

Stock Code : 1307



三芳化學工業股份有限公司

SAN FANG CHEMICAL INDUSTRY CO., LTD

Handbook for the 2020 Annual General Shareholders' Meeting

Notice to readers

This English version handbook 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.

Date: June 9, 2020

Location: 20F., No.202, MingSheng 2nd Road, Kaohsiung City, Taiwan



Table of Contents

I. Meeting Procedure.....	1
II. Meeting Agenda.....	2
1. Report Items.....	3
2. Ratifications Items.....	5
3. Discussion Items.....	5
4. Extraordinary Motions	5
5. Adjournment.....	5
III. Attachment	
1. Business Report, Financial Statement	6
2. The distribution table of Surplus for 2019.....	28
3. Audit Committee's Audit Report.....	29
4. Comparison Table for Amendment of “Ethical Corporate Management Best Practice Principles”	30
5. Comparison Table for Amendment of “Guidelines for the Adoption of Codes of Ethical Conduct”	36
6. Comparison Table for Amendment of “Rules and Procedures of Shareholder Meetings”	37
IV. Appendix	
1. Rules and Procedures of Shareholder Meetings	39
2. Articles of Incorporation.....	41
3. Shareholdings of all Directors	46
4. The Impact of Stock dividend Issuance on Business Performance, EPS, and Shareholder Return Rate	47



SAN FANG CHEMICAL INDUSTRY CO., LTD

Handbook for the 2020 Annual General Shareholders' Meeting

2020 Annual General Shareholders' Meeting Procedure

1. Call the Meeting to Order
2. Chairperson Remarks
3. Report Items
4. Ratifications
5. Discussion
6. Extraordinary Motions
7. Adjournment



II. Meeting Agenda

SAN FANG CHEMICAL INDUSTRY CO., LTD 2020 Annual General Shareholders' Meeting Agenda

Date and Time: June 9, 2020 (Tuesday) at 9:00 a.m.

Location: 20F., No.202, MingSheng 2nd Road, Kaohsiung City, Taiwan

1. Matters to Report

- (1) To report 2019 business reports.
- (2) The Audit Committee's Review Report on the 2019 Financial Statements.
- (3) To report on the 2019 Distribution of Employees' Compensation and Directors' Remuneration.
- (4) Discussion on the amendment to the Company's "Ethical Corporate Management Best Practice Principles".
- (5) Discussion on the amendment to the Company's "Guidelines for the Adoption of Codes of Ethical Conduct".
- (6) To report the Proposal for cash dividend Distribution of 2019 Profits.

2. Ratifications

- (1) Adoption of the 2019 Business Report, Financial Statements and Disposition of Net Profit.

3. Proposals and Discussions:

- (1) Discussion on the amendments to the Company's "Rules and Procedures of Shareholder Meetings".

4. Extraordinary Motions

5. Adjournment



一、 Report Items

Report Proposal 1

Proposal : 2019 Business and Financial Report.

Explanations : 2019 Business Report. (please refer to pages 6-7)

Report Proposal 2

Proposal : The Audit Committee's Review Report on the 2019 Financial Statements.

Explanations : Audit Committee's Audit Report. (please refer to pages 30) ◦

Report Proposal 3

Proposal : To report on the 2019 Distribution of Employees' Compensation and Directors' Remuneration.

Explanations : (1) In accordance with Article 235-1 of the Company Act and Article 24 of the Articles of Incorporation.

(2) The Company's profit is NT\$535,571,409 in 2019. To consider employee benefits and peer levels and with Article 24 of the Articles of Incorporation. It is proposed that 3.419% and 2.051% of the profit, which is equal to NT\$19,368,890 and NT\$11,621,334, will be allocated as Employees' compensation and Directors' remuneration. The distribution shall be made in cash.

(3) After approved by 7th Meeting of 4th Term of Remuneration Committee on 5 March, 2020, the resolution adopted by Board of Directors.

(4) After the case has been approved by the Board of Directors, it is required to report to the shareholders' meeting by law.

Report Proposal 4

Proposal : Discussion on the amendment to the Company's "Ethical Corporate Management Best Practice Principles".

Explanations : Comparison Table for Amendment. (please refer to pages 31-36) ◦

Report Proposal 5

Proposal : Discussion on the amendment to the Company's "Guidelines for the Adoption of Codes of Ethical Conduct".

Explanations : Comparison Table for Amendment. (please refer to pages 37).



Report Proposal 6

Proposal : To report the Proposal for cash dividend distribution of 2019 profits.

- Explanations : (1) In accordance with Article 240 of the Company Act, paragraph 5 and Article 24-1 of the Articles of Incorporation. The Board of Directors proposed to distribute cash dividends in the amount of NT\$ 318,254,501 to the shareholders according to their share ownership at NT\$0.8 per share, rounded down to the nearest New Taiwan Dollar. Shareholder dividends under NT\$1 shall be recognized as “Other Income” of the Company.
- (2) If the cash distribution ratio changes due to the change of outstanding shares of the Company, the Chairman of the Board is authorized to make adjustments as necessary by the shareholders’ meeting.
- (3) The Board of Directors set a cash dividend base date for the distribution. In accordance with the register of shareholders and the proportion to the number of shares, each shareholder will distribute the total cash dividend which are rounded off to the nearest integer.
- (4) The distribution table of surplus for 2019(please refer to page29).



二、 Ratifications Items

Ratifications Proposal 1

Proposal : Ratification of the 2019 Business Report, Financial Statements and the proposed 2019 profit distribution plan.

Proposed by the Board of Directors

Explanations : (1)The Audit Committee of the Company has reviewed the 2019 Business Report and The 2019 Financial Statements (including consolidated and separate balance sheets, statements of comprehensive income, statements of changes in equity and statements of cash flows) audited by independent certified public accountants, Wu Chiu-Yen and Chiang Jia-Ling, of Deloitte & Touche (please refer to pages6-35). The 2019 Business Report and Financial Statements are hereby submitted for ratification.

(2) The distribution table of surplus for 2019(please refer to page29) are hereby submitted for ratification.

Resolution:

三、 Discussion Items

Discussion Proposal 1

Proposal : Discussion on the amendments to the Company’s “Rules and Procedures of Shareholder Meetings”.

Proposed by the Board of Directors

Explanations : (1)Amendments are made in accordance with Notice No. 1080024221 of Taiwan Stock Exchange Co., Ltd. on January 2, 2020.

(2) Comparative table of pre-amended and amended “Rules of Procedure for Shareholders Meetings” (please refer to pages 41-4338-39).

Resolution:

四、 Extraordinary Motions

五、 Adjournment



SAN FANG CHEMICAL INDUSTRY CO., LTD.

2019 Business Report

Section#1 Introduction

Review 2019, it was a year full of transformation and hope for Sanfang. It was also a year full of challenges and unpredictability. The international situation has gone through many turbulences, struggling in Trade Protectionism and climate change, also, testing the resilience each country. It's a critical time to create a different future, embody precise strategic layout and give full play to our competitive advantages.

Under the impact of changes in the material structure of the leather industry and the strict examination of environmental policies, the company's innovative technology optimizes its processes and comprehensively invests in new machinery and equipment. In addition to fully complying with environmental protection regulations, it also continues to export high-quality products to the international market. For the environmental sustainability topic, sports shoe manufacturers are pushing for cleaner production, reducing the impact of the manufacturing process on the environment. We propose environmentally-friendly "recycle fiber plans", bringing opportunities for Sanfang's new eco-friendly fiber and film business. The demand for shoe materials continues to increase, benefit from the brand's demand for artificial leather returning, film skin keeps on growing, yarn film and sports goods have a significant leap in revenue. Sanfang has long been committed to differentiated services and promote brand added value. There are some reasons which made the company's overall operating performance and profitability excellent, including the price of crude oil has decreased, the prices of main raw materials were in a low period, the operating costs were properly controlled, and the rate of raw material self-improvement increased. The company's consolidated net profit after tax in 2019 was NT \$ 430 million (the same below), the net profit margin after tax was 4.2%, and the after-tax earnings per share were NT \$1.08 dollars.

Section#2 Financial Performance

2.1 Business

Synthetic leather sales were NT \$ 9.78 billion dollars, an increase of 6.2% over the previous year. Films' consolidated sales were NT \$186 million dollars, an increase of 232.3% over 2018. Consolidated sales of fibers were NT \$ 160 million dollars, an increase of 638.8% over 2018, and the combined sales of other homemade materials were NT \$145 million dollars. In 2019, consolidated operating income was NT \$10,271million dollars.

2.2 Profit

The company's self-employed business revenue in 2019 was NT \$8,048 million dollars, an increase of 39.2% compared with 2018. The consolidated business revenue was NT \$10,271 million dollars, an increase of 8.2% compared with 2018. Net profit was NT \$651 million dollars, an increase of 71% over the previous year, consolidated net profit after tax was NT \$ 430 million dollars, an increase of 42.1% over the previous year.

Section#3 Prospect and Business Goal

In 2020, it's a new chapter for Sanfang's enterprise. Sanfang's yarns and fibers are recycled into particles through Pote bottles to make environmentally-friendly recycled yarns, which are used in footwear or clothing. We have cultivated in the sports shoe market for many years. The relationship between customers and the supply chain will focus on footwear applications and expand into the garment market in the future, becoming the biggest advantage. At the same time, it's committed to research and development of high-value hot melt adhesives, which is the cornerstone of the company's transformation. In recent years, the market for knitted shoes has flourished and it's widely popular for fashionable and functional knitted shoes. We are also actively developing TPU fiber field, in order to improve the research and development capabilities of functional products, effectively combine of Industry, Official and University, and research



and development abilities to provide customers with a more competitive product portfolio and build a diverse customer base.


