

Stock Code : 1307



SAN FANG CHEMICAL INDUSTRY CO., LTD

Handbook for the 2021 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 22, 2021

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



Table of Contents

I. Meeting Procedure	1
II. Meeting Agenda	2
A. Report Items	3
B. Ratification Items	5
C. Discussion Items	6
D. Election Matter.....	6
E. Extraordinary Motions.....	8
F. Meeting Adjournment.....	8
III. Attachment	
A. Business Report and Financial Statement	9
B. 2020 Earnings Distribution Table.	31
C. Audit Committee's Review Report.....	32
D. Comparison Table for Amendment of “Operational Procedures for Loaning of Company Funds”	33
IV. Appendix	
A. Rules and Procedures of Shareholder Meetings	35
B. Articles of Incorporation	37
C. Rule for Director Elections	42
D Shareholdings of all Directors.....	44
E. The Impact of Stock dividend Issuance on Business Performance, EPS, and Shareholder Return Rate	45



I. Meeting Procedure

SAN FANG CHEMICAL INDUSTRY CO., LTD

Handbook for the 2021 Annual General Shareholders' Meeting

2021 Annual General Shareholders' Meeting Procedure

1. Call the Meeting to Order
2. Chairperson's Remarks
3. Report Items
4. Ratification Items
5. Discussion Items
6. Election Matter
7. Extraordinary Motions
8. Meeting Adjourned



II. Meeting Agenda

SAN FANG CHEMICAL INDUSTRY CO., LTD

2021 Annual General Shareholders' Meeting Agenda

Date and Time: June 22, 2021 (Tuesday) at 9:00 a.m.

Location: The Ambassador Hotel Kaohsiung (20F., No. 202, Minsheng 2nd Rd., Qianjin Dist., Kaohsiung City, Taiwan)

1. Matters to Report

- (1) To report the business of 2020.
- (2) Audit Committee's review of 2020 audited Financial Statements.
- (3) To report on the 2020 Distribution of Employees' Compensation and Directors' Remuneration.
- (4) To report 2020 earnings distribution in cash dividends.

2. Ratifications:

- (1) To approve 2020 Business Report and Financial Statements.
- (2) To approve the proposal for distribution of 2020 earnings .

3. Discussions:

- (1) To discuss the amendments to the Company's "Operational Procedures for Loaning of Company Funds".

4. Election Matter

The 17th board of directors reshuffle.

5. Extraordinary Motions

6. Meeting Adjournment



A 、 Report Items

Report Proposal 1

Proposal : 2020 Business and Financial Report.

Explanations : 2020 Business Report. (please refer to pages 9-10)

Report Proposal 2

Proposal : The Audit Committee's Review Report on the 2020 Financial Statements.

Explanations : Audit Committee's Audit Report. (please refer to page 32) ◦

Report Proposal 3

Proposal : To report on the 2020 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\$275,513,336 in 2020. To consider employee benefits and peer levels and with Article 24 of the Articles of Incorporation. It is proposed that 3.532% and 2.119% of the profit, which is equal to NT\$10,312,500 and NT\$6,187,500, will be allocated as Employees' compensation and Directors' remuneration. The distribution shall be made in cash.

(3) After approved by 10th Meeting of 4th Term of Remuneration Committee on 15 March, 2021, 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 : To report the Proposal for cash dividend distribution of 2020 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\$ 198,909,063 to the shareholders according to their share ownership at NT\$0.5 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.



B 、 Ratification Items

Ratifications Proposal 1

Proposal : Ratification of the 2020 Business Report, Financial Statements

Proposed by the Board of Directors

Explanations : (1)The Audit Committee of the Company has reviewed the 2020 Business Report and The 2020 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 pages9-30). The 2020 Business Report and Financial Statements are hereby submitted for ratification.

Resolution:

Ratifications Proposal 2

Proposal : Ratification of the proposed 2020 profit distribution plan.

Proposed by the Board of Directors

Explanations : (1)The proposed 2020 profit distribution plan have been approved by 12th Meeting of 1th Term of Audit Committee on 15 March, 2021, and upon the approval of the Annual Meeting of Shareholders .

(2) The distribution table of surplus for 2020(please refer to page31) are hereby submitted for ratification.

Resolution:



C 、 Discussion Items

Discussion Proposal 1

Proposal : Discussion on the amendments to the Company's "Operational Procedures for Loaning of Company Funds".

Proposed by the Board of Directors

Explanations : (1) As the business demand and Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees questions and answers by Public Companies of Taiwan Stock Exchange Co., Ltd. on July 24, 2020.

(2) The case have been approved by 12th Meeting of 1th Term of Audit Committee on 15 March, 2021,

(3) Comparative table of pre-amended and amended "Operational Procedures for Loaning of Company Funds" (please refer to pages 33-34).

Resolution:

D 、 Election Matter

Discussion Proposal 1

Proposal : The 17th election of the board of directors reshuffle.

Proposed by the Board of Directors

Explanations : (1)The term of the 16th-term Board of Directors will expire on June 11, 2021, and the annual meeting of shareholders is planned to elect the 17th-term Board of Directors on June 22,2021.

(2) In order to comply with the laws and regulations of the competent authority, the company set up independent directors and the Audit Committee. The company shall elect three independent directors this year.

(3) The Company shall have five to nine Directors with Articles of Incorporation. 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.

According to Article of the Company's "Articles of Incorporation", seven directors (including three independent directors) shall be



elected on the shareholders' meeting. New directors (including independent directors) shall assume on the day of the election for a total term of three years starting from June 22, 2021 to June 21, 2024.

