificial leather, synthetic resin, and other materials	71	75	2,500	0.01	69	197,843	-	Note 10

Note 1: Investment gains (losses) recognized in the current period include unrealized investment gains from upstream transactions and adjustment of unrealized sales between intra-group companies according to the buyer's tax rate.

Note 2: The original investment amount was both US$25,200,010 at the beginning and end of the current period.

Note 3: The original investment amount was both US$17,000,000 at the beginning and end of the current period.

Note 4: The original investment amount was both US$9,000,001 at the beginning and end of the current period.

Note 5: The original investment amount was both US$6,382,096 at the beginning and end of the current period.

Note 6: The original investment amount was both US$20,200,000 at the beginning and end of the current period.

Note 7: The original investment amount was both US$36,497,500 at the beginning and end of the current period.

Note 8: The original investment amount was both US$34,997,500 at the beginning and end of the current period.

Note 9: The original investment amount was both US$9,000,000 at the beginning and end of the current period.

Note 10: The original investment amount was both US$2,500 at the beginning and end of the current period.

Note 11: Please see Table 7 for information on investees in China.

San Fang Chemical Industry Co., Ltd. and Subsidiaries
Information on Investments in China
From January 1 to December 31, 2020

Table 7

Unit: All amounts are in thousand NTD, unless otherwise specified

Name of investee in China	Main business items	Paid-in capital	Investment method	Accumulated investment amount remitted from Taiwan at the beginning of the period	Investment amount remitted from/to Taiwan in the current period		Accumulated investment amount remitted from Taiwan at the end of the period	Current profit (loss) of investee	Percentage of shares held directly or indirectly by the Company (%)	Investment income (loss) recognized by the Company in the current period	Closing book value of investments	Investment gains remitted back to Taiwan as of the end of the period	Remarks
					Remitted from Taiwan	Remitted back to Taiwan							
Qinhuangdao Fusheng Chemical and Leather-making Co., Ltd.	Manufacturing and sales of artificial leather, synthetic resin, and other materials	$ 371,379	2	$ 33,020	$ -	$ -	$ 33,020	$ -	7.29	$ -	$ -	$ -	
Yentai Wanhua Microfibre Co., Ltd.	Production and sales of microfiber synthetic leather, PU synthetic leather, PU resin, and additives	218,050	2	21,174	-	-	21,174	-	8.00	-	-	-	
Dongguan Huangjiang Baoliang Shoe Factory	Material processing	54,970	2	62,893	-	-	62,893	-	-	-	-	-	Note 1, Note 2, and Note 4
Dongguan Baoliang Material Technology Co., Ltd.	Manufacturing and sales of artificial leather, synthetic resin, and other materials	768,960	2	-	-	-	-	(7,291)	100.00	(7,291)	869,010	-	Note 3 and Note 4

(Continued on the next page)

(Continued from the previous page)

Name of investment company	Accumulated investment amount remitted from Taiwan to China at the end of the current period	Investment amount approved by the Investment Commission, MOEA	The Company's limit on investments in China (Note 5)
Company name	$ 117,087	$ 1,075,685	$ -

Note 1: The Company reported in 2010 that Megatrade Profits Limited, its investee in the British Virgin Islands, has provided non-price setting machinery and equipment worth HKD14,966,000 to Dongguan Huangjiang Baoliang Shoes Material Factory since 1996, and gained approval from the Investment Commission, Ministry of Economic Affairs in March 2010.

Note 2: Megatrade Profits Limited holds 100% shares of Dongguan Huangjiang Baoliang Shoe Factory for its processing business, but it has not registered its shares.

Note 3: Megatrade Profits Limited (MPL) is an investee of San Fang International Co., Ltd., and then MPL invested US$3,484,000 in cash and US$5,516,000 in machinery to establish Dongguan Baoliang Material Technology Co., Ltd. Dongguan Baoliang acquired Dongguan Yuguo Shoe Materials Co., Ltd. in Q2 2018. San Fang International then invested US$6,182,000 in cash in Giant Tramp Limited (GTL), and indirectly obtained 100% shares of Dongguan Yuguo in China. The Investment Commission, MOEA approved the additional investment of US$16,000,000 in Dongguan Baoliang in October 2019.