Facing the issue of environmental sustainability, the company actively promotes clean production. Through the establishment of energy monitoring systems and the introduction of energy-saving equipment, it improves resource use efficiency and recycling. It adopts intelligent production to accelerate the promotion of automated manufacturing processes and focus on footwear suitable for automated manufacturing and make good use of data management. We build efficient manufacturing processes, have a remarkably enhanced yield, and strive to highly increase the proportion of environmentally friendly products. In response to the brand's full environmental protection needs in 2024, Sanfang is the only one in the three material areas including leather, film and yarn, as a supplier with both R & D and production capabilities. We are not only sell goods, but also provide solutions to create new added value in the industrial chain to meet international trends and customer expectations.


In response to industry development trends and brand marketing strategies, in order to improve material quality, have the capacity of rapid reaction to market changes and use materials with high recycled content, shoe material production had been brought into the new era of environmental protection and high-end application markets, and create differentiated business models to continue to strengthen the supply chain of Vietnam and Indonesia became a production base with good quality and quantity. With the expansion of production capacity and operating scale, the management team will continuously put all the efforts into providing cleaner production and advanced materials technology with new innovative thinking and knowledge, in order to create a high quality environment.


Looking ahead, Sanfang will continue to implement the following management goals:

1. Strengthen smart production and build the high competitive efficiency.
2. Specialize in environment-friendly products and increase product value.
3. Optimize operating policy with maintaining quality and quantity and serve our customer worldwide.

With the goals of domestic turnover and consolidated turnover in 2020, we believe that with the encouragement of all shareholders, all colleagues will make all-out effort to achieve this goal.

Chairman : 

Manager : 

Chief Accountant : 



INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholder SanFang Chemical Industry Co.,Ltd

Opinion

We have audited the accompanying consolidated financial statements of SanFang Chemical Industry Co.,Ltd (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matters of the Group's consolidated financial statements for the year ended December 31, 2019 are as follows.

Valuation and impairment assessment of inventory

As of December 31, 2019, the carrying amount of inventory was \$2,054,915 thousand, which is the important asset item in separate financial statement. The valuation of inventory is described in Note 4 to the consolidated financial statements. Since the inventory may be impaired due to market conditions, price factors and the sales order may not perform as expected. Considering the valuation and impairment assessment of inventory, which involved critical accounting estimates, is deemed to be a key matter.

We have obtained the net realizable value of inventory items and the audit procedure we performed included the following:

1. We tested the supporting documents about sales prices in relation to the net realizable value of inventory items on a sample basis to confirm inventory items at the end of



the year evaluated on the base of the lower of cost or net realization value.;

2. We assessed the reasonableness of provision for impairment of inventory by sampling aging of inventories.
3. We evaluated the adequacy of allowance for obsolete and damaged stock and condition of inventory during our inventory count observation.

Other Matter

We have also audited the parent company only financial statements of the Company as of and for the years ended December 31, 2019 and 2018 on which we have issued an unmodified opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including the audit committee, are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2019 and are therefore the key audit matters.

We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Chiu-Yen Wu and Jia-Ling Chiang.

Deloitte & Touche
Taipei, Taiwan
Republic of China

Notice to Readers

The accompanying financial statements are intended only to present the financial position, financial performance and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally applied in the Republic of China.

For the convenience of readers, the independent auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and financial statements shall prevail.



SAN FANG CHEMICAL INDUSTRY CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2019 AND 2018

(In Thousands of New Taiwan Dollars)

ASSETS	December 31, 2019		December 31, 2018	
	A m o u n t	%	A m o u n t	%
Current assets				
Cash and cash equivalents (Notes 4 and 6)	\$ 3,761,456	25	\$ 3,083,864	21
Notes receivable (Notes 4 and 8)	34,351	—	77,976	1
Accounts receivable, net (Notes 4 and 8)	941,321	6	1,028,295	7
Accounts receivable - related parties (Notes 4、8 and 27)	430,724	3	489,947	3
Current tax assets (Note23)	15,079	—	—	—
Inventories (Note4、5 and 9)	2,054,915	13	2,054,511	14
Prepayment(Note14)	104,184	1	63,499	1
Other financial assets - current (Note10)	899,420	6	874,663	6
Other current assets	95,567	1	113,667	1
Total current assets	<u>8,337,017</u>	<u>55</u>	<u>7,786,422</u>	<u>54</u>
Non-current assets				
Financial assets at fair value through other comprehensive income - noncurrent (Note3、4 and 7)	60,912	—	50,719	—
Property, plant and equipment(Note4、12 and28)	6,203,791	41	6,282,971	43
Right-of-use assets(Note3、4and13)	177,985	1	—	—
Investment properties(Note4、15and28)	112,657	1	—	—
Computer software, net(Note4)	33,219	—	3,039	—
Goodwill (Note4)	35,759	—	35,759	—
Deferred tax assets (Note4、5and23)	74,431	1	60,319	1
Prepayments for machinery and equipment	68,905	1	102,403	1
Refundable deposits	25,894	—	26,382	—
Long-term Prepayments for lease (Note14)	—	—	166,060	1
Other non-current assets	5,501	—	8,134	—
Total non-current assets	<u>6,799,054</u>	<u>45</u>	<u>6,735,786</u>	<u>46</u>
Total assets	<u>\$ 15,136,071</u>	<u>100</u>	<u>\$ 14,522,208</u>	<u>100</u>

(Continued)



SAN FANG CHEMICAL INDUSTRY CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2019 AND 2018

(In Thousands of New Taiwan Dollars)


LIABILITIES AND EQUITY	December 31, 2019		December 31, 2018	
	A m o u n t	%	A m o u n t	%
CURRENT LIABILITIES				
Short-term borrowings (Note16 and 28)	\$ 1,700,000	11	\$ 1,860,000	13
Short-term bills payable(Note16)	99,988	1	99,943	1
Contract liabilities (Note4 and 21)	6,103	—	6,188	—
Accounts payable(Note17)	599,701	4	678,187	4
Other payables (Note18)	720,021	5	674,596	4
Current tax liabilities (Note23)	100,008	1	99,827	1
Lease liabilities - current(Note3, 4, and 13)	7,562	—	—	—
Current portion of long-term borrowings (Note16 and 28)	553,500	3	248,500	2
Other current liabilities	59,257	—	45,037	—
Total current liabilities	3,846,140	25	3,712,278	25
NON-CURRENT LIABILITIES				
Long-term borrowings(Note16 and 28)	1,756,875	12	1,410,375	10
Deferred tax liabilities(Note4, 5 and 23)	1,115,659	7	1,057,020	7
Lease liabilities - noncurrent(Note3, 4, and 13)	9,153	—	—	—
Net defined benefit liabilities (Note4 and 19)	124,467	1	114,099	1
Guarantee deposits received	19,692	—	11,823	—
Total non-current liabilities	3,025,846	20	2,593,317	18
Total liabilities	6,871,986	45	6,305,595	43
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Note20)				
Share capital	3,978,181	26	3,978,181	27
Capital surplus	141,101	1	140,028	1
Retained earnings				
Legal reserve	1,412,298	9	1,382,005	10
Special reserve	504,790	4	504,790	4
Unappropriated earnings	2,439,395	16	2,243,989	15
Total retained earnings	4,356,483	29	4,130,784	29
Other equity	(211,680)	(1)	(32,380)	—
Total equity	8,264,085	55	8,216,613	57
Total liabilities and equity	\$ 15,136,071	100	\$ 14,522,208	100

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

(With Deloitte & Touche audit report dated March 8, 2020) TED

Chairman : 

Manager : 

Chief Accountant : 



SAN FANG CHEMICAL INDUSTRY CO.,LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2019		2018	
	Amount	%	Amount	%
NET OPERATING REVENUE (Notes 4, 21, and 27)	\$ 10,271,411	100	\$ 9,492,260	100
OPERATING COSTS (Notes 9 and 22)	7,904,038	77	7,564,352	80
GROSS PROFIT	2,367,373	23	1,927,908	20
OPERATING EXPENSES(Note22)				
Selling and marketing expenses	630,173	6	623,131	7
General and administrative expenses	636,742	6	508,272	5
Research and development expenses	448,154	5	413,079	4
Expected credit loss	1,214	—	2,749	—
Total operating expenses	1,716,283	17	1,547,231	16
OPERATING INCOME	651,090	6	380,677	4
NON-OPERATING INCOME AND EXPENSES (Note22)				
Other income	59,967	1	50,858	—
Other gains and losses, net	(27,558)	—	(12,687)	—
Finance costs	(42,853)	(1)	(35,307)	—
Total non-operating income and expenses	(10,444)	—	2,864	—
PROFIT BEFORE INCOME TAX	640,646	6	383,541	4
INCOME TAX EXPENSE(Note 4, 5, and23)	210,226	2	80,608	1
NET PROFIT FOR THE YEAR	430,420	4	302,933	3
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Note 19)	(7,096)	—	28,844	—

(Continued)



SAN FANG CHEMICAL INDUSTRY CO.,LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2019		2018	
	Amount	%	Amount	%
Unrealized gains (losses) on investments in equity instruments at fair value through other comprehensive income (Note20)	\$ 10,193	—	\$ (6,415)	—
Income tax relating to items that will not be reclassified subsequently to profit or loss(Note23)	1,284	—	(6,980)	—
	<u>4,381</u>	<u>—</u>	<u>15,449</u>	<u>—</u>
Items that may be reclassified subsequently to profit or loss				
Exchange differences on translating foreign operations (Note20)	(189,493)	(2)	192,584	2
Other comprehensive income (loss) for the year, net of income tax	<u>(185,112)</u>	<u>(2)</u>	<u>208,033</u>	<u>2</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 245,308</u>	<u>2</u>	<u>\$ 510,966</u>	<u>5</u>
NET PROFIT, ATTRIBUTABLE TO:				
OWNERS OF THE CORPORATION	<u>\$ 430,420</u>	<u>4</u>	<u>\$ 302,933</u>	<u>3</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
OWNERS OF THE CORPORATION	<u>\$ 245,308</u>	<u>2</u>	<u>\$ 510,966</u>	<u>5</u>
EARNINGS PER SHARE (Note24)				
Basic	<u>\$ 1.08</u>		<u>\$ 0.76</u>	
Diluted	<u>\$ 1.08</u>		<u>\$ 0.76</u>	