- (4) Directors shall be elected by adopting the candidate nomination system from a list of candidates during the shareholders' meeting. Independent directors and non-independent directors shall be elected at the same time, but in separately calculated numbers.
- (5) There are seven directors (including three independent directors) shall be elected. List of candidates of directors (including independent directors) is as follows:

SAN FANG CHEMICAL INDUSTRY CO., LTD

List of Director Candidate (proposed by the Board of Directors)

Type	Candidates	Education	Experience	Share Ownership
Director	San Fang Investment Company Ltd. Representative: Mun- Jin, Lin	Master Degree in John Hopkins University, USA	1. President of San Fang Chemical 2. Director of San Fang Chemical	1,143,574
Director	Pou Chien Technology Corporation Representative: Chin-Chu, Lu	Master Degree in Business Administration, National Chung Hsing University	1. Director of San Fang Chemical 2. Director of Pou Chien Technology 3. Director of Pou Chen Corporation	36,549,118
Director	Pou Chien Technology Corporation Representative: Chia-Li, Chang	SOUTH FIELDS COLLEGE, UK	1. Director of San Fang Chemical 2. Vice President of Pou Chen Corporation	36,549,118
Director	Pou Chien Technology Corporation Representative: Chia-Hui, Teng	Account Department, Master Degree in New York University, USA	1. Director of San Fang Chemical 2. Director of Tah Kong Chemical 3. Director of Kwang Yo International Investment.	36,549,118



Type	Candidates	Education	Experience	Share Ownership
Independent Director	Wan-Lin, Hsu	Business Department, National Taiwan University	<ol style="list-style-type: none"> 1. Partner of KPMG CPAs. 2. Audit in Tax Reform Committee, The Ministry of Public Finance. 3. Independent Director and Remuneration Committee of San Fang Chemical. 4. Independent Director and Remuneration Committee of JMC ELECTRONICS. 	0
Independent Director	Li-Syuan, Lin	Master Degree in California State University, USA	<ol style="list-style-type: none"> 1. President of King's Town Bank. 2. President of JPMorgan Chase Bank. 3. Vice President of SAMPO Corporation. 4. Executive Director of Acosta Ventures(BVI) Limited. 5. Independent Director of San Fang Chemical 6. Independent Director of FONG CHIEN CONSTRUCTION. 	0
Independent Director	Chih- Long, Chou	Science and Technology Department, Master Degree in National Kaoshiung University	<ol style="list-style-type: none"> 1. CPAs in Pragmatic accounting firm. 2. Independent Director and Remuneration Committee of San Fang Chemical 3. Supervisors of St. Shine Optical 	0

Results of the election:

E 、Extraordinary Motions

F 、Meeting Adjournment



Attachment A

SAN FANG CHEMICAL INDUSTRY CO., LTD.

2020 Business Report

Section#1 Introduction

Since the beginning of 2020, the world has been ravaged by the new crown virus (COVID-19). To prevent the spread of the epidemic, countries have adopted strict control measures such as lockdown cities, closing borders, and restricting personnel activities. This has brought the global economy to a halt. Although Taiwan's epidemic prevention is completed, the economy has been affected. The global business recession has caused a significant economic downturn in the first half of last year. Since the third quarter, as major countries restarted their economic activities, the order of overseas demand has rebounded and recovered month by month.

The artificial leather industry has been mainly affected by this epidemic. The implementation of city closures and other social distancing measures after the outbreak of the epidemic, resulting in low global consumer willingness, resulting delays in shipments, and reduction and cancellation of orders from brand customers. Challenges in production efficiency and supply chain operations have adversely affected the company's overall operations. Under the control of the epidemic in the second half of the year, the global economy gradually recovered, which led to the increase in raw material prices and shortages, as well as the shortage of containers and ships that drives high freight prices. The impact of the increase in operating costs and the New Taiwan Dollar has sharply risen against the U.S. dollar increasing the difficulty of operation. The company launched the factory capacity allocation plan, and this phased strategy has been effective. With the steady improvement of employee learning and the manifestation of the effects of economies of scale, the overall operating performance of the company has increased significantly from the third quarter. Actively controlling operating expenses and increasing raw material self-manufacturing rate have allowed the company's overall operating effectiveness and profitability to maintain its basic performance. In 2010, the company established a consolidated net profit after tax of NT\$218 million (the same below), a net profit after tax of 2.6%, and a profit after tax of 0.55 yuan per share.

Section#2 Financial Performance

2.1 Business

Synthetic leather sales were NT7,741 million dollars, a decrease of 20.8% over the previous year. Films' consolidated sales were NT239 million dollars, an increase of 28.8% over 2019. Consolidated sales of fibers were NT221 million dollars, an increase of 37.8% over 2019, and the combined sales of other homemade materials were NT241 million dollars. In 2020, consolidated operating income was NT 8,442 million dollars.

2.2 Profit

The company's self-employed business revenue in 2020 was NT6,787 million dollars, a decrease of 15.7% compared with 2019. The consolidated business revenue was NT8,442 million dollars, a decrease of 17.8% compared with 2019. Net profit was NT 498 million dollars, a decrease of 23.5% over the previous year, consolidated net profit after tax was NT 218 million dollars, a decrease of 49.3% over the previous year.



Section#3 Prospect and Business Goal


This year, as countries successfully launch vaccines and some people were vaccinated, the epidemic is expected to gradually slow down. It is estimated that the global outdoor sports and leisure trend will continue after the epidemic, which will drive the company's major customers to maintain positive confidence and the company will continue to expand the scale of production, the active improvement of production efficiency, and the strengthening of the staff management for each functional department shows better operational effectiveness.