Note 4: Investment gains and losses are recognized in the Company's financial statements that were audited by a CPA.

Note 5: Pursuant to the amendment to Article 3 of the Regulations Governing the Examination of Investment or Technical Cooperation in Mainland China, which was announced in Order Shen-Zi No. 0970460680 from the MOEA dated August 29, 2008, the Company obtained documentation of its head office's scope of business (Letter Jing-Shou-Gong-Zi No. 1072042010 dated July 19, 2018) issued by the Industrial Development Bureau, MOEA, and therefore has no limit on investments in China.

San Fang Chemical Industry Co., Ltd.
Information on Major Shareholders
December 31, 2020

Table 8

Name of major shareholder	Shareholding	
	Shares Held (share)	Shareholding ratio (%)
-Tech. Sporting Enterprise Ltd.	38,980,000	9.79
Pou Chien Enterprise Co., Ltd.	38,501,504	9.67
Yue Dean Technology Corporation	37,298,876	9.37
Pou Chien Technology Co., Ltd.	36,549,118	9.18
Beevest Securities Limited under the custody of CTBC Bank	26,578,577	6.68
Meng-Jing Lin	26,239,427	6.59
Meng-Yang Lin	19,935,265	5.01

Note 1: Information on major shareholders in this table is based data from Taiwan Depository and Clearing Corporation, which calculated shareholders with 5% or more of the Company's non-physical ordinary shares on the last business day of the quarter. The share capital specified on the Company's standalone financial statements may be different from the actual number of non-physical shares due to different calculation basis.

Note 2: If the shareholder in the data above put shares into a trust, it is listed as a separate trust account of the shareholder opened by the trustee. For shareholders who are reported as insiders in accordance with Securities and Exchange Act for holding more than 10% of shares, the shareholdings include the shares held by the shareholder plus shares placed in a trust in which the shareholder has control over trust assets. Please refer to the Market Observation Post System for data on reporting insider shareholding.

VI. Financial difficulties of the Company and its affiliated enterprises in the most recent year and up to the date of report: None.

Chapter 7. Review and analysis of financial status, financial performance, and risk management

I. Comparative analysis of financial status

Unit: Thousand NTD

Item \ Year	2020	2019	Difference	
			Amount	%
Current assets	8,959,289	8,337,017	622,272	7.46%
Property, plant and equipment	5,861,061	6,203,791	(342,730)	(5.52%)
Other assets	520,539	595,263	(74,724)	(12.55%)
Total assets	15,340,889	15,136,071	204,818	1.35%
Current liabilities	3,765,507	3,846,140	(80,633)	(2.10%)
Non-current liabilities	3,702,256	3,025,846	676,410	22.35%
Total liabilities	7,467,763	6,871,986	595,777	8.67%
Share capital	3,978,181	3,978,181	0	0.00%
Capital surplus	142,438	141,101	1,337	0.95%
Retained earnings	4,266,335	4,356,483	(90,148)	(2.07%)
Total equity	7,873,126	8,264,085	(390,959)	(4.73%)

Main reasons and impact of any material change in the Company's assets, liabilities, or shareholders' equity during the last two years and future response plan

1. Main reason for changes reaching 20% and above:
   Increase in non-current liabilities: Due to the increase in long-term borrowings in the amount of NT$680,125,000 to increase the Company's working capital as operating revenue was impacted by the pandemic in 2020.
2. Impacts: No significant impact.
3. Future response plans: N/A.

II. Comparative analysis of financial performance

Unit: Thousand NTD

Item \ Year	2020	2019	Amount of change	Percentage of change (%)
Total operating revenue	8,643,134	10,496,758	(1,853,624)	(17.66%)
Sales return and discounts	201,378	225,347	(23,969)	(10.64%)
Net operating revenues	8,441,756	10,271,411	(1,829,655)	(17.81%)
Operating costs	6,578,085	7,904,038	(1,325,953)	(16.78%)
Operating expenses	1,365,320	1,716,283	(350,963)	(20.45%)
Operating profits	498,351	651,090	(152,739)	(23.46%)
Non-operating income and expenses	(154,098)	(10,144)	(143,954)	1419.10%
Pre-tax profit from continuing operations	344,253	640,646	(296,393)	(46.26%)
Income tax expense	126,241	210,226	(83,985)	(39.95%)
Net profit after tax from continuing operations	218,012	430,420	(212,408)	(49.35%)