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

(With Deloitte & Touche audit report dated March 8, 2020) TED

Chairman :



Manager :



Chief Accountant :





SAN FANG CHEMICAL INDUSTRY CO.,LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)

	Share Capital	C a p i t a l s u r p l u s	R e t a i n e d E a r n i n g s			O t h e r E q u i t y			Total equity
			Legal reserve	S p e c i a l r e s e r v e	Unappropriated Earnings	E x c h a n g e D i f f e r e n c e s o n T r a n s l a t i n g F o r e i g n O p e r a t i o n s	U n r e a l i z e d G a i n (L o s s) o n A v a i l a b l e - f o r - s a l e F i n a n c i a l A s s e t s	U n r e a l i z e d G a i n (L o s s) o n F i n a n c i a l A s s e t s a t F a i r V a l u e T h r o u g h O t h e r C o m p r e h e n s i v e I n c o m e	
BALANCE AT JANUARY 1, 2018	\$ 3,978,181	\$ 139,055	\$ 1,291,899	\$ 504,790	\$ 2,685,589	\$ (229,856)	\$ 11,307	\$ -	\$ 8,380,965
Effect of retrospective Application and retrospective restatement (Note3)	-	-	-	-	-	-	(11,307)	11,307	-
Equity at the beginning of the period after adjustments	3,978,181	139,055	1,291,899	504,790	2,685,589	(229,856)	-	11,307	8,380,965
Appropriation of 2017 earnings: (Note20)									
Legal reserve	-	-	90,106	-	(90,106)	-	-	-	-
Cash dividends distributed by the Corporation-17%	-	-	-	-	(676,291)	-	-	-	(676,291)
	-	-	90,106	-	(766,397)	-	-	-	(676,291)
Overdue unclaimed cash dividends: (Note20)	-	973	-	-	-	-	-	-	973
Net profit in 2018	-	-	-	-	302,933	-	-	-	302,933
Other comprehensive income (loss) in 2018, net of income tax	-	-	-	-	21,864	192,584	-	(6,415)	208,033
Total comprehensive income in 2018	-	-	-	-	324,797	192,584	-	(6,415)	510,966
BALANCE AT DECEMBER 31, 2018	3,978,181	140,028	1,382,005	504,790	2,243,989	(37,272)	-	4,892	8,216,613
Appropriation of 2018 earnings: (Note20)									
Legal reserve	-	-	30,293	-	(30,293)	-	-	-	-
Cash dividends distributed by the Corporation-5%	-	-	-	-	(198,909)	-	-	-	(198,909)
	-	-	30,293	-	(229,202)	-	-	-	(198,909)
Overdue unclaimed cash dividends: (Note20)	-	1,073	-	-	-	-	-	-	1,073
Net profit in 2019	-	-	-	-	430,420	-	-	-	430,420
Other comprehensive income (loss) in 2019, net of income tax	-	-	-	-	(5,812)	(189,493)	-	10,193	(185,112)
Total comprehensive income in 2019	-	-	-	-	424,608	(189,493)	-	10,193	245,308
BALANCE AT DECEMBER 31, 2019	\$ 3,978,181	\$ 141,101	\$ 1,412,298	\$ 504,790	\$ 2,439,395	\$ (226,765)	\$ -	\$ 15,085	\$ 8,264,085

Chairman :



Manager :



Chief Accountant :



The accompanying notes are an integral part of the consolidated financial statements.
 (With Deloitte & Touche audit report dated March 8, 2020) TED

SAN FANG CHEMICAL INDUSTRY CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 640,646	\$ 383,541
Adjustments for:		
Depreciation expense	762,406	733,457
Amortization expense	4,120	1,530
Expected credit loss recognized on accounts receivable	1,214	2,749
Net loss (gain) on financial liabilities at fair value through profit or loss	(201)	—
Financial costs	42,853	35,307
Interest income	(41,290)	(32,450)
Dividend income	(5,328)	(2,884)
Loss (gain) on disposal of property, plant and equipment	(4,934)	43,074
Write-down of inventories	61,174	—
Reversal of write-down of inventories	—	(21,470)
Loss on inventory count	14,445	12,395
Others	2,636	6,711
Changes in operating assets and liabilities		
Notes receivable	43,625	4,404
Notes receivable - related parties	—	29,679
Accounts receivable	85,760	(136,076)
Accounts receivable - related parties	59,223	(199,895)
Current tax asset	(15,079)	—
Inventories	(76,023)	(263,537)
Prepayments	(48,460)	(16,090)
Other current assets	21,165	(4,487)
Financial liabilities held for trading	201	—
Contract liabilities	(85)	5,059
Accounts payable	(78,486)	(7,160)
Other payables	20,732	(178,741)
Other current liabilities	14,220	3,596
Net defined benefit liabilities	3,272	(26,782)
Cash generated from operations	1,507,806	371,930
Interest received	41,290	32,450
Dividends received	5,328	2,884

(Continued)




SAN FANG CHEMICAL INDUSTRY CO., LTD. AND SUBSIDIARIES


**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)**

	2019	2018
Interest paid	\$ (44,630)	\$ (38,602)
Income tax paid	(164,234)	(255,384)
Net cash generated from operating activities	<u>1,345,560</u>	<u>113,278</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the capital reduction on financial assets at fair value through other comprehensive income	—	2,921
Acquisition of property, plant and equipment	(787,018)	(792,589)
Proceeds from disposal of property, plant and equipment	20,487	22,399
Increase in refundable deposits	(38)	(916)
Decrease in refundable deposits	229	1,307
Acquisition of intangible assets	(34,310)	(1,500)
Increase in other financial assets	(3,146)	(108,412)
Increase in other non-current assets	—	(1,738)
Net cash used in investing activities	<u>(803,796)</u>	<u>(878,528)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (Decrease) in short-term borrowings	(160,000)	610,000
Increase in short-term bills payable	—	100,000
Proceeds from long-term borrowings	900,000	300,000
Repayments of long-term borrowings	(248,500)	(301,125)
Increase in guarantee deposits received	12,971	3,696
Decrease in guarantee deposits received	(4,636)	(2,363)
Payments of lease liabilities	(8,798)	—
Cash dividends distributed	(198,909)	(676,291)
Overdue unclaimed cash dividends	1,073	973
Net cash generated from financing activities	<u>293,201</u>	<u>34,890</u>
EFFECT OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH AND CASH EQUIVALENTS HELD IN FOREIGN CURRENCIES	<u>(157,373)</u>	<u>108,887</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	677,592	(621,473)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>3,083,864</u>	<u>3,705,337</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 3,761,456</u>	<u>\$ 3,083,864</u>

The accompanying notes are an integral part of the consolidated financial statements.
(With Deloitte & Touche audit report dated March 8, 2020) TED

Chairman : 

Manager : 

Chief Accountant : 



INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholder SanFang Chemical Industry Co.,Ltd

Opinion

We have audited the accompanying parent company only financial statements of SanFang Chemical Industry Co.,Ltd (the "Company"), which comprise the balance sheets as of December 31, 2019 and 2018, and the parent company only statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the parent company only financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying parent company only financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

Key audit matter are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2019. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matters of the Company's parent company only financial statements for the year ended December 31, 2019 are as followed.

Valuation and impairment assessment of inventory

As of December 31, 2019, the carrying amount of inventory was \$1,476,489 thousand, which is the important asset item in separate financial statement. The valuation of inventory is described in Note 4 to the consolidated financial statements. Since the inventory may be impaired due to market conditions, price factors and the sales order may not perform as expected. Considering the valuation and impairment assessment of inventory, which involved critical accounting estimates, is deemed to be a key matter.

We have obtained the net realizable value of inventory items and the audit procedure we performed included the following:

1. We tested the supporting documents about sales prices in relation to the net realizable value of inventory items on a sample basis to confirm inventory items at the end of the year evaluated on the base of the lower of cost or net realization value.
2. We assessed the reasonableness of provision for impairment of inventory by sampling



aging of inventories.

3. We evaluated the adequacy of allowance for obsolete and damaged stock and condition of inventory during our inventory count observation.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the parent company only financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and for such internal control as management determines is necessary to enable the preparation of parent company only financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the parent company only financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including the audit committee, are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Parent Company Only Financial Statements

Our objectives are to obtain reasonable assurance about whether the parent company only financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these parent company only financial statements.

As part of an audit in accordance with the auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the parent company only financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty



exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. We are required to draw attention in our auditors' report to the related disclosures in the parent company only financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the parent company only financial statements, including the disclosures, and whether the parent company only financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the parent company only financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the parent company only financial statements for the year ended December 31, 2018 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Chiu-Yen Wu and Jia-Ling Chiang.

Deloitte & Touche
Taipei, Taiwan
Republic of China

Notice to Readers

The accompanying parent company only financial statements are intended only to present the parent company only financial position, financial performance and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such parent company only financial statements are those generally applied in the Republic of China.

For the convenience of readers, the independent auditors' report and the accompanying parent company only financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and parent company only financial statements shall prevail.

SAN FANG CHEMICAL INDUSTRY CO., LTD.