For the past few years, the awareness of environmental protection has risen and all the brand customers have gradually required the use of environmentally friendly recycled products. The dope dyed yarn focuses on energy-saving, reduced CO₂, chemical, and wastewater discharge, and has gradually become the mainstream environmentally friendly products in the European and American market. SanFang has been actively developing products for many years. Put a lot of effort into this field and have obtained GRS certification, strongly increasing the performance of recycled cotton products.


The main customers are pushing for automated processing and green recycling of upper materials. SanFang's upper fabric made of thermoplastic polyurethane low-melting yarn has hot-melt adhesion, improved functionality, and environmentally friendly recyclability. The copolymer fiber shoe with circular economy characteristics has an indispensable position in the development of knitted footwear. Due to the control of the epidemic, medical masks are no longer competitive in the market. By accumulating experience in manufacturing medical masks, SanFang will continue to advance the market of industrial and air conditioning filter material.

In the process of this severe challenge time, dealing with the rapidly changing market trends is the cornerstone of sustainable operation. Besides, to maintain the core business, SanFang invests in expanding capital expenditures and improves the efficiency of the equipment. It insists on challenging innovation and diversification. The company innovates and optimizes the manufacturing process to create differentiated, functional products and comprehensive business models, to prepare the new environmental protection business for new opportunities. In the shoe material manufacturing business, we will continue to strengthen the cooperation relationship with brand customers, and cooperate with the strategies of brand customers, make good use of core strengths and competitive advantages, focus on flexible production and multiple layouts, to respond to rapidly changing market trends. SanFang integrates the supply chain management to establish a competitive raw material supplier for providing customers with flexible and rapid demand, at the same time, reduce inventory costs and make efforts to improve intelligence manufacturing. Base on the balance of "quantity" and "profit" developed, it's a major operating goal to optimize product buckets and improve production synergy. We continuously increase operating income and effectively control operating costs, also steadily expand the Group's production capacity. The output value of Vietnam's production has increased from 46% at the beginning of 2020 to 52% at the end of 2020. For the purpose of improving the production capacity and elasticity of producing areas, SanFang will consider that increasing Indonesian output is the medium-term plan in the future. On the other side, either we maintain the regular customers or sustainably develop potential clients which can expand the source of orders and create diversification and competitiveness.

We believe that all colleagues will go out to achieve this goal with the encouragement and spur of all shareholders, to meet the target of the domestic and consolidated turnover in 2021.

Chairman : 

Manager : 

Chief Accountant : 



INDEPENDENT AUDITORS' REPORT

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

Audit Opinion

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

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

Basis of Audit Opinion

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

Key Audit Matters

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

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

Authenticity of sales revenue from specific products

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

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

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



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

Other Matters

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

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

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

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

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

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

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

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

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



- II. Designed appropriate audit procedures to gain necessary understanding of internal controls for the audit. However, the purpose is not to express any opinions on the effectiveness of the San Fang Group's internal controls.
- III. Evaluated the appropriateness of management policies adopted by management, as well as the reasonableness of accounting estimates and related disclosures.
- IV. Based on the audit evidence we obtained, we reached a conclusion on the appropriateness of management's going concern basis of accounting, and whether or not there are material uncertainties that will lead to events or situations that are cause for serious concern about the San Fang Group's ability to continue as a going concern. If we believe there are material uncertainties about such events or situations, we are required to provide a reminder in the audit report for users of the consolidated financial statements to pay attention to related disclosures, or modify our audit opinion when the disclosures are inappropriate. Our conclusion is based on the audit evidence we obtained as of the audit report date. However, future events or situations may cause the San Fang Group to no longer be able to continue as a going concern.
- V. Evaluated the overall presentation, structure, and contents of the consolidated financial statements (including related notes), and whether or not the consolidated financial statements fairly present related transactions and events.
- VI. Obtained sufficient and appropriate audit evidence of financial information on companies in the group, and expressed our opinion on the consolidated financial statements. We are responsible for guidance, supervision, and implementation of the audit, and for forming an audit opinion on the San Fang Group.

Matters we communicated with the governance department include the scope and time of the audit, as well as major findings in the audit (including significant deficiencies in internal control identified in the audit process).

We also provided the governance department with a statement that personnel of our firm who are required to maintain independence according to the Code of Professional Ethics have maintained independence, and communicated all relationships and other matters (including related preventive measures) that may affect the independence of auditors with the governance department.

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

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, 2020 AND 2019

(Unit: Thousand NTD)

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

(Continued)



SAN FANG CHEMICAL INDUSTRY CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2020 AND 2019

(Unit: Thousand NTD)