1. Main reason for changes reaching 20% and above:
   Decrease in operating expenses:
   The Company actively reduced operating expenses in 2020 due to the pandemic.
   Decrease in operating profit, net profit before tax from continuing operations, and net profit after tax from continuing operations;
   Customers were more conservative in placing purchase orders and countries implemented border control in 2020 due to the pandemic, which caused imports and exports to be controlled, and resulted in a decrease in revenue by approximately NT$1,829,655,000 compared with the same period last year. The rapid rise in raw materials costs and transportation costs after the pandemic stabilized after the third quarter caused profits to decrease compared with the same period last year.
   Increase in non-operating income and expenses:
   Mainly due to large fluctuations in exchange rates in 2020, which caused an increase in net foreign exchange losses by NT$99,794,000 compared with the same period last.
   Decrease in income tax expense:
   Mainly due to the decrease in operating revenue and operating costs, which led to a decrease in pre-tax profit from continuing operations.
2. Expected sales volume and its basis:
   Based on the Company's current production plan, demand is expected to rebound in the coming year (2021) as the pandemic subsides and people are vaccinated starting at the beginning of 2021, and major sports events are gradually recovering. Hence, sales is expected to continue to increase.
3. Potential impact on the Company's future financial position and business performance:
   We expect to see an upward trend in our financial position and business performance in 2021.
4. Future response plans: N/A.

III. Analysis of cash flows

Analysis of changes in the Company's cash flow in the most recent year, improvement plan for insufficient liquidity, and liquidity analysis for the coming year:

Item \ Year	2020	2019	Percentage of increase
Cash flow ratio	46.14%	34.98%	31.87%
Cash flow adequacy ratio	93.84%	97.08%	(3.34%)
Cash reinvestment ratio	7.05%	5.90%	19.56%

Analysis of changes in cash flow in the most recent year:

1. Increase in cash flow ratio and cash reinvestment ratio:
   Control of raw materials purchases in 2020 caused cash outflow to decrease NT$489,908,000 compared to last year, and the decrease in sales to related parties in 2020 resulted in a decrease in receivable – related parties compared with the same period last year. Hence, cash inflows from receivables increased NT$72,115,000 compared with last year and resulted in an increase in cash inflow from operating activities.
2. Improvement plan for insufficient liquidity: N/A.
3. Liquidity analysis for the coming year:

Unit: Thousand NTD

Cash balance at beginning of	Net cash inflow from operating	Cash outflow for the entire	Cash surplus (shortage)	Remedial measures for	
				Investment	Financial
5,203,876	1,531,096	(698,141)	6,036,831	—	—

1. Analysis of cash flow changes in the current year:
   (1) Operating activities: Net cash inflow in the amount of NT$1,531,096,000.
   (2) Investing activities: Net cash outflow from investing activities, such as purchase of fixed assets, was NT$219,232,000.
   (3) Financing activities: Net cash outflow in the amount of NT$478,909,000 due to the distribution of dividends and repayment of loans.
2. Remedial measures for cash shortage and liquidity analysis: N/A.

IV. Impact of major capital expenditures in recent years on the Company's financial position and business: Capital expenditures in 2020 were all necessary investments for the Company's business.

V. Reinvestment policy in the most recent year, main reason for profit or loss, improvement plan, and investment plan for the coming year:

(I) Reinvestment policy in the most recent year:

The Company's reinvestments are for capacity expansion in hopes of increasing revenue and profits.

(II) Main reason for profits from reinvestments and improvement plans:

The Company recognized NT$35,677,000 in investment gains under the equity method in 2020. The Company's improvement plan is to monitor domestic and overseas industry trends, and actively improve internal processes and the cost structure to increase growth momentum.

(III) Investment plans for the coming year:

The Company will carefully evaluate investment plans from a long-term strategic perspective, in order to respond to future market demand and needs for production capacity expansion, and continue to enhance the Company's global competitiveness.