PARENT COMPANY ONLY BALANCE SHEETS
DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)

ASSETS	2019/12/31		2018/12/31	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash (Notes 4 and 6)	\$ 624,921	4	\$ 335,419	2
Notes receivable (Notes 4 and 8)	33,910	—	77,941	1
Accounts receivable (Notes 4 and 8)	564,052	4	592,264	4
Accounts receivable - related parties (Notes 4, 8, and 25)	374,636	3	634,247	4
Other receivables (Note 4)	1,969	—	5,539	—
Other receivables – related parties (Note 25)	373,382	2	418,740	3
Current tax assets (Note 21)	15,079	—	—	—
Inventories (Notes 4, 5, and 9)	1,476,489	10	1,526,743	10
Prepayments	35,710	—	22,193	—
Other current assets	55,310	—	48,562	—
Total current assets	<u>3,555,458</u>	<u>23</u>	<u>3,661,648</u>	<u>24</u>
Non-current assets				
Financial assets at fair value through other comprehensive income – noncurrent (Note 3, 4, and 7)	46,874	—	39,139	—
Investments accounted for using the equity method (Notes 4 and 10)	7,619,812	50	7,510,108	50
Property, plant and equipment (Notes 4, 11, and 26)	3,851,004	25	3,752,330	25
Right-of-use assets (Notes 3, 4, and 12)	15,910	—	—	—
Investment properties (Note 4, 13, and 26)	112,657	1	—	—
Computer software, (Note 4)	32,967	—	2,745	—
Deferred tax assets (Note 4 and 21)	71,630	1	56,214	—
Prepayments for machinery and equipment	17,671	—	77,184	1
Refundable deposits	12,935	—	12,938	—
Total non-current assets	<u>11,781,460</u>	<u>77</u>	<u>11,450,658</u>	<u>76</u>
Total assets	<u>\$ 15,336,918</u>	<u>100</u>	<u>\$ 15,112,306</u>	<u>100</u>


Continued




PARENT COMPANY ONLY BALANCE SHEETS
DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)

LIABILITIES AND EQUITY	2019/12/31		2018/12/31	
	Amount	%	Amount	%
CURRENT LIABILITIES				
Short-term borrowings (Notes 14, 25, and 26)	\$ 1,700,000	11	\$ 2,228,940	15
Short-term bills payable (Note 14)	99,988	1	99,943	1
Contract liabilities (Notes 4 and 19)	5,104	—	—	—
Accounts payable (Note 15)	536,766	4	593,450	4
Accounts payable – related parties (Note 15 and 25)	499,849	3	499,480	3
Other payables (Notes 16 and 25)	471,397	3	402,050	3
Current tax liabilities (Note 21)	—	—	83,031	1
Lease liabilities – current (Note 3, 4, and 12)	6,714	—	—	—
Current portion of long-term borrowings (Note 14 and 26)	536,000	4	231,000	1
Refund liabilities - related parties (Note 25)	198,068	1	202,924	1
Other current liabilities	48,872	—	24,550	—
Total current liabilities	4,102,758	27	4,365,368	29
Non-current liabilities				
Long-term borrowings (Note 14 and 27)	1,735,000	11	1,371,000	9
Deferred tax liabilities (Note 4, 5 and 21)	1,115,659	7	1,056,870	7
Lease liabilities - non-current (Note 3, 4, and 12)	9,154	—	—	—
Net defined benefit liabilities (Note 4, and 17)	106,684	1	100,513	1
Guarantee deposits received	3,578	—	1,942	—
Total non-current liabilities	2,970,075	19	2,530,325	17
Total liabilities	7,072,833	46	6,895,693	46
Equity (Note 18)				
Share Ordinary	3,978,181	26	3,978,181	26
Capital surplus	141,101	1	140,028	1
Retained earnings				
Legal reserve	1,412,298	9	1,382,005	9
Special reserve	504,790	3	504,790	3
Unappropriated earnings	2,439,395	16	2,243,989	15
Total retained earnings	4,356,483	28	4,130,784	27
Other equity	(211,680)	(1)	(32,380)	—
Total equity	8,264,085	54	8,216,613	54
Total liabilities and equity	\$ 15,336,918	100	\$ 15,112,306	100

The accompanying notes are an integral part of the consolidated financial statements.
 (With Deloitte & Touche audit report dated March 8, 2020) TED

Chairman : 

Manager : 

Chief Accountant : 

SAN FANG CHEMICAL INDUSTRY CO., LTD.



**PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**

	2019		2018	
	Amount	%	Amount	%
NET OPERATING REVENUE (Notes 4, 19, and 25)	₡ 8,048,054	100	₡ 5,780,859	100
OPERATING COSTS (Notes 9, 20 and 25)	6,714,007	84	4,979,160	86
GROSS PROFIT	1,334,047	16	801,699	14
REALIZED (UNREALIZED) GAIN ON TRANSACTIONS	35	—	(8,059)	—
REALIZED GROSS PROFIT	1,334,082	16	793,640	14
OPERATING EXPENSES (Notes 8, 20 and 25)				
Selling and marketing expenses	355,255	4	204,583	4
General and administrative expenses	289,249	4	133,256	2
Research and development expenses	398,114	5	220,086	4
Expected credit loss	36	—	4,674	—
Total operating expenses	1,042,654	13	562,599	10
OPERATING INCOME	291,428	3	231,041	4
NON-OPERATING INCOME AND EXPENSES (Notes 20 and 25)				
Other income	12,642	—	143,765	2
Other gains and losses	(22,644)	—	38,542	1
Finance costs	(43,236)	(1)	(34,096)	(1)
Share of profit of subsidiaries accounted for using the equity method	297,382	4	(4,634)	—
Total non-operating income and expenses	244,144	3	143,577	2
PROFIT BEFORE INCOME TAX	535,572	6	374,618	6
INCOME TAX EXPENSE (Note 4 and 21)	105,152	1	71,685	1
NET PROFIT FOR THE YEAR	430,420	5	302,933	5

(Continued)



**PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**

	2019		2018	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Note 17)	\$ (6,418)	—	\$ 25,921	—
Unrealised gains (losses) on investments in equity instruments at fair value through other comprehensive income (Note 18)	7,735	—	(4,403)	—
Share of other comprehensive income (loss) of subsidiaries accounted for using the equity method	1,780	—	911	—
Income tax related to items that will not be reclassified to profit or loss (Note 21)	1,284	—	(6,980)	—
	<u>4,381</u>	<u>—</u>	<u>15,449</u>	<u>—</u>
Items that may be reclassified subsequently to profit or loss:				
Share of other comprehensive gain (loss) of subsidiaries accounted for using the equity method (Note 18)	(189,493)	(2)	192,584	4
Other comprehensive income (loss) for the year, net of income tax	<u>(185,112)</u>	<u>(2)</u>	<u>208,033</u>	<u>4</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 245,308</u>	<u>3</u>	<u>\$ 510,966</u>	<u>9</u>
EARNINGS PER SHARE (Note 22)				
Basic	\$ 1.08		\$ 0.76	
Diluted	\$ 1.08		\$ 0.76	

The accompanying notes are an integral part of the consolidated financial statements.
(With Deloitte & Touche audit report dated March 8, 2020) TED

Chairman :



Manager :



Chief Accountant :





SAN FANG CHEMICAL INDUSTRY CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)

	Share Capital	Capital Surplus	Retained Earnings			Other	Equity			Total Equity
			Legal Reserve	Special Reserve	Unappropriated Earnings		Exchange Differences on Translating of Foreign Operations	Unrealized Gains on Available-For-Sale Financial Assets	Unrealized Gains (Losses) on Financial Assets at Fair Value Through Other Comprehensive Income	
BALANCE AT JANUARY 1, 2018	\$ 3,978,181	\$ 139,055	\$ 1,291,899	\$ 504,790	\$ 2,685,589	\$ (229,856)	\$ 11,307	\$ -	\$ 8,380,965	
Effects of retrospective application and retrospective restatement (Note3)	-	-	-	-	-	-	(11,307)	11,307	-	
Equity at the beginning of the period after adjustments	3,978,181	139,055	1,291,899	504,790	2,685,589	(229,856)	-	11,307	8,380,965	
Appropriation of 2017 earnings: (Note18)	-	-	90,106	-	(90,106)	-	-	-	-	
Legal reserve										
Cash dividends distributed by the Corporation -17%	-	-	-	-	(676,291)	-	-	-	(676,291)	
	-	-	90,106	-	(766,397)	-	-	-	(676,291)	
Overdue unclaimed cash dividends: (Note18)	-	973	-	-	-	-	-	-	973	
Net profit in 2018	-	-	-	-	302,933	-	-	-	302,933	
Other comprehensive income (loss) in 2018, net of income tax	-	-	-	-	21,864	192,584	-	(6,415)	208,033	
Total comprehensive income in 2018	-	-	-	-	324,797	192,584	-	(6,415)	510,966	
BALANCE AT DECEMBER 31, 2018	3,978,181	140,028	1,382,005	504,790	2,243,989	(37,272)	-	4,892	8,216,613	
Appropriation of 2018 earnings: (Note18)	-	-	30,293	-	(30,293)	-	-	-	-	
Legal reserve										
Cash dividends distributed by the Corporation -5%	-	-	-	-	(198,909)	-	-	-	(198,909)	
	-	-	30,293	-	(229,202)	-	-	-	(198,909)	
Overdue unclaimed cash dividends: (Note18)	-	1,073	-	-	-	-	-	-	1,073	
Net profit in 2019	-	-	-	-	430,420	-	-	-	430,420	
Other comprehensive income (loss) in 2019, net of income tax	-	-	-	-	(5,812)	(189,493)	-	10,193	(185,112)	
Total comprehensive income (loss) in 2019	-	-	-	-	424,608	(189,493)	-	10,193	245,308	
BALANCE AT DECEMBER 31, 2019	\$ 3,978,181	\$ 141,101	\$ 1,412,298	\$ 504,790	\$ 2,439,395	\$ (226,765)	\$ -	\$ 15,085	\$ 8,264,085	

Chairman :



Manager :



Chief Accountant :



The accompanying notes are an integral part of the consolidated financial statements.
 (With Deloitte & Touche audit report dated March 8, 2020) TED