Code	Liabilities and equity interests	December 31, 2020		December 31, 2019	
		Amount	%	Amount	%
	Current liabilities				
2100	Short-term borrowing (Note 16, 28)	\$ 1,450,000	10	\$ 1,700,000	11
2110	Short-term notes and bills payable (Note 16)	49,972	-	99,988	1
2120	Financial liabilities at fair value through profit or loss – current (Note 4, 7)	4,843	-	-	-
2130	Current contract liabilities (Note 4, 21)	21,356	-	6,103	-
2170	Accounts payable (Note 17)	601,074	4	599,701	4
2219	Other payables (Note 18)	712,418	5	720,021	5
2230	Current income tax liabilities (Note 23)	125,670	1	100,008	1
2280	Current lease liabilities (Note 4, 14)	6,936	-	7,562	-
2320	Current portion of long-term liabilities (Note 16, 28)	744,000	5	553,500	3
2399	Other current liabilities	49,238	-	59,257	-
21XX	Total current liabilities	<u>3,765,507</u>	<u>25</u>	<u>3,846,140</u>	<u>25</u>
	Non-current liabilities				
2540	Long-term borrowings (Note 16, 28)	2,437,000	16	1,756,875	12
2570	Deferred income tax liabilities (Note 4, 5, 23)	1,131,251	7	1,115,659	7
2580	Non-current lease liabilities (Note 4, 14)	7,850	-	9,153	-
2640	Net defined benefit liability – non-current (Note 4, 19)	110,887	1	124,467	1
2645	Guarantee deposits received	15,268	-	19,692	-
25XX	Total non-current liabilities	<u>3,702,256</u>	<u>24</u>	<u>3,025,846</u>	<u>20</u>
2XXX	Total liabilities	<u>7,467,763</u>	<u>49</u>	<u>6,871,986</u>	<u>45</u>
	Equity attributable to owners of the Company (Note 20)				
3110	Capital stock – common	3,978,181	26	3,978,181	26
3200	Capital surplus	142,438	1	141,101	1
	Retained earnings				
3310	Legal reserve	1,454,758	10	1,412,298	9
3320	Special reserve	504,790	3	504,790	4
3350	Undistributed earnings	2,306,787	15	2,439,395	16
3300	Total retained earnings	4,266,335	28	4,356,483	29
3400	Other equity interest	(513,828)	(4)	(211,680)	(1)
3XXX	Total equity	<u>7,873,126</u>	<u>51</u>	<u>8,264,085</u>	<u>55</u>
	Total liabilities and equity interests	<u>\$ 15,340,889</u>	<u>100</u>	<u>\$ 15,136,071</u>	<u>100</u>

The accompanying notes are an integral part of the consolidated financial statements.
(With Deloitte & Touche audit report dated March 16, 2021) TED

Chairman :



Manager :



Chief Accountant :





SAN FANG CHEMICAL INDUSTRY CO.,LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

(Unit: Thousand NTD, EPS in NTD)

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

(Continued)



SAN FANG CHEMICAL INDUSTRY CO.,LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME


FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019


(Unit: Thousand NTD, EPS in NTD)


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

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

(With Deloitte & Touche audit report dated March 16, 2021) 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, 2020 AND 2019


(Unit: Thousand NTD, dividend per share is in NTD)

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

The accompanying notes are an integral part of the consolidated financial statements.
(With Deloitte & Touche audit report dated March 16, 2021) TED

Chairman : 

Manager : 

Chief Accountant : 

SAN FANG CHEMICAL INDUSTRY CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

(Unit: Thousand NTD)

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

(Continued)



SAN FANG CHEMICAL INDUSTRY CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2021 (Unit: Thousand NTD)

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

The accompanying notes are an integral part of the consolidated financial statements.
(With Deloitte & Touche audit report dated March 16, 2021) TED

Chairman :



Manager :



Chief Accountant :





INDEPENDENT AUDITORS' REPORT

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

Audit Opinion

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

In our opinion, the standalone financial statements above were prepared, in all material aspects, in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and therefore are sufficient to present the financial position of the Company as at December 31, 2020 and 2019, as well as its financial performance and cash flow for the years ended December 31, 2020 and 2019.

Basis of Audit Opinion

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

Key Audit Matters

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

Key audit matters in the 2020 standalone financial statements of the Company are as follows:

Authenticity of sales revenue from specific products

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

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

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



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

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

The responsibility of management is to prepare fairly presented standalone financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and to maintain necessary internal controls related to the preparation of standalone financial statements, in order to ensure that the standalone financial statements are free of material misstatements, whether due to fraud or error.

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

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

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

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

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

- I. Identified and evaluated material misstatements in the standalone financial statements, whether due to fraud or error. Designed and implemented appropriate countermeasures for the risks that we evaluated. Obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion. Since fraud may involve conspiracy, falsification, intentional omission, false statements, or overriding internal controls, the risk of failing to detect material misstatements due to fraud is higher than the risk of failing to detect material misstatements due to error.
- II. Designed appropriate audit procedures to gain necessary understanding of internal controls for the audit. However, the purpose is not to express any opinions on the effectiveness of the Company's internal controls.
- III. Evaluated the appropriateness of management policies adopted by management, as well as the reasonableness of accounting estimates and related disclosures.



- IV. Based on the audit evidence we obtained, we reached a conclusion on the appropriateness of management's going concern basis of accounting, and whether or not there are material uncertainties that will lead to events or situations that are cause for serious concern about the Company's ability to continue as a going concern. If we believe there are material uncertainties about such events or situations, we are required to provide a reminder in the audit report for users of the standalone financial statements to pay attention to related disclosures, or modify our audit opinion when the disclosures are inappropriate. Our conclusion is based on the audit evidence we obtained as of the audit report date. However, future events or situations may cause the Company to no longer be able to continue as a going concern.
- V. Evaluated the overall presentation, structure, and contents of the standalone financial statements (including related notes), and whether or not the standalone financial statements fairly present related transactions and events.
- VI. Obtained sufficient and appropriate audit evidence of financial information on the Company, and expressed our opinion on the standalone financial statements. We are responsible for guidance, supervision, and implementation of the audit, and for forming an audit opinion on the Company.

Matters we communicated with the governance department include the scope and time of the audit, as well as major findings in the audit (including significant deficiencies in internal control identified in the audit process).

We also provided the governance department with a statement that personnel of our firm who are required to maintain independence according to the Code of Professional Ethics have maintained independence, and communicated all relationships and other matters (including related preventive measures) that may affect the independence of auditors with the governance department.