VI. Risks and assessment

1. Impact of interest rate and exchange rate changes and inflation on Company's profit and response measures:

Item	2020 (NT$1,000)
Interest expenses	47,621
Foreign exchange losses	129,187

The Company regularly evaluates the interest rates of its bank borrowings, and maintains close contact with banks to obtain preferential interest rates. As for exchange rates, the Company's financial personnel stay in touch with foreign exchange banks, and will hedge the cost and position of the Company's foreign currency-denominated assets when there are relatively large exchange rate fluctuations.

2. Policies of engaging in high-risk, high-leverage investments, lending to others, providing endorsement and guarantee, and derivatives transactions, profit/loss analysis, and future response measures:

Implementation status of endorsements/guarantees to affiliated enterprises:

San Fang Chemical Industry Co., Ltd.

Details of endorsements/guarantees to affiliated enterprises

December 31, 2020 NTD

<table>
<tr><th>Company name</th><th>Total amount of endorsements/ guarantees</th><th>Actual amount drawn down</th><th>Remarks</th></tr>
<tr><td>Bestac Advanced Material Co., Ltd.</td><td>50,000,000</td><td>10,000,000</td><td rowspan="2">Calculated as follows according to the Company's Procedure for Endorsements and Guarantees:
1. The total amount of endorsements/guarantees to other enterprises is NT$1,989,090,000.
2. The limit on endorsements/guarantees to a single enterprise is NT$397,818,000.</td></tr>
<tr><td>Total</td><td>50,000,000</td><td>10,000,000</td></tr>
</table>

In principle, the Company's endorsements and guarantees are provided between parent company and subsidiary, and mainly for loans and import letter of credit. Affiliated enterprises all have a sound financial position, so the Company has not sustained any losses due to endorsements and guarantees. The Company did not engage in high risk, high leverage investments in 2020.

The Company did not extend loans to others this year, and only extended loans to subsidiaries or subsidiaries extended loans to each other. All of the loans were in accordance with the Procedures for Extending Loans to Others and were reviewed by the highest level supervisor and approved by the Board of Directors. The current balance of loans is NT$939,840,000 and limit on loans is NT$3,239,546,000.

The Company mainly engages in derivatives transactions for hedging against exchange rate fluctuations.

The Company currently does not use hedge accounting, and current operations are all simple swaps and options to sell USD. Hence, hedge accounting is not necessary.

3. Future R&D projects and expected R&D expenses

Please see "Five. Business Overview I. (III) Overview of Technology and R&D" (P.69 of the annual report) for the Company's future R&D projects: In the future, our R&D expenses will account for approximately 3-4% of our annual revenue.

4. The effect of changes in important domestic and foreign policies and laws on the Company's financial position and business operations, and response measures:

The Company has always complied with government laws and monitors changes in policies and laws in Taiwan and overseas to formulate response strategies. The effect of changes in important domestic and foreign policies and laws does not affect on the Company's financial position and business operations in the most recent year.

5. The effect of changes in technologies and industry on the Company's financial position and business operations, and response measures:

The industry's upstream raw materials supply mainly involves solvent processes, and the Company is gradually developing solvent-free raw materials processes or processing technologies in response to the requirements set forth in environmental protection laws and regulations. The technology achieves eco-friendly materials through cross-industry cooperation. Purchase orders for products that currently use solvents and are labor intensive are transferred overseas, solvent-free raw materials are developed on the front end for replacement, and technologies for automated process equipment are used. The Company is engaging in technological cooperation with multinational companies and cooperation projects with research institutes. Combined with its core technologies, the mass production and sales structure is gradually being completed.

Furthermore, we will first expand the application of processes and products using recycled materials in response to the global trend of circular economy, and will obtain GRS certification. In another aspect, we will incorporate technologies developed for recycled materials in a circular economy into our current raw materials and process equipment. During the raw materials transition process until it becomes profitable, we will rapidly enter existing markets with considerable scale to maintain our working capital, and also strengthen materials for application in functional products used in new lifestyles to increase our revenue.

6. Impact of corporate image change on risk management and response measures: None.
7. Expected benefits and potential risks of merger and acquisition and response measures: The Company currently does not have any plans for merger and acquisition.
8. Expected benefits and potential risks of capacity expansion and response measures: The Company currently does not have any plans for capacity expansion.
9. Risks associated with over-concentration in purchase or sale and response measures: The Company's main suppliers and customers are as disclosed in this report and have worked with the Company for many years. With consideration to future operations and the industry's growth trends, in addition to the continued growth of current suppliers and customers, the Company will seek to work with new suppliers and customers to diversify

its purchase and sales, in hopes of maintaining balanced and stable business performance.