SAN FANG CHEMICAL INDUSTRY CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	535,572	374,618
	\$	\$
Adjustments for:		
Depreciation expense	390,909	354,302
Amortization expense	4,088	1,506
Expected credit loss recognized on accounts receivable	36	4,674
Net loss (gain) on financial liabilities at fair value through profit or loss	(201)	—
Financial costs	43,236	34,096
Interest income	(1,234)	(1,062)
Dividend income	(3,839)	(2,088)
Share of profit of subsidiaries accounted for using the equity method	(297,382)	4,634
Loss (gain) on disposal of property, plant and equipment	(4,560)	615
Realized (unrealized) gain on the transactions with subsidiaries	(35)	8,059
Loss on inventory count	10,014	243
Write-down of inventories	54,148	15,379
Others	3	—
Changes in operating assets and liabilities		
Notes receivable	44,031	2,761
Notes receivable - related parties	—	29,679
Accounts receivable	28,176	(420,553)
Accounts receivable - related parties	259,611	(380,927)
Other receivable	3,570	(1,183)
Income tax assets	(15,079)	—
Other receivables – related parties	45,358	(176,760)
Inventories	(13,908)	(800,351)
Prepayments	(13,517)	5,959
Other current assets	(6,748)	6,360
Financial liabilities held for trading	201	—
Contract liabilities	5,104	—
Accounts payable	(56,684)	(20,798)
Accounts payables – related parties	369	474,126
Other payables	25,905	(23,921)
Refund liabilities from related	(4,856)	202,924
Other current liabilities	24,322	6,868
Net defined benefit liability	(247)	(30,202)
Cash generated from (used in) operations	1,056,363	(331,042)
Interest received	1,234	1,062
Dividends received	3,839	433,231

(Continued)




SAN FANG CHEMICAL INDUSTRY CO., LTD.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018


Unit: NT\$ thousand

	2019	2018
Interest paid	\$ (45,089)	\$ (37,302)
Income tax paid	(143,526)	(222,189)
Net cash generated from (used in) operating activities	<u>872,821</u>	<u>(156,240)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the capital reduction on financial assets at fair value through other comprehensive income	—	2,176
Acquisition of property, plant and equipment	(505,195)	(466,106)
Proceeds from disposal of property, plant and equipment	19,102	3,666
Increase in refundable deposits	—	(338)
Decrease in refundable deposits	3	—
Acquisition of intangible assets	(34,310)	(1,181)
Net cash used in investing activities	<u>(520,400)</u>	<u>(461,783)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (Decrease) in short-term borrowings	(528,940)	988,940
Increase in short-term bills payable	—	100,000
Proceeds from long-term borrowings	900,000	300,000
Repayments of long-term borrowings	(231,000)	(288,000)
Increase in guarantee deposits received	1,636	—
Decrease in guarantee deposits received	—	(1,000)
Payments of lease liabilities	(6,779)	—
Cash dividends distributed	(198,909)	(676,291)
Overdue unclaimed cash dividends	1,073	973
Net cash generated from (used in) financing activities	<u>(62,919)</u>	<u>424,622</u>
NET INCREASE (DECREASE) IN CASH	289,502	(193,401)
CASH AT THE BEGINNING OF THE YEAR	<u>335,419</u>	<u>528,820</u>
CASH AT THE END OF THE YEAR	<u>\$ 624,921</u>	<u>\$ 335,419</u>

The accompanying notes are an integral part of the consolidated financial statements.
(With Deloitte & Touche audit report dated March 8, 2020) TED

Chairman : 

Manager : 

Chief Accountant : 



**SAN FANG CHEMICAL INDUSTRY CO., LTD.**

Distribution of Surplus for 2019

Unit:NTD

Item	Amount
Beginning unappropriated retained earnings	2,014,788,016
Add: Post-tax net income for the Current Year	430,419,775
Subtract: Remeasurement of defined benefit plans recognized in retained earnings	5,812,146
Subtract: legal reserve (net income after tax 10%)	42,460,763
Retained earnings available for distribution as of 2019	2,396,934,882
Distribution items :	
Shareholders' dividend - cash dividend (NT\$ 0.8 per share)	318,254,501
Unappropriated retained earnings	2,078,680,381

Remark: The Shareholders' cash dividend was distributed at 2019 surplus of \$318,254,501

Chairman : Manager : Chief Accountant : 



SAN FANG CHEMICAL INDUSTRY CO., LTD.

Audit Committee's Review Report

The Board of Directors has prepared and submitted the Company's 2019 business report and financial statements. Commissioned by the Board of Directors, the CPA firm Deloitte& Touch, Wu Chiu-Yen and Chiang Jia-Ling have audited the financial statements and issued an audit report relating to the Financial Statements.

These have been reviewed by the Audit Committee as conforming to relevant laws and regulations. In accordance with Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act, we hereby submit this Report.

To:
2020 Annual General Shareholders' Meeting of SAN FANG CHEMICAL CO., LTD.

Audit Committee convener: : Hsu, Wan-Lin

Date : March 9, 2020



Attachment 4

SAN FANG CHEMICAL INDUSTRY CO., LTD.

Ethical Corporate Management Best Practice Principles

Comparative table content of amended provisions

Amended clause	Original clause	Instruction
<p>Article 5-Policy The Company shall abide by the operational philosophies of honesty, transparency and responsibility, base policies on the principle of good faith and obtain <u>approval from the board of directors</u>, and establish good corporate governance and risk control and management mechanism so as to create an operational environment for sustainable development.</p>	<p>Article 5-Policy The Company shall abide by the operational philosophies of honesty, transparency and responsibility, base policies on the principle of good faith and establish good corporate governance and risk control and management mechanism so as to create an operational environment for sustainable development.</p>	Amendments in accordance with the Article 5 of Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies
<p>Article 7-Scope of prevention programs The Company shall <u>establish a risk assessment mechanism against unethical conduct, analyze and assess on a regular basis business activities</u> within their business scope which are at a higher risk of being involved in unethical conduct, and <u>establish prevention programs accordingly and review their adequacy and effectiveness on a regular basis</u>. Company shall establish the prevention programs, which shall at least include preventive measures against the following: 1. Offering and acceptance of bribes. 2. Illegal political donations. 3. Improper charitable donations or sponsorship. 4. Offering or acceptance of unreasonable presents or hospitality, or other improper benefits. 5. Misappropriation of trade secrets and infringement of trademark rights, patent rights, copyrights, and other intellectual property rights. 6. Engaging in unfair competitive</p>	<p>Article 7-Scope of prevention programs When the Company formulates a prevention programs, it shall analyze the business activities with a high risk of dishonesty in the business scope and strengthen relevant prevention measures. Company shall establish the prevention programs, which shall at least include preventive measures against the following: 1. Offering and acceptance of bribes. 2. Illegal political donations. 3. Improper charitable donations or sponsorship. 4. Offering or acceptance of unreasonable presents or hospitality, or other improper benefits. 5. Misappropriation of trade secrets and infringement of trademark rights, patent rights, copyrights, and other intellectual property rights. 6. Engaging in unfair competitive practices. 7. Damage directly or indirectly caused to the rights or interests, health, or safety of consumers or other</p>	Amendments in accordance with the Article 7 of Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies



Amended clause	Original clause	Instruction
<p>practices.</p> <p>7. Damage directly or indirectly caused to the rights or interests, health, or safety of consumers or other stakeholders in the course of research and development, procurement, manufacture, provision, or sale of products and services.</p>	<p>stakeholders in the course of research and development, procurement, manufacture, provision, or sale of products and services.</p>	
<p>Article 8-Commitment and Implementation</p> <p>The Company shall request their directors and senior management to issue a statement of compliance with the ethical management policy and require in the terms of employment that employees comply with such policy.</p> <p>The Company and their respective business group shall clearly specify in their rules and external documents and on the company website the ethical corporate management policies and the commitment by the board of directors and senior management on rigorous and thorough implementation of such policies, and shall carry out the policies in internal management and in commercial activities.</p> <p>The Company shall compile documented information on the ethical management policy, statement, commitment and implementation mentioned in the first and second paragraphs and retain said information properly.</p>	<p>Article 8-Commitment and Implementation</p> <p>The Company and their respective business group shall clearly specify in their rules and external documents the ethical corporate management policies and the commitment by the board of directors and the management on rigorous and thorough implementation of such policies, and shall carry out the policies in internal management and in commercial activities.</p>	<p>Amendments in accordance with the Article 8 of Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies</p>
<p>Article 17-Organization and Responsibility</p> <p>The directors, supervisors, managers, employees, mandataries, and substantial controllers of a TWSE/GTSM listed company shall exercise the due care of good administrators to urge the company to prevent unethical conduct, always review the results of the preventive measures and continually make adjustments so as to ensure thorough implementation of its ethical corporate</p>	<p>Article 17-Organization and Responsibility</p> <p>The directors, supervisors, managers, employees, mandataries, and substantial controllers of a TWSE/GTSM listed company shall exercise the due care of good administrators to urge the company to prevent unethical conduct, always review the results of the preventive measures and continually make adjustments so as to ensure thorough implementation of its ethical corporate</p>	<p>Amendments in accordance with the Article 17 of Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies.</p>



Amended clause	Original clause	Instruction
<p>management policies. To achieve sound ethical corporate management, the Company shall establish a dedicated unit that is under the board of directors and avail itself of adequate resources and staff itself with competent personnel, responsible for establishing and supervising the implementation of the ethical corporate management policies and prevention programs. The dedicated unit shall be in charge of the following matters, and shall report to the board of directors on a regular basis (at least once a year):</p> <ol style="list-style-type: none"> 1. Assisting in incorporating ethics and moral values into the company's business strategy and adopting appropriate prevention measures against corruption and malfeasance to ensure ethical management in compliance with the requirements of laws and regulations. 2. <u>Analyzing and assessing on a regular basis the risk of involvement in unethical conduct within the business scope</u>, adopting accordingly programs to prevent unethical conduct, and setting out in each program the standard operating procedures and conduct guidelines with respect to the company's operations and business. 3. Planning the internal organization, structure, and allocation of responsibilities and setting up check-and-balance mechanisms for mutual supervision of the business activities within the business scope which are possibly at a higher risk for unethical conduct. 4. Promoting and coordinating awareness and educational activities with respect to ethics policy. 5. Developing a whistle-blowing system and ensuring its operating effectiveness. 6. Assisting the board of directors and management in auditing and assessing whether the prevention 	<p>management policies. To achieve sound ethical corporate management, the Company shall establish a dedicated unit that is under the board of directors and avail itself of adequate resources and staff itself with competent personnel, responsible for establishing and supervising the implementation of the ethical corporate management policies and prevention programs. The dedicated unit shall be in charge of the following matters, and shall report to the board of directors on a regular basis (at least once a year):</p> <ol style="list-style-type: none"> 1. Assisting in incorporating ethics and moral values into the company's business strategy and adopting appropriate prevention measures against corruption and malfeasance to ensure ethical management in compliance with the requirements of laws and regulations. 2. Adopting programs to prevent unethical conduct and setting out in each program the standard operating procedures and conduct guidelines with respect to this Corporation's operations and business. 3. Planning the internal organization, structure, and allocation of responsibilities and setting up check-and-balance mechanisms for mutual supervision of the business activities within the business scope which are possibly at a higher risk for unethical conduct. 4. Promoting and coordinating awareness and educational activities with respect to ethics policy. 5. Developing a whistle-blowing system and ensuring its operating effectiveness. 6. Assisting the board of directors and management in auditing and assessing whether the prevention measures taken for the purpose of implementing ethical management are effectively operating, and preparing reports on the regular 	