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

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, 2020 AND 2019

(Unit: Thousand NTD)

Code	Assets	December 31, 2020		December 31, 2019	
		Amount	%	Amount	%
	Current assets				
1100	Cash and cash equivalents (Note 4, 6)	\$ 965,233	7	\$ 624,921	4
1150	Net notes receivable (Note 4, 9)	20,845	-	33,910	-
1170	Net accounts receivable (Note 4, 9)	552,500	4	564,052	4
1180	Net accounts receivable – related parties (Note 4, 9, 26)	321,289	2	374,636	3
1200	Net other receivables	20,541	-	1,969	-
1210	Other receivables - related parties (Note 26)	897,883	6	373,382	2
1220	Current income tax assets (Note 22)	23,102	-	15,079	-
130X	Inventories (Note 4, 5, 10)	1,194,504	8	1,476,489	10
1410	Advance payments (Note 26)	172,250	1	35,710	-
1479	Other current assets	7,167	-	55,310	-
11XX	Total current assets	4,175,314	28	3,555,458	23
	Non-current assets				
1517	Non-current financial assets at fair value through other comprehensive income (Note 4, 8)	44,211	-	46,874	-
1550	Investments recognized under the equity method (Note 4, 11)	6,625,323	45	7,619,812	50
1600	Property, plant and equipment (Note 4, 12, 27)	3,648,880	25	3,851,004	25
1755	Right-of-use assets (Note 4, 13)	9,932	-	15,910	-
1760	Investment properties (Note 4, 14, 27)	111,790	1	112,657	1
1801	Computer software – net (Note 4)	27,441	-	32,967	-
1840	Deferred income tax assets (Note 4, 22)	68,301	1	71,630	1
1915	Advance payments for equipment	10,464	-	17,671	-
1920	Refundable deposits	12,782	-	12,935	-
15XX	Total non-current assets	10,559,124	72	11,781,460	77
1XXX	Total assets	\$ 14,734,438	100	\$ 15,336,918	100


(Continued)




SAN FANG CHEMICAL INDUSTRY CO., LTD.
PARENT COMPANY ONLY BALANCE SHEETS
DECEMBER 31, 2020 AND 2019
(Unit: Thousand NTD)

Code	Liabilities and equity interests	December 31, 2020		December 31, 2019	
		Amount	%	Amount	%
	Current liabilities				
2100	Short-term borrowing (Note 15, 27)	\$ 1,440,000	10	\$ 1,700,000	11
2110	Short-term notes and bills payable (Note 15)	49,972	1	99,988	1
2120	Financial liabilities at fair value through profit or loss – current (Note 4, 7)	4,843	-	-	-
2130	Current contract liabilities (Note 4, 20)	17,414	-	5,104	-
2170	Accounts payable (Note 16)	554,937	4	536,766	4
2180	Accounts payable - related parties (Note 16, 26)	15,651	-	499,849	3
2219	Other payables (Note 17, 26)	334,998	2	471,397	3
2230	Current income tax liabilities (Note 22)	45,135	-	-	-
2280	Current lease liabilities (Note 4, 13)	4,951	-	6,714	-
2320	Current portion of long-term liabilities (Note 15, 27)	730,000	5	536,000	4
2365	Refund liabilities - related parties (Note 26)	-	-	198,068	1
2399	Other current liabilities	41,427	-	48,872	-
21XX	Total current liabilities	<u>3,239,328</u>	<u>22</u>	<u>4,102,758</u>	<u>27</u>
	Non-current liabilities				
2540	Long-term borrowings (Note 15, 27)	2,390,000	16	1,735,000	11
2570	Deferred income tax liabilities (Note 4, 5, 22)	1,131,251	8	1,115,659	7
2580	Non-current lease liabilities (Note 4, 13)	4,990	-	9,154	-
2640	Net defined benefit liability (Note 4, 18)	92,165	1	106,684	1
2645	Guarantee deposits received	3,578	-	3,578	-
25XX	Total non-current liabilities	<u>3,621,984</u>	<u>25</u>	<u>2,970,075</u>	<u>19</u>
2XXX	Total liabilities	<u>6,861,312</u>	<u>47</u>	<u>7,072,833</u>	<u>46</u>
	Equity (Note 19)				
3110	Capital stock – common	3,978,181	27	3,978,181	26
3200	Capital surplus	142,438	1	141,101	1
	Retained earnings				
3310	Legal reserve	1,454,758	10	1,412,298	9
3320	Special reserve	504,790	3	504,790	3
3350	Undistributed earnings	2,306,787	16	2,439,395	16
3300	Total retained earnings	4,266,335	29	4,356,483	28
3400	Other equity interest	(513,828)	(4)	(211,680)	(1)
3XXX	Total equity	<u>7,873,126</u>	<u>53</u>	<u>8,264,085</u>	<u>54</u>
	Total liabilities and equity interests	<u>\$ 14,734,438</u>	<u>100</u>	<u>\$ 15,336,918</u>	<u>100</u>

The accompanying notes are an integral part of the consolidated financial statements.
(With Deloitte & Touche audit report dated March 16, 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, 2020 AND 2021

(Unit: Thousand NTD, EPS in NTD)

Code		2020		2019	
		Amount	%	Amount	%
4000	Net operating revenues (Note 4, 20, 26)	\$ 6,786,846	100	\$ 8,048,054	100
5000	Operating costs (Note 10, 21, 26)	<u>5,609,712</u>	<u>83</u>	<u>6,714,007</u>	<u>84</u>
5900	Operating margin	1,177,134	17	1,334,047	16
5910	Realized gains from subsidiaries	<u>45,951</u>	<u>1</u>	<u>35</u>	<u>-</u>
5950	Realized operating margin	<u>1,223,085</u>	<u>18</u>	<u>1,334,082</u>	<u>16</u>
	Operating expenses (Note 9, 21)				
6100	Selling expenses	294,424	4	363,011	5
6200	Administrative expenses	311,141	5	281,493	3
6300	Research and development expenses	263,568	4	398,114	5
6450	Expected credit impairment loss (gain)	(<u>4,285</u>)	<u>-</u>	<u>36</u>	<u>-</u>
6000	Total operating expenses	<u>864,848</u>	<u>13</u>	<u>1,042,654</u>	<u>13</u>
6900	Operating net profit	<u>358,237</u>	<u>5</u>	<u>291,428</u>	<u>3</u>
	Non-operating income and expenses (Note 21, 26)				
7100	Interest income	2,261	-	1,234	-
7010	Other income	51,230	1	11,408	-
7020	Other profits and losses	(125,208)	(2)	(22,644)	-
7050	Financial costs	(46,683)	(1)	(43,236)	(1)
7070	Share of profits (losses) of subsidiaries accounted for using equity method	<u>35,677</u>	<u>1</u>	<u>297,382</u>	<u>4</u>
7000	Total non-operating income and expenses	(<u>82,723</u>)	(<u>1</u>)	<u>244,144</u>	<u>3</u>