10. Impact of mass transfer of equity by or change of directors or shareholders holding more than 10% interest on the Company, associated risks, and response measures: Even though directors, supervisors, and major shareholders have changed or transferred their shares since the Company was established, the Company's steady management team has maintained solid business performance and gradually enhanced the Company's competitiveness in the industry.
11. The effect of changes in management right on the Company, risks, and response measures: None.
12. For litigious and non-litigious events, if the result of major litigious, non-litigious events, or administrative disputes, either concluded or ongoing, involving the company and its directors, supervisors, president, de facto responsible person, major shareholders with more than 10% shares, or subsidiaries may have a material impact on shareholders' equity or stock prices, disclose the facts in contention, amount, start date of litigation, main parties involved, and progress up to the date of report: None.
13. Other important risks and response measures:

Information security:

The Company utilizes electronic systems for group management, and set up a network information system at the group level to shorten the time for sending information and improve operational efficiency.

Information security risk assessment:

Information security management is carried out according to the Company's information security policy and related regulations.

Information security policy and management plan:

Goals of the Company's information security policy are as follows:

(1)To ensure the continued operation of the Group's business activities and ensure the information services provided by the Group can be stably used.

(2)To ensure the confidentiality, integrity, and availability of the Group's information assets.

(3)To establish business continuity plans for information services, and carry out information operations in compliance with regulatory requirements.

The Company's IT Office conducts annual self-inspections, and evaluates the impact of manual operation, natural disasters, and cyberattacks on information assets and services. The IT Office then establishes an information system structure with high service availability, information backup services, and data backup mechanisms based on the risk level. It formulates disaster recovery plans and periodically conducts drills to ensure the Company's business continuity. The Company's internal audit unit regularly conducts information security inspections and phishing drills, and reports results to the chairperson. External accountants also inspect the management of information system risks, including system authority, data security management, physical and environmental safety management, and process auditing, and report deficiencies and improvement plans.

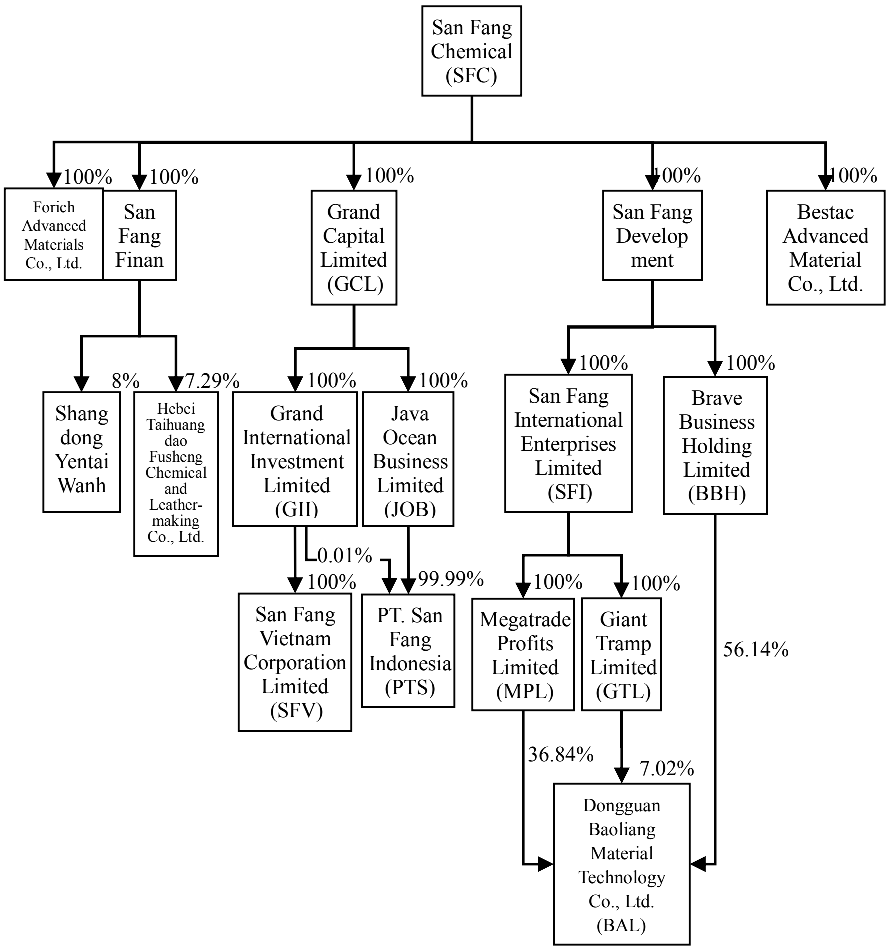
The Company did not have any information security issues as of the date of report.