Amended clause	Original clause	Instruction
<p>measures taken for the purpose of implementing ethical management are effectively operating, and preparing reports on the regular assessment of compliance with ethical management in operating procedures.</p>	<p>assessment of compliance with ethical management in operating procedures.</p>	
<p>Article 20-Accounting and Internal control The company shall establish effective accounting systems and internal control systems for business activities possibly at a higher risk of being involved in an unethical conduct, not have under-the-table accounts or keep secret accounts, and conduct reviews regularly so as to ensure that the design and enforcement of the systems are showing results. The internal audit unit of the company shall, <u>based on the results of assessment of the risk of involvement in unethical conduct, devise relevant audit plans including auditees, audit scope, audit items, audit frequency, etc., and examine accordingly the compliance with the prevention programs.</u> The internal audit unit may engage a certified public accountant to carry out the audit, and may engage professionals to assist if necessary. <u>The results of examination in the preceding paragraph shall be reported to senior management and the ethical management dedicated unit and put down in writing in the form of an audit report to be submitted to the board of directors.</u></p>	<p>Article 20-Accounting and Internal control The company shall establish effective accounting systems and internal control systems for business activities possibly at a higher risk of being involved in an unethical conduct, not have under-the-table accounts or keep secret accounts, and conduct reviews regularly so as to ensure that the design and enforcement of the systems are showing results. The internal audit unit of the Company shall periodically examine the company's compliance with the foregoing systems and prepare audit reports and submit the same to the board of directors. The internal audit unit may engage a certified public accountant to carry out the audit, and may engage professionals to assist if necessary.</p>	<p>Amendments in accordance with the Article 20 of Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies</p>
<p>Article-23whistle-blowing system The companies shall adopt a concrete whistle-blowing system and scrupulously operate the system. The whistle-blowing system shall include at least the following: 1. An independent mailbox or hotline, either internally established and publicly announced or provided by an independent external institution,</p>	<p>Article-23whistle-blowing system The Companies shall adopt a concrete whistle-blowing system and scrupulously operate the system. The whistle-blowing system shall include at least the following: 1. An independent mailbox or hotline, either internally established and publicly announced or provided by an independent external institution,</p>	<p>Amendments in accordance with the Article 23 of Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies</p>



Amended clause	Original clause	Instruction
<p>to allow internal and external personnel of the company to submit reports.</p> <p>2. Dedicated personnel or unit appointed to handle the whistle-blowing system. Any tip involving a director or <u>senior management</u> shall be reported to the independent directors. Categories of reported misconduct shall be delineated and standard operating procedures for the investigation of each shall be adopted.</p> <p>3. <u>Follow-up measures to be adopted depending on the severity of the circumstances after investigations of cases reported are completed. Where necessary, a case shall be reported to the competent authority or referred to the judicial authority.</u></p> <p>4. Documentation of case acceptance, investigation processes, investigation results, and relevant documents.</p> <p>5. Confidentiality of the identity of whistle-blowers and the content of reported cases, <u>and an undertaking regarding anonymous reporting.</u></p> <p>6. Measures for protecting whistle-blowers from inappropriate disciplinary actions due to their whistle-blowing.</p> <p>7. Whistle-blowing incentive measures. When material misconduct or likelihood of material impairment to the TWSE/GTSM listed company comes to their awareness upon investigation, the dedicated personnel or unit handling the whistle-blowing system shall immediately prepare a report and notify the independent directors or supervisors in written form.</p>	<p>to allow internal and external personnel of the company to submit reports.</p> <p>2. Dedicated personnel or unit appointed to handle the whistle-blowing system. Any tip involving a director or senior manager shall be reported to the independent directors or supervisors. Categories of reported misconduct shall be delineated and standard operating procedures for the investigation of each shall be adopted.</p> <p>3. Documentation of case acceptance, investigation processes, investigation results, and relevant documents.</p> <p>4. Confidentiality of the identity of whistle-blowers and the content of reported cases, and an undertaking regarding anonymous reporting.</p> <p>5. Measures for protecting whistle-blowers from inappropriate disciplinary actions due to their whistle-blowing.</p> <p>6. Whistle-blowing incentive measures. When material misconduct or likelihood of material impairment to the TWSE/GTSM listed company comes to their awareness upon investigation, the dedicated personnel or unit handling the whistle-blowing system shall immediately prepare a report and notify the independent directors or supervisors in written form.</p>	
<p>Article-27 Enforcement The ethical corporate management best practice principles of the company shall be implemented after the board of directors grants the approval, and shall be sent to the audit committee. The</p>	<p>Article-27 Enforcement The ethical corporate management best practice principles of the company shall be implemented after the board of directors grants the approval, and shall be sent to the audit committee and</p>	<p>Add the second revision date</p>



Amended clause	Original clause	Instruction
<p>same procedure shall be followed when the principles have been amended. The best practice principle takes effect on March 10th, 2015. Amended thereafter on August 7th, 2018 ; <u>March 6th, 2020.</u></p>	<p>reported at a shareholders' meeting. The same procedure shall be followed when the principles have been amended. The original best practice principles were adopted on March 10th, 2015. Amended thereafter on August 7th, 2018.</p>	



Attachment 5

SAN FANG CHEMICAL INDUSTRY CO., LTD.

Adoption of Codes of Ethical Conduct

Comparative table of content of amended provisions

Amended clause	Original clause	Instruction
Article 15-Enforcement The company's code of ethical conduct, and any amendments to it, shall enter into force after it has been adopted by the audit committee and the board of directors. The code of ethical conduct takes effect on March 10 th , 2015. Amended thereafter on August 7 th , 2018; <u>March 6th, 2020</u> .	Article 15-Enforcement The company's code of ethical conduct, and any amendments to it, shall enter into force after it has been adopted by the audit committee and the board of directors, and submitted to a shareholders meeting. The code of ethical conduct takes effect on March 10 th , 2015. Amended thereafter on August 7 th , 2018.	For the business demand, amend Article 15 and add the second revision date.

**SAN FANG CHEMICAL INDUSTRY CO., LTD.**

Rules of Procedure for Shareholders Meetings
Comparative table of content of amended provisions

Amended clause	Original clause	Instruction
<p>Article 9-Enforcement</p> <p>If a shareholders meeting is convened by the board of directors, the meeting agenda shall be set by the board of directors. <u>The meeting including extraordinary motion and amendments to original proposals shall proceed in the order set by the agenda,</u> which may not be changed without a resolution of the shareholders meeting.</p> <p>The provisions of the preceding paragraph apply mutatis mutandis to a shareholders meeting convened by a party with the power to convene that is not the board of directors.</p> <p>The chair may not declare the meeting adjourned prior to completion of deliberation on the meeting agenda of the preceding two paragraphs (including extraordinary motions), except by a resolution of the shareholders meeting. <u>If the chair declares the meeting adjourned in violation of the rules of procedure, the other members of the board of directors shall promptly assist the attending shareholders in electing a new chair in accordance with statutory procedures, by agreement of a majority of the votes represented by the attending shareholders, and then continue the meeting.</u></p>	<p>Article 9-Enforcement</p> <p>If a shareholders meeting is convened by the BOD, the meeting agenda shall be set by the BOD. The meeting shall proceed in the order set by the agenda, which may not be changed without a resolution of the shareholders meeting. The provisions of the preceding paragraph apply mutatis mutandis to a shareholders meeting convened by a party with the power to convene that is not the BOD.</p> <p>The chair may not declare the meeting adjourned prior to completion of deliberation on the meeting agenda of the preceding two paragraphs (including extraordinary motions), except by a resolution of the shareholders meeting.</p> <p>After the meeting declared, shareholders shall not elect another chairman to continue the meeting at the same site or in another place.</p>	<p>Amendments are made in accordance with Notice No. 1080024221 of Taiwan Stock Exchange Co., Ltd. on January 2, 2020.</p>
<p>Article 14-Enforcement</p> <p><u>The chair shall allow ample opportunity during the meeting for explanation and discussion of proposals and of amendments or extraordinary motions put forward by the shareholders;</u> when the chair is of the opinion that a proposal has been discussed sufficiently to put it to a vote, <u>the chair may announce the discussion closed and call for a vote.</u></p>	<p>Article 14-Enforcement</p> <p>When the chair is of the opinion that a proposal has been discussed sufficiently to put it to a vote during the meeting, the chair may announce the discussion closed and call for a vote.</p>	<p>Amendments are made in accordance with Notice No. 1080024221 of Taiwan Stock Exchange Co., Ltd. on January 2, 2020.</p>