(Continued)



SAN FANG CHEMICAL INDUSTRY CO., LTD.

PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(Unit: Thousand NTD, EPS in NTD)

Code		2020		2019	
		Amount	%	Amount	%
7900	Pre-tax profit	\$ 275,514	4	\$ 535,572	6
7950	Income tax expense (Note 4, 22)	57,502	1	105,152	1
8200	Net profit for the year	218,012	3	430,420	5
	Other comprehensive income				
	Components of other comprehensive income that will not be reclassified to profit or loss				
8311	Remeasurements of the net defined benefit (Note 18)	13,024	-	(6,418)	-
8316	Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income (Note 19)	(2,663)	-	7,735	-
8330	Share of other comprehensive income of subsidiaries accounted for using equity method	(1,926)	-	1,780	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss (Note 22)	(2,605)	-	1,284	-
8310		5,830	-	4,381	-
8360	Components of other comprehensive income that will be reclassified to profit or loss				
8380	Share of other comprehensive income of subsidiaries accounted for using equity method (Note 19)	(297,884)	(4)	(189,493)	(2)
8300	Other consolidated income (net income after tax)	(292,054)	(4)	(185,112)	(2)
8500	Total comprehensive income	(\$ 74,042)	(1)	\$ 245,308	3
	EPS (Note 23)				
9710	Basic	\$ 0.55		\$ 1.08	
9810	Diluted	\$ 0.55		\$ 1.08	

The accompanying notes are an integral part of the consolidated financial statements.
(With Deloitte & Touche audit report dated March 16, 2021) 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, 2020 AND 2019
(Unit: Thousand NTD, dividend per share is in NTD)

Code		Capital stock – common	Capital surplus	Retained earnings		Undistributed earnings	Exchange differences arising from the translation of the financial statements of foreign operations	Other equity interests	Subtotal	Total equity
				Legal reserve	Special reserve			Unrealized gains (losses) on financial instruments measured at fair value through other comprehensive income		
A1	Balance as at January 1, 2019	\$3,978,181	\$ 140,028	\$1,382,005	\$ 504,790	\$2,243,989	(\$ 37,272)	\$ 4,892	(\$ 32,380)	\$8,216,613
	Appropriation and distribution of 2018 earnings (Note 19)	-	-	-	-	-	-	-	-	-
B1	Legal reserve	-	-	30,293	-	(30,293)	-	-	-	-
B5	Cash dividend – NT\$0.5 per share	-	-	-	-	(198,909)	-	-	-	(198,909)
		-	-	30,293	-	(229,202)	-	-	-	(198,909)
C17	Dividends not collected by shareholders before the deadline	-	1,073	-	-	-	-	-	-	1,073
D1	Net profit - 2019	-	-	-	-	430,420	-	-	-	430,420
D3	Other comprehensive income after tax - 2019	-	-	-	-	(5,812)	(189,493)	10,193	(179,300)	(185,112)
D5	Total comprehensive income - 2019	-	-	-	-	424,608	(189,493)	10,193	(179,300)	245,308
Z1	Balance as at Tuesday, December 31, 2019	3,978,181	141,101	1,412,298	504,790	2,439,395	(226,765)	15,085	(211,680)	8,264,085
	Appropriation and distribution of 2019 earnings (Note 19)	-	-	-	-	-	-	-	-	-
B1	Legal reserve	-	-	42,460	-	(42,460)	-	-	-	-
B5	Cash dividend – NT\$0.8 per share	-	-	-	-	(318,254)	-	-	-	(318,254)
		-	-	42,460	-	(360,714)	-	-	-	(318,254)
C17	Dividends not collected by shareholders before the deadline	-	1,337	-	-	-	-	-	-	1,337
D1	Net profit - 2020	-	-	-	-	218,012	-	-	-	218,012
D3	Other comprehensive income after tax - 2020	-	-	-	-	10,094	(297,884)	(4,264)	(302,148)	(292,054)
D5	Total comprehensive income - 2020	-	-	-	-	228,106	(297,884)	(4,264)	(302,148)	(74,042)
Z1	Balance as at Thursday, December 31, 2020	\$3,978,181	\$ 142,438	\$1,454,758	\$ 504,790	\$2,306,787	(\$ 524,649)	\$ 10,821	(\$ 513,828)	\$7,873,126

The accompanying notes are an integral part of the consolidated financial statements.
 (With Deloitte & Touche audit report dated March 16, 2021) TED

Chairman :



Manager :



Chief Accountant :





SAN FANG CHEMICAL INDUSTRY CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Unit: Thousand NTD)