VII. Other important matters: None.

Chapter 8. Special notes

I. Profiles of affiliates enterprises

(I) Organization chart of affiliated enterprises



(II) Profile of affiliates

Unit: Thousand NTD, foreign currencies are in dollars

Name of enterprise	Date acquired	Registered address:	Paid-in capital	Main business items
San Fang Development Co., Ltd.	2000/07	OMC Chambers, Wickhams Cay1,Road Town,Tortola, British Virgin Islands	687,435	Investment
San Fang Financial Holdings Co., Ltd.	1998/04	OMC Chambers, Wickhams Cay1,Road Town,Tortola, British Virgin Islands	20,150	Investment
Grand Capital Limited (GCL)	2004/10	Offshore Chambers, P.O.Box217,Apia,Samoa	656,053	Investment
Forich Advanced Materials Co., Ltd.	2001/06	No. 2, Lane 140, Niaosong 3rd St., Yongkang District, Tainan City	76,985	Manufacturing and sales of chemical products
Bestac Advanced Material Co., Ltd.	2006/01	No. 88, Lane 180, Xinhe Rd., Sanhe Village, Longtan District, Taoyuan City	200,000	Manufacturing and sales of chemical products
San Fang International Co., Ltd.	2010/07	P.O.Box957,Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands	USD 25,200,010	Investment
Brave Business Holding Limited(BBH)	2009/11	Room 2701,27/F., Tesbury Centre,28 Queen's Road East,Wanchai, Hong Kong	USD17,000,000	Investment
Grand International Investment Corporation Limited (GII)	2003/03	Offshore Chambers, P.O.Box217,Apia, Samoa.	USD 20,200,000	Investment
Java Ocean Business Limited(JOB)	2009/09	Level 2, CCCS Building,Beach Road, PO Box 3018,Apia SAMOA	USD 36,497,500	Investment
Megatrade Profits Limited (MPL)	2004/10	P.O.Box957,Offshore Incorporations Centre,Road Town,Tortola,British Virgin Islands	USD 9,000,001	Investment
San Fang Vietnam Corporation Limited(SFV)	2003/3	LOT II-4 MY XUAN INDUSTRIAL PARK, TAN THANH DISTRICT, BA RIA VUNG TAU PROVINCE, VIETNAM	USD 9,000,000	Material processing
PT. San Fang Indonesia (PTS)	2010/01	JL MODERN INDUSTRI CIKANDE IV NO.10.12.16.NAMBO ILIR KIBIN, SERANG. BANTEN	USD 35,000,000	Manufacturing and sales of synthetic leather, synthetic resin, and other materials
Dongguan Baoliang Material Technology Co., Ltd.	2016/01	No. 1, Yueyuan 2nd Rd., Yue Yuan Industrial Park, Huangjiang Township, Dongguan City	USD 27,000,000	Manufacturing and sales of synthetic leather, synthetic resin, and other materials
Giant Tramp Limited(GTL)	2017/10	22nd Floor, C-Bons International Center, 108 Wai Yip Street,Kwun Tong,Kowloon,Hong Kong	USD 1	Investment

Bestac Advanced Material Co., Ltd. merged with Foretrol Precision Materials Co., Ltd. in October 2019

(III) Information on identical shareholders of companies presumed to have control and subsidiary relationship: None.