Amended clause	Original clause	Instruction
<p>Article 17-Enforcement</p> <p>Except as otherwise provided in the Company Act and in this Corporation's articles of incorporation, the passage of a proposal shall require an affirmative vote of a majority of the voting rights represented by the attending shareholders. <u>At the time of a vote, for each proposal, the chair or a person designated by the chair shall first announce the total number of voting rights represented by the attending shareholders, followed by a poll of the shareholders. After the conclusion of the meeting, on the same day it is held, the results for each proposal, based on the numbers of votes for and against and the number of abstentions, shall be entered into the MOPS.</u></p>	<p>Article 17-Enforcement</p> <p>Except as otherwise provided in the Company Act and in SanFang's articles of association, the passage of a proposal shall require an affirmative vote of a majority of the voting rights represented by the attending shareholders.</p>	<p>Amendments are made in accordance with Notice No. 1080024221 of Taiwan Stock Exchange Co., Ltd. on January 2, 2020.</p>
<p>Article 20-Enforcement</p> <p><u>The resolutions adopted at the shareholders' meeting shall be made into minutes, which shall be signed by or affixed with seal of the chairperson of the meeting and distributed to all shareholders within 20 days after the meeting.</u></p> <p><u>The distribution of the meeting minutes shall comply with the Company Act.</u></p> <p><u>Minutes of the meeting shall include the date and place of the meeting, the name of the chairperson at the meeting, the method for adopting the resolutions, and summary and results of the proceedings. Minutes of the meetings shall be kept for as long as the Company is in existence.</u></p>	<p>Article 20-Enforcement</p> <p>These Rules, and any amendments hereto, shall be implemented after adoption by shareholders' meetings.</p>	<p>Amendments are made in accordance with Notice No. 1080024221 of Taiwan Stock Exchange Co., Ltd. on January 2, 2020. Announce the added provisions on minutes of shareholders' meeting</p>
<p>Article 21-Enforcement</p> <p>These Rules, and any amendments hereto, shall be implemented after adoption by shareholders' meetings.</p> <p><u>These Rules takes effect on June 9th, 2020</u></p>		<p>Add the revision date</p>



Appendix 1

SAN FANG CHEMICAL INDUSTRY CO., LTD.

Rules of Procedure for Shareholders Meetings

1. The rules of procedures for SanFang's shareholders' meeting, except as otherwise provided by law or regulations, shall be as provided in these Rules.
2. SanFang shall furnish the attending shareholders with an attendance book to sign, or attending shareholders may hand in a sign-in card in lieu of signing in. The number of shares in attendance shall be calculated according to the shares indicated by the attendance book and sign-in cards handed in plus the number of shares whose voting rights are exercised by correspondence or electronically.
3. Attendance and vote at shareholder's meetings shall be calculated based on numbers of shares.
4. The venue for a shareholders meeting shall be the premises of SanFang, or a place easily accessible to shareholders and suitable for a shareholders meeting. The meeting may begin no earlier than 9 a.m. and no later than 3 p.m.
5. If a shareholders meeting is convened by the BOD, the meeting shall be chaired by the chairperson of the board. When the chairperson of the board is on leave or for any reason unable to exercise the powers of the chairperson in accordance with the Company Act. If a shareholders meeting is convened by a party with power to convene but other than the BOD, the convening party shall chair the meeting.
6. SanFang may appoint its attorneys, certified public accountants, or related persons retained by it to attend a shareholders meeting. Staff handling administrative affairs of a shareholders meeting shall wear identification cards or arm bands.
7. The preceding of the shareholders meeting shall make an uninterrupted audio or video, and shall be retained for at least one year.
8. The chair shall call the meeting to order at the appointed meeting time. However, when the attending shareholders do not represent a majority of the total number of issued shares, the chair may announce a postponement, provided that no more than two such postponements, for a combined total of no more than one hour, may be made. If the quorum is not met after two postponements and the attending shareholders still represent less than one third of the total number of issued shares, a tentative resolution may be adopted pursuant to Article 175, paragraph 1 of the Company Act. All shareholders shall be notified of the tentative resolution. When, prior to conclusion of the meeting, the attending shareholders represent a majority of the total number of issued shares, the chair may resubmit the tentative resolution for a vote by the shareholders meeting pursuant to Article 174 of the Company Act.
9. If a shareholders meeting is convened by the BOD, the meeting agenda shall be set by the BOD. The meeting shall proceed in the order set by the agenda, which may not be changed without a resolution of the shareholders meeting. The provisions of the preceding paragraph apply mutatis mutandis to a shareholders meeting convened by a party with the power to convene that is not the BOD.
The chair may not declare the meeting adjourned prior to completion of deliberation on the meeting agenda of the preceding two paragraphs (including extraordinary motions), except by a resolution of the shareholders meeting.
After the meeting declared, shareholders shall not elect another chairman to continue the meeting at the same site or in another place.
10. Before speaking, an attending shareholder must specify on a speaker's slip the subject of the speech, his/her shareholder account number (or attendance card number), and account name.
The order in which shareholders speak will be set by the chair. A shareholder in attendance who has submitted a speaker's slip but does not actually speak shall be deemed to have not spoken. When the content of the speech does not correspond to the subject given on the speaker's slip, the spoken content shall prevail. When an attending shareholder is speaking, other shareholders may not speak or interrupt unless they have sought and obtained the consent of the chair and the shareholder that has the floor. The chair shall stop any violation.



11. Except with the consent of the chair, a shareholder may not speak more than twice on the same proposal, and a single speech may not exceed 5 minutes. If the shareholder's speech violates the rules or exceeds the scope of the agenda item, the chair may terminate the speech.
12. When a juristic person is appointed to attend as proxy, it may designate only one person to represent it in the meeting.
When a juristic person shareholder appoints two or more representatives to attend a shareholders meeting, only one of the representatives so appointed may speak on the same proposal.
13. After an attending shareholder has spoken, the chair may respond in person or direct relevant personnel to respond.
14. When the chair is of the opinion that a proposal has been discussed sufficiently to put it to a vote during the meeting, the chair may announce the discussion closed and call for a vote.
15. Vote monitoring and counting personnel for the voting on a proposal shall be appointed by the chair, provided that all monitoring personnel shall be shareholders of SanFang.
16. When a meeting is in progress, the chair may announce a break based on time considerations.
17. Except as otherwise provided in the Company Act and in SanFang's articles of association, the passage of a proposal shall require an affirmative vote of a majority of the voting rights represented by the attending shareholders.
18. When there is an amendment or an alternative to a proposal, the chair shall present the amended or alternative proposal together with the original proposal and decide the order in which they will be put to a vote. When any one among them is passed, the other proposals will then be deemed rejected and no further voting shall be required.
19. The chair may direct the proctors or security personnel to help maintain order at the meeting place. When proctors or security personnel help maintain order at the meeting place, they shall wear an identification card or armband bearing the word "Proctor."
20. These Rules, and any amendments hereto, shall be implemented after adoption by shareholders' meetings.



Appendix 2

Articles of Incorporation of SAN FANG CHEMICAL INDUSTRY CO., LTD.

Section I General Provisions

Article1

The name of the company is SAN FANG CHEMICAL INDUSTRY CO., LTD.(三芳化學工業股份有限公司) (the“Company”), which is duly organized as a company limited by shares under the Company Act of Taiwan.

Article2

The business to be operated by the company is as follow:

1. C805010 Plastic Sheets, Pipes and Tubes Manufacturing
2. C801100 Synthetic Resin & Plastic Manufacturing
3. C801120 Manmade Fiber Manufacturing
4. C303010 Non-woven Fabrics Mills
5. C305010 Printing, Dyeing, and Finishing Mills
6. C401030 Leather and Furriery Manufacturing
7. C801990 Other Chemical Materials Manufacturing
8. F401010 International trade
9. F107200 Wholesale of Chemistry Raw Material
10. ZZ99999 All business not prohibited or restricted by law, except for those subject to special approval.

Article2-1

The total amount of its investments in such other companies shall exceed forty percent of the amount of its own paid-up capital.

Article3

The headquarters of the Company is located in Kaohsiung City, Taiwan. The Company may establish branches or subsidiaries in Taiwan or overseas as the Company may require upon resolution by the Board of Directors of the Company (“Board or “Board of Directors”).

Article4

The Company may act as a guarantor for companies in the same industry.

Section II Shares

Article5

The registered capital of the Company shall be four billion six hundred million New Taiwan Dollars (NT\$4,600,000,000), divided into forty-six hundred million (460,000,000) shares, with a par value of ten New Taiwan Dollars (NT\$10) per share. Board of Directors authorizes the shares which are unissued that govern the issue of new shares by installments for the purpose of company’s business.

Article6

The Company’s shares shall be registered and numbered, and shall bear the signatures or personal seals of at least three Directors, and be issued upon approvals from relevant competent authorities in accordance with the law.



Article 6-1

For the new shares to be issued by the company, the issuing company may print a consolidated share certificate representing the total number of the new shares to be issued at the same time of issue, and the issued shares may be exempt from printing.

The issued shares certificate in accordance with the provision of the preceding paragraph shall register and hold in the custody with a centralized securities depository enterprise. It may also issue large-denominated securities in a consolidated manner at the request of a centralized securities depository.

Article 7

Shareholders should send their seals to the company for future reference. When the shareholders receive dividends from the company or exercise their equity in writing, the seals kept by the company. For other affairs related to stocks, it shall be governed by Regulations Governing the Administration of Shareholder Services of Public Companies.

Article 8

Registration for the transfer of shares shall be completed sixty (60) days before the date of each annual meeting, thirty (30) days before the date of each special meeting, or five (5) days before the date on which dividends, bonus, or any other distributions will be paid or made by the Company.

Section III Shareholders' Meeting

Article 9

There are two types of shareholders' meeting of the Company, the annual meeting and special meeting. Annual meetings shall be convened by the Board of Directors annually within six (6) months after the end of each fiscal year. Notice shall be given to the shareholders by mail or electronic transmission at least thirty (30) days prior to an annual meeting, and, at least fifteen (15) days prior to a special meeting.

Article 10

A shareholder who is unable to attend the shareholders' meeting may authorize another person to attend as proxy using the form provided by the Company affixed with the seal that such shareholder left in the Company's safekeeping. When a person who acts as the proxy for two or more shareholders, the number of voting power represented by him/her shall not exceed 3% of the total number of voting shares of the company, otherwise, the portion of excessive voting power shall not be counted.

Unless otherwise provided by the Company Act, shall comply under "Regulations Governing the Use of Proxies for Attendance at Shareholder Meetings of Public Companies" in accordance with the regulations to be prescribed by the competent authority.

Article 11

The shareholders' meetings shall be presided by the Chairman of the Board. If the Chairman of the Board is on leave or unable to exercise his powers and duties for any reason, the chairperson of the meetings shall be appointed pursuant to Article 208 of the Company Act.

Article 12

Unless otherwise provided for in the Company Act, a meeting of shareholders shall proceed only if attended by shareholders representing more than one-half of the total outstanding capital stock of the Company. Resolutions of a shareholders meeting shall be made at the meeting with the concurrence of a majority of the votes held by



the shareholders present at the meeting.

Article 13

The resolutions adopted at the shareholders' meeting shall be made into minutes, which shall be signed by or affixed with seal of the chairperson of the meeting and distributed to all shareholders within 20 days after the meeting.

The distribution of the meeting minutes shall comply with the Company Act.

Minutes of the meeting shall include the date and place of the meeting, the name of the chairperson at the meeting, the method for adopting the resolutions, and summary and results of the proceedings. Minutes of the meetings shall be kept for as long as the Company is in existence.

The attendance register and proxy forms shall be kept for at least one year; provided, however, records concerning an action initiated by a shareholder pursuant to Article 189 of the Company Act shall be kept until the conclusion of the lawsuit.

Section IV Directors

Article 14

The Company shall have five to nine Directors, who shall be elected from legally competent persons at the shareholders' meeting and hold office for three years; re-elected Directors may serve consecutive terms.

There shall be at least three independent Directors among the number of Directors to be elected referred to in the preceding paragraph, and the independent Directors shall represent at least one-fifth of the Board. The independent Directors shall be elected at the shareholders' meeting using the candidate nomination system and from among a list of candidates. The restrictions on professional qualifications, share ownership, concurrent positions held, the manner of nomination, the election of the independent Directors, and other related matters shall comply with applicable laws and regulations prescribed by the competent authority.

Article 15

In case that the vacancies in the office of Directors reach one-third of the Board, the Board of Directors shall convene a special meeting of the shareholders to elect new Directors to fill the vacancies. A director elected to fill such vacancy shall hold office for the unexpired term of the director whose office was vacant.

Article 16

The board of directors is organized by the directors, the Board of Directors shall elect a chairman of the board Directors from among the Directors by a majority vote at a meeting attended by over two-thirds of the Directors, and may also elect in the same manner a vice chairman of the board in accordance with the provisions of the Articles of Incorporation. The company's director represents the company in its external affairs and determine the guidelines and execute the supervision plan in its internal.

Article 17

The Chairman of the Board shall preside at all meetings of the Board of Directors. If the Chairman of the Board is on leave or cannot exercise his powers and duties for any reason, a chairperson shall be appointed pursuant to Article 208 of the Company Act.

Article 17-1

In calling a meeting of the Board of Directors, the meeting notice may be given in writing, email or electronic form in accordance with the Article 204 of Company Act.



Article18

The Borad of the direator determine the operating strategy and other important matters. Unless otherwise provided for in Company Act, it shall be decided by a resolution to be adopted by a majority vote of the directors at a meeting of the board of directors attended by at least a majority of the entire directors of the company. Resolutions adopted at a shareholders' meeting shall be recorded in the minutes of the meeting, which shall be affixed with the signature or seal of the chairman of the meeting

Article19

Each director shall attend the meeting of the Board of Directors in person, In case a meeting of the Board of Directors is proceeded via visual communication network, then the Directors taking part in such a visual communication meeting shall be deemed to have attended the meeting in person. In case a director appoints another director to attend a meeting of the Board of Directors in his/her behalf, he/she shall, in each time, issue a written proxy and state therein the scope of authority with reference to the subjects to be discussed at the meeting. A director may accept the appointment to act as the proxy referred to in the preceding Paragraph of one other director only.

Article20

As pursuant to the provisions of Article 14-4, of the Securities and Exchange Act; the audit committee shall be composed of the entire number of independent Directors. The audit committee and members shall implement of the Company Law, the Securities Exchange Law and other laws provides for the duties and powers of the supervisors.

Article21

The directors are remunerated regularly, authorizing the board of directors to agree on the level of their participation in the company's operations and the value of their contributions, and with reference to the standard of the same trade concerned. The Board of Directors determine Directors' transportation allowance.

Section V Staff

Article22

The company shall be one general manager and several vice general managers, upon approval by a majority of the Directors at a meeting attended by half or more of the total number of the Directors for the appointment.

Section VI Accounting

Article23

The company shall hold an accounting year annually from January 1 to December 31 each year, and closing of accounts one time at the end of the year.

1. Business report
2. Financial statement
3. Proposals for distribution of profits or covering of losses

Article24

The Company shall set aside between 3% to 5% of its pre-tax income as bonus to employees of the Company



and set aside 3% (inclusive) or less of its pre-tax income as bonus to Directors.

The distribution of bonus to employees and Directors may be made by way of cash or shares. A company may, by a resolution adopted by a majority vote at a meeting of Board of Directors attended by two-thirds of the total number of Directors, have the profit distributable as employees' compensation distributed in the form of shares or in cash; and in addition thereto a report of such distribution shall be submitted to the shareholders' meeting. However, the Company's accumulated losses shall have been covered first. Employee and Directors' compensation shall be provided according to the proportions in the preceding paragraph.

Article24-1

A company shall, after its losses have been covered and all taxes and dues have been paid and at the time of allocating surplus profits, first set aside ten percent of such profits as a legal reserve. For the purpose of operation needs, if there are surplus earnings, the company shall appropriate another sum as a special reserve, accumulate undistributed surplus and propose the surplus earning distribution by Board of Directors. The remaining profit shall be distributed as Shareholders' dividends upon subject to the approval of the shareholders meeting.

According to the law of Company Act, a public company may explicitly stipulate in the Articles of Incorporation to authorize the distributable dividends and bonuses in whole or in part may be paid in cash after a resolution has been adopted by a majority vote at a meeting of the Board of Directors attended by two-thirds of the total number of Directors; and in addition thereto a report of such distribution shall be submitted to the shareholders' meeting.

The company's dividend policy must be based on the company's current and future investment environment, capital requirements, financial planning and other factors, and take into account the interests of shareholders and balance dividends, and allocate more than 10% of the available earnings. However, In the current period, the total amount of distributable shareholders' dividends calculated in the form of appropriation of dividends shall be fully reserved and not distributable when the amount per share is less than NT\$0.5.

Among the proposed dividends, the cash dividends shall not be less than 10% of the total shareholders' dividends, but the cash dividends per share may not be paid if it is less than NT\$0.3 (inclusive), to substitute stock dividends for cash dividends.

Section VII Supplementary Provisions

Article25

Matters not specified in this Articles of Incorporation shall be governed by the Company Act.

Article26

The organizational charter and by-laws of the Company shall be separately adopted by the Board of Directors.

Article27

The original Articles of Incorporation were adopted on May 12, 1973. Amended thereafter on January 8, 1975; December 12, 1975; June 20, 1977; January 6, 1979; April 5, 1980; May 20, 1981; July 15, 1981; April 30, 1982; March 23, 1983; April 30, 1984; April 30, 1985; June 15, 1985; April 16, 1986; April 21, 1987; April 30, 1988; April 28, 1989; May 8, 1990; April 20, 1991; April 23, 1992; May 12, 1993; April 28, 1994; May 2, 1995; May 22, 1996; April 23, 1998; May 17, 2000; May 25, 2001; May 30, 2002; May 13, 2003; May 25, 2005; May 24, 2006; June 13, 2008; June 15, 2010; June 15, 2011; June 6, 2012; June 25, 2014 ; June 13, 2016; June 8, 2017; June 12, 2018; June 12, 2019.



Appendix 3

SAN FANG CHEMICAL INDUSTRY CO., LTD.

Shareholdings of All Directors

Effective Date: April 11, 2020

Job title	Name	Dates when elected	Number of shares held when elected			Number of shares currently hold			Remarks
			Categories	Number of shareholding	% to the current outstanding shares	Categories	Number of shareholding	% to the current outstanding shares	
Chairman	San Fang Investment Company Ltd. (Representative: Lin, Mun- Jin.)	June 12, 2018	common shares	1,033,574	0.26%	common shares	1,143,574	0.29%	
Director	Yue Dean Technology Corporation (Representative: Chang, Chia-)	June 12, 2018	common shares	56,788,876	14.28%	common shares	56,788,876	14.28%	
Director	Pou Chien Enterprise Co., Limited (Representative: Lu, Chin-Chu)	June 12, 2018	common shares	57,991,504	14.58%	common shares	57,991,504	14.58%	
Director	Pou Chien Technology Corporation (Representative: Teng, Chia-Hui)	June 12, 2018	common shares	36,549,118	9.19%	common shares	36,549,118	9.19%	
Independent Director	Hsu, Wan-Lin	June 12, 2018	common shares	0	0.00%	common shares	0	0.00%	
Independent Director	Lin, Li- Syuan	June 12, 2018	common shares	0	0.00%	common shares	0	0.00%	
Independent Director	Chou, Chih-Long	June 12, 2018	common shares	0	0.00%	common shares	0	0.00%	
Total			common shares	152,363,072		common shares	152,473,072		

Total of outstanding common shares as of April 14, 2019: 397,818,126 shares

Total of outstanding common shares as of April 11, 2020: 397,818,126 shares

Note: The statutory minimum shareholding requirement for all Directors: 15,912,725 shares.

As of April 11, 2020, the shareholding by number 152,473,072 shares

Where the Company has set up the Audit Committee, the shareholding requirements for supervisors are not applicable.

⊗ The number of shares held by independent directors is excluded from shareholding of directors.



Appendix 4 The Impact of Stock dividend Issuance on Business Performance, EPS, and Shareholder Return Rate

The Company has no plan for the free allotment of shares for this fiscal year. This item does not apply.