Code		2020	2019
	Cash flow from operating activities		
A10000	Net profit before tax	\$ 275,514	\$ 535,572
A20010	Revenues and expenses		
A20100	Depreciation expense	406,443	390,909
A20200	Amortization expense	7,881	4,088
A20300	Expected credit impairment loss (gain)	(4,285)	36
A20400	Net losses (gains) on financial liabilities at fair value through profit or loss	4,784	(201)
A20900	Financial costs	46,683	43,236
A21200	Interest income	(2,261)	(1,234)
A21300	Dividend income	(334)	(3,839)
A22400	Share of profits (losses) of subsidiaries accounted for using equity method	(35,677)	(297,382)
A22500	Net losses (gains) on disposal of property, plant and equipment	27,162	(4,560)
A24100	Realized gains from subsidiaries	(45,951)	(35)
A29900	Loss on physical inventory	7,203	10,014
A29900	Loss on inventory devaluation	26,024	54,148
A29900	Other	-	3
A30000	Net changes in operating assets and liabilities		
A31130	Notes receivable	13,065	44,031
A31150	Accounts receivable	15,837	28,176
A31160	Accounts receivable – related parties	53,347	259,611
A31180	Other receivables	(8,949)	3,570
A31190	Other receivables - related parties	241,798	45,358
A31200	Inventories	248,758	(13,908)
A31230	Advance payments	(136,540)	(13,517)
A31240	Other current assets	48,143	(6,748)
A32110	Financial liabilities held for trading	59	201
A32125	Contract liabilities	12,310	5,104
A32150	Accounts payable	18,171	(56,684)
A32160	Accounts payable - related parties	(484,198)	369
A32180	Other payables	(91,409)	25,905
A32230	Refund liabilities - related parties	(198,068)	(4,856)
A32230	Other current liabilities	(7,445)	24,322


(Continued)




SAN FANG CHEMICAL INDUSTRY CO., LTD.
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Unit: Thousand NTD)

Code		2020	2019
A32240	Net defined benefit liability	(\$ 1,495)	(\$ 247)
A33000	Cash generated from operating activities	436,570	1,071,442
A33100	Interest received	2,261	1,234
A33200	Dividend received	10,342	3,839
A33300	Interest paid	(47,121)	(45,089)
A33500	Income tax paid	(4,074)	(158,605)
AAAA	Net cash inflow from operating activities	<u>397,978</u>	<u>872,821</u>
	Cash flow from investing activities		
B02700	Acquisition of property, plant and equipment	(275,625)	(505,195)
B02800	Proceeds from disposal of property, plant and equipment	4,999	19,102
B03800	Decrease in refundable deposits	153	3
B04500	Acquisition of intangible assets	(2,355)	(34,310)
BBBB	Net cash outflow from investing activities	<u>(272,828)</u>	<u>(520,400)</u>
	Cash flow from financing activities		
C00100	Decrease in short-term borrowings	(260,000)	(528,940)
C00500	Decrease in short-term notes and bills payable	(50,000)	-
C01600	Increase in long-term borrowing	1,470,000	900,000
C01700	Repayment of long-term borrowing	(621,000)	(231,000)
C03000	Increase in guarantee deposits	-	1,636
C04020	Repayments of lease liabilities	(6,921)	(6,779)
C04500	Distribution of cash dividends	(318,254)	(198,909)
C09900	Returned unclaimed dividends	1,337	1,073
CCCC	Net cash inflow (outflow) from financing activities	<u>215,162</u>	<u>(62,919)</u>
EEEE	Net increase in cash and cash equivalents	340,312	289,502
E00100	Cash and cash equivalents at beginning of period	<u>624,921</u>	<u>335,419</u>
E00200	Cash and cash equivalents at end of period	<u>\$ 965,233</u>	<u>\$ 624,921</u>

The accompanying notes are an integral part of the consolidated financial statements.
 (With Deloitte & Touche audit report dated March 16, 2021) TED

Chairman : 

Manager : 

Chief Accountant : 



Attachment B

SAN FANG CHEMICAL INDUSTRY CO., LTD.

2020 Earnings Distribution Table

Unit:NTD

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

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

Chairman :



Manager :



Chief Accountant :





Attachment C

SAN FANG CHEMICAL INDUSTRY CO., LTD.

Audit Committee's Review Report

The Board of Directors has prepared and submitted the Company's 2020 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:
2021 Annual General Shareholders' Meeting of SAN FANG CHEMICAL CO., LTD.

Audit Committee convener: : Wan-Lin, Hsu

Date : March 19, 2021



Attachment D

SAN FANG CHEMICAL INDUSTRY CO., LTD. Operational Procedures for Loaning Funds to Others Comparative table of content of amended provisions

Amended clause	Original clause	Instruction
<p>Article 4 Duration of loans</p> <p>The duration of such loans of short-term financing is limited to one year.</p> <p>The restriction in the preceding paragraph shall not apply to inter-company loans of funds between overseas companies in which the company and the company's subsidiaries holds, directly or indirectly, 100% of the voting shares, nor to loans of the fund to the company by any overseas company in which the company holds, directly or indirectly, 100% of the voting shares. However, the number of such loans and the number of such loans permitted to a single borrower, that the amount loaned by the company may not exceed 100 percent of its net worth. <u>The financing period is limited to five years and can be extended once. The extension period is within two years.</u></p>	<p>Article 4 Duration of loans</p> <p>The duration of such loans of short-term financing is limited to one year.</p> <p>The restriction in the preceding paragraph shall not apply to inter-company loans of funds between overseas companies in which the company and the company's subsidiaries holds, directly or indirectly, 100% of the voting shares, nor to loans of the fund to the company by any overseas company in which the company holds, directly or indirectly, 100% of the voting shares. However, the number of such loans and the number of such loans permitted to a single borrower, that the amount loaned by the company may not exceed 100 percent of its net worth. The financing period is limited to five years.</p>	<p>In accordance with the Question No.11 of Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies Q&A, launch by The Republic of China on July 24th, 2020.</p> <p>Amend</p>



Amended clause	Original clause	Instruction
Article 14 The Procedure takes effect on June 12 th , 2019. Amended thereafter on June 22 th , 2021.	Article 14 The Procedure takes effect on June 12 th , 2019.	Add the first revision date.