(IV) Information on directors, supervisors, and presidents of affiliates

Name of enterprise	Title	Name or representative	Shares held	
			Number of shares held	Shareholding ratio (%)
SFH	Director	Chih-I Lin	0	0
SFD	Director	Chih-I Lin	0	0
GCL	Director	Chih-I Lin	0	0
SFI	Director	Chih-I Lin	0	0
MPL	Director	Chih-I Lin	0	0
GII	Director	Chih-I Lin	0	0
JOB	Director	Chih-I Lin	0	0
BBH	Director	Chih-I Lin	0	0
SFV	Director	Lung-Chuan Wang	0	0
PTS	Director	Liang-Chuan Hsu	0	0
Dongguan Baoliang	Director	Lung-Chuan Wang	0	0
GTL	Director	Chih-I Lin	0	0
Bestac Advanced Material Co., Ltd.	Director	I-Peng Yao, Representative of San Fang Chemical Industry Co., Ltd.	20,000,000 shares	100%
Forich Advanced Materials Co., Ltd.	Director	Wu-Tsang Tsai, Representative of San Fang Chemical Industry Co., Ltd.	7,698,545 shares	100%

(V) Business overview of affiliated enterprises (2020):Unit: Thousand NTD

Name of enterprise	Paid-in capital	Total assets	Total liabilities	Net worth	Operating revenue	Operating profits	Income/loss for the current period (after tax)	Earnings per share (NT$) (after tax)
San Fang Financial Holdings Co., Ltd.	20,150	9,616	0	9,616	0	(76)	(577)	(0.96)
San Fang Development Co., Ltd.	687,435	2,327,322	617,935	1,709,387	0	(81)	(22,636)	(1.13)
Forich Advanced Materials Co., Ltd.	76,985	133,563	35,916	97,647	116,944	7,966	5,525	0.72
San Fang International Co., Ltd.	717,696	1,530,293	565,823	964,470	0	(2,516)	(9,947)	(0.39)
Grand International Investment Co., Ltd.	575,296	3,442,872	203,326	3,239,546	0	(1,388)	(96,165)	(4.76)
Grand Capital Limited	656,053	5,121,917	471,638	4,650,279	0	(46)	101,173	5.12
San Fang (Vietnam) Co., Ltd.	256,320	1,783,379	1,200,763	582,616	753,090	(105,805)	(115,676)	—
Bestac Advanced Material Co., Ltd.	200,000	364,146	205,752	158,394	124,267	44,655	(46,416)	(2.32)
Java Ocean Business Limited	1,039,449	1,423,480	2,085	1,421,395	0	(53)	197,813	5.42
Brave Business Holding Limited	484,160	561,366	(12,197)	573,563	0	(69)	(4,018)	(0.24)
PT. SAN FANG	996,800	1,532,869	280,512	1,252,357	1,679,789	269,214	197,843	5.65
Megatrade Profits Limited	256,320	481,565	97,184	384,381	0	(105)	(640)	(0.07)
Giant Tramp Limited	181,762	129,633	(22,064)	151,697	0	(16,144)	(16,645)	—
Dongguan Baoliang Material Technology Co., Ltd.	768,960	1,268,909	399,899	869,010	1,327,785	14,391	(7,291)	(0.27)

II. Status of private placement of negotiable securities: None.

III. Holding or disposal of stocks of the Company by subsidiaries in the past year and up to the date of report: None.

IV. Other supplemental information:

1. The Company established Ethical Corporate Management Best Practice Principles, Code of Ethics, and Guidelines for Whistleblowing on Illegal or Unethical Conduct for the ethical conduct of directors and employees. Related data can be accessed on the company website.
2. The Company established Procedures for Handling Material Inside Information and Prevention of Insider Trading, and regularly provides promotional materials on insider trading issued by the competent authority to managerial officers, so as to prevent them from violating related laws and regulations. Related data can be accessed on the company website.
3. The Company's internal auditor Hao-Ming Liu obtained the certification for international certified internal auditor.

Chapter 9. Matters with material impact

Matters, if any, that may affect shareholders' equity or securities price as defined in Article 36, Paragraph 3, Subparagraph 2 of the Securities and Exchange Act in the most recent year and as of the printing date of the annual report: None.

San Fang Chemical Industry Co., Ltd.

Chairperson Mun-Jin Lin

三芳化學工業股份有限公司
SAN FANG CHEMICAL INDUSTRY CO., LTD.