Appendix A

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 board of directors, the meeting agenda shall be set by the board of directors. The meeting including extraordinary motion and amendments to original proposals 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 board of directors. 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. 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.

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. 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; when the chair is of the opinion that a proposal has been discussed sufficiently to put it to a vote, 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 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. 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.
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. 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 shareholders' meetings minutes may be done by way of electronic transmission.
The Company may distribute the shareholders' meetings minutes under the preceding paragraph by public announcement on the MOPS website.
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.

21. These Rules, and any amendments hereto, shall be implemented after adoption by shareholders' meetings.
These Rules takes effect on June 9th, 2020



Appendix B

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 Board of the Directors 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 C

SanFang Chemical Industry CO., LTD Rule for Director Elections

Article 1. The elections of the directors for the Company, except as otherwise provided by law, regulation, or the articles of incorporation, shall be subject to this rule.

Article 2. For the election of the directors for the Company, each share shall have voting rights in a number equal to the directors or supervisors to be elected, and may be cast for a single candidate or split among multiple candidates.

Article 3. Before the election begins, the chairperson shall designate a number of scrutineers and tellers to perform various related duties.

Article 4. The election of the directors for the Company shall adopt the candidate nomination system. The shareholders shall elect the number of persons designated by the Article of Incorporation from the list of the candidates. According to the statistical results from the electronic communication platform and the ballots, those persons whose received votes representing the highest number of voting rights will be elected as independent directors and non-independent directors in turn. Independent directors and non-independent directors shall be elected at the same time, but in separately calculated numbers. When two or more persons receive the same voting rights and result in an excess of the number of persons to be elected, they shall draw lots to determine and the chairperson shall draw lots on behalf of the absent persons.

Article 5. The board of directors shall print the number of the ballots that are the same as the number of directors to be elected, add the number of voting right and distribute them to the shareholders who will attend the shareholders' meeting. The elections of the directors for the Company, shall vote on the recall through open ballot.

Article 6. Provided that an electee is a shareholder, the shareholder shall fill in the account name and the shareholder's account number of an electee in the column of "electee" of ballot; if not, the name and identity card or tax ID number of an electee shall be filled in. However, when a government or a legal person shareholder is the electee, the name of such government or legal person shall be filled in the column of the account name of electee of the ballot; it also may be filled in the name of such government or legal person and its representative; provided that there are several representatives, the names of the representatives should be added respectively.



Article 7. The ballots shall be invalid under any of the following circumstances:

(I) A ballot that does not comply with the regulation of this rule.

(II) A ballot that is blank to be put into ballot box.

(III) A ballot with illegible writing or being altered.

(IV) Provided that an electee is a shareholder, the account name and shareholder's account number are different from the shareholder register; or in case an electee is not a shareholder, the name and identity card or tax ID number are checked to make sure there are no discrepancies.

(V) Other words are entered in addition to filling in the electee's account name (name) or shareholder's account number (identity card or tax ID number) and the allocated number of voting rights.

(VI) A ballot filled in for 2 or more electees.

Article 8. If the company has established an audit committee, the supervisors shall not be elected.

Article 9. The ballots shall be counted on site after the voting is completed, and the results of voting shall be announced by the chairperson on site, including the list of persons elected as directors and the numbers of votes with which they were elected, shall be announced by the chair on the site. The ballots for the election referred to in the preceding paragraph shall be sealed with the signatures of the monitoring personnel and kept in proper custody for at least one year. If, however, a shareholder files a lawsuit pursuant to Article 189 of the Company Act, the ballots shall be retained until the conclusion of the litigation.

Article 10. The board of directors shall issue the notifications to the elected directors respectively.

Article 11. These Rules shall take effect after having been submitted to and approved by a shareholders meeting. Subsequent amendments thereto shall be effected in the same manner.

Article 12. The original Articles of Incorporation were adopted on April 30, 1985. Amended thereafter on May 22, 1996; May 25, 2001; May 24, 2002; June 25, 2014; June 8, 2017; June 12, 2018.



Appendix D

SAN FANG CHEMICAL INDUSTRY CO., LTD.

Shareholdings of All Directors

Effective Date: April 24, 2021

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: Mun- Jin, Lin)	June 12, 2018	common shares	1,033,574	0.26%	common shares	1,143,574	0.29%	
Director	Pou Chien Enterprise Co., Limited (Representative: Chin-Chu, Lu)	June 12, 2018	common shares	57,991,504	14.58%	common shares	37,298,876	9.38%	
Director	Yue Dean Technology Corporation (Representative: Chia- Li, Chang)	June 12, 2018	common shares	56,788,876	14.28%	common shares	38,501,504	9.68%	
Director	Pou Chien Technology Corporation (Representative: Chia-Hui, Teng)	June 12, 2018	common shares	36,549,118	9.19%	common shares	36,549,118	9.19%	
Independent Director	Wan-Lin, Hsu	June 12, 2018	common shares	0	0.00%	common shares	0	0.00%	
Independent Director	Li- Syuan, Lin	June 12, 2018	common shares	0	0.00%	common shares	0	0.00%	
Independent Director	Chih-Long, Chou	June 12, 2018	common shares	0	0.00%	common shares	0	0.00%	
Total			common shares	152,363,072		common shares	113,493,073		

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

Total of outstanding common shares as of April 24, 2021: 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 113,493,126 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 E

